Santander

BANCO SANTANDER, S.A.

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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Annual report 2020

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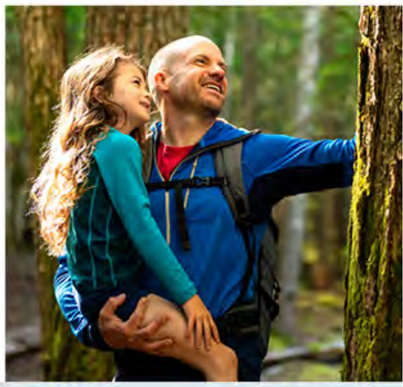

Santander

2020
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 information 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, 'Banco Santander' means Banco Santander, S.A., and 'Santander', 'the Group' and 'Santander Group' mean Banco Santander, S.A. and subsidiaries.

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Part 1. 2020 consolidated directors' report

This report was approved unanimously by our board of directors on 22 February 2021.

Our approach to this document

We changed the layout of our consolidated directors' report in 2018 by including the contents previously provided in these documents which we ceased to prepare separately:

- 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)

The consolidated directors' report also includes all information required by Spanish Act 11/2018 on non-financial information and diversity. It can be found in the 'Responsible banking' chapter, which constitutes the consolidated non-financial information statement.

This report's format presents information more clearly, avoiding repetition and raising the level of disclosure.

Auditors' reviews

As required by law, contents of our 2020 consolidated directors' report has been subjected to three types of reviews by our independent statutory auditors, PricewaterhouseCoopers Auditores, S.L., summarized as follows:

- PricewaterhouseCoopers Auditores, S.L. has verified that the information in this report is consistent with our consolidated financial statements, and that its contents comply with the applicable regulations. For more details, 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 limited assurance, on the non-financial and diversity information required by Spanish Act 11/2018 included in this report. To read that report, see the 'Independent verification report' in the 'Responsible banking' chapter.
- PricewaterhouseCoopers Auditores, S.L. has issued an independent reasonable assurance report on the design and effectiveness of Banco Santander's internal control over financial reporting, found in section 8.6 of the 'Corporate g

Non-IFRS and alternative performance measures

This report contains, in addition to financial information prepared in accordance with International Financial Reporting Standards (IFRS) and derived from our consolidated financial statements, 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. These financial measures that qualify as APMs and non-IFRS measures have been calculated with information from Santander Group; however, those financial measures are not defined or detailed in the applicable financial reporting framework nor have been audited or 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 our management and investors to compare operating performance between accounting periods.

Nonetheless, these APMs and non-IFRS measures should be considered supplemental information to, and are not meant to substitute IFRS measures. Furthermore, companies in our industry and others may calculate or use APMs and non-IFRS measures differently, thus making them less useful for comparison purposes.

For more details on APMs and non-IFRS measures, see section 8 of the 'Economic and financial review'.

Forward-looking statements

Banco Santander advises that this annual report contains "forward-looking statements" as per the meaning of the US Private Securities Litigation Reform Act of 1995. These statements may be identified by words like *expect*, *project*, *anticipate*, *should*, *intend*, *probability*, *risk*, *target*, *goal*, *objective*, *estimate*, *future* and similar expressions. Found throughout this report, they include (but are not limited to) statements on our future business development, economic performance and shareholder remuneration policy. However, a number of risks, uncertainties and other important factors may cause actual developments and results to differ materially from our expectations.

The following important factors, in addition to others discussed elsewhere in this annual report, could affect our future results and could cause materially different outcomes from those anticipated in forward-looking statements:

- general economic or industry conditions of areas where we have significant operations or investments (such as a worse economic environment; higher volatility in capital markets; inflation or deflation; changes in demographics, consumer spending, investment or saving habits; and the effects of the covid-19 pandemic on the global economy);
- exposure to various market risks (particularly interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices);
- potential losses from early repayments on our loan and investment portfolio, declines in value of collateral securing our loan portfolio, and counterparty risk;
- political stability in Spain, the United Kingdom, other European countries, Latin America and the US;
- changes in legislation, regulations, taxes, including regulatory capital and liquidity requirements, especially in view of the UK exit of the European Union and increased regulation in response to financial crisis;
- our ability to integrate successfully our acquisitions and related challenges that result from the inherent diversion of management's focus and resources from other strategic opportunities and operational matters; and
- changes in our access to liquidity and funding on acceptable terms, in particular if resulting from credit spread shifts or downgrades in credit ratings for the entire group or significant subsidiaries.

Numerous factors could affect our future results and could cause those results deviating 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.

Our forward-looking statements speak only as at date of approval of this annual report and are informed by the knowledge, information and views available as at the date of this report. Banco Santander is not required to update or revise any forward-looking statements, regardless of new information, future events or otherwise.

Past performance is not indicative of future results

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

XHTML electronic format and XBRL tags

This annual report has been prepared in eXtensible HyperText Markup Language (XHTML) format, and the consolidated financial statements it includes have been tagged with eXtensible Business Reporting Language (XBRL), in accordance with Directive 2004/109/EC and Commission Delegated Regulation (EU) 2019/815.

Banco Santander has elected to follow these requirements for the 2020 financial year, albeit they will take effect for accounting periods from 1 January 2021.

To view the XBRL tags, you must open this document using an appropriate viewer. You can find this document with an XBRL viewer o

No offer

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

Business model and strategy

The Santander Way remains unchanged...

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 and Fair**

... continuing to deliver for all our stakeholders

An engaged and motivated **team**...

... generates **customer** loyalty...

...leading to strong financial results for our **shareholders**...

... so we can support our **communities**

We create value for all our stakeholders

For further information about our corporate culture, see chapter 1 'Responsible Banking'. In this chapter, data as of 2020, unless indicated otherwise.

Helping people and businesses prosper whilst adopting ESG practices

Environmental: supporting the green transition

Helping customers go green

EUR 33.8 bn
Green Finance since 2019

EUR 6.9 bn
AUM Social Responsible Investment

Going green ourselves

EUR 1 bn
green bond issued (2nd since 2019)

Carbon neutral
in our own operations

Social: building a more inclusive society

Financially empowering people

4.9 mn
people[1] since 2019

EUR 469 mn
Credit to microentrepreneurs in 2020

Supporting society

4.0 mn
people helped since 2019

225 k
scholarships granted since 2019

1. People financially empowered through Santander initiatives.

Creation of a solidarity fund to face the covid-19 impact

Communities
We contribute more than ever to the wellbeing of society at large

EUR 54 mn donated by employees and the bank to provide essential health equipment and materials

EUR 30 mn through Santander Universities

EUR 21 mn to support vulnerable communities

Governance: doing business the right way

A strong culture

86%
employees proud to work for Santander

An independent, diverse Board

40%
women on Group board

>60%
Independent directors

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 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-20 including only private owned banks. UK benchmark covers mortgage market.

2. Customer focus

Personal relationships that increase customer loyalty

- We serve 148 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 extensive branch network and contact centres.
- Digital sales represented 44% of total. Increasing digital adoption (mobile customers +6.1 mn YoY)

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

- Balanced geographic diversification between mature and emerging markets.
- Business diversification between customers segments (individuals, SMEs, mid-market companies and large corporates).
- Global businesses that strengthen our local franchises.

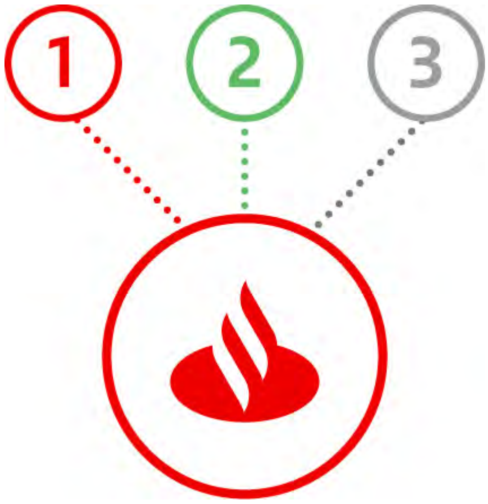
Note. Underlying attributable profit contribution by region, excluding Santander Global Platform (which will upgrade to PagoNxt) and Corporate Centre.

Resilient profit generation throughout the cycle

In 2020, Grupo Santander delivered a resilient operating income within the environment arising from the covid-19 crisis, supported by a disciplined capital allocation in accordance with our strategic priorities

Net operating income = Total income - Operating expenses.

The Santander of Tomorrow – 3 priorities for profitable growth



Building on our technology to further strengthen our **customers' loyalty** and access new fee-based revenue pools

1 One Santander — New operating model leveraging our global scale to deliver a better customer experience, supported by common culture and higher degrees of commonality, technology being one

2 PagoNxt — Our Group technology "backbone" solutions with payments at the core

3 Digital Consumer Bank — Openbank and Santander Consumer Finance driving profitable growth in Europe and new markets

1. One Santander:

Creating a better bank for our customers with a new operating model…

Improving our **customer service**…	… strengthening our relationship with **customers**…	… by creating a **common operating model**
Simplify mass market value proposition	New distribution model	Shared processes and best-in-class technology
Medium term goal: **Top 3 NPS in 9 countries**	*Medium term goal:* **Digital sales/total >50%**	*Medium term goal:* **Efficiency ratio [A] c.40%**

…in order to drive customer growth and higher productivity and profitability

		Medium term goals:
Europe [B]	→ Focus on **capital efficient growth** opportunities → Leverage **PagoNxt** global solutions with particular focus on SMEs and merchants → Re-invent our **branch network** (Work Cafés), expand **Santander Personal**, deploy **common mobile app**	**Underlying RoTE [C]:** 10%-12% **Efficiency ratio [A]:** c.45%
North America	→ Expand **collaboration** to Commercial Banking, Auto and other retail segments → Build **shared services**	**Underlying RoTE [C D]:** 11-13% **Efficiency ratio [A]:** c.40%
South America	→ Expand **Getnet** and **Superdigital** to other countries → Common operating model for **Consumer Finance** → Focus on **revenue growth** opportunities (e.g. Agribusiness)	**Underlying RoTE [C]:** 19%-21% **Efficiency ratio [A]:** c.35%

A. Medium term goals for the efficiency ratio do not represent guidance. The actual efficiency ratio may vary materially in the medium term.
B. Excluding SCF+Openbank, which would have an efficiency ratio of c.39% and a RoTE of 13%-15%. Europe, including SCF+Openbank, would have an efficiency ratio of c.43% and a RoTE of 12%-13%.
C. Medium term goals for underlying RoTE do not represent guidance. The actual underlying RoTE may vary materially in the medium term.
D. Adjusted RoTE for excess capital in the US.

We have integrated **ESG criteria** into our new strategic priorities: **One Santander** Europe has focused on 2020 on rebuilding after covid-19, supporting people (especially more vulnerable communities, in financial distress) and helping customers transition to the green economy.

2. PagoNxt:

PagoNxt will help Santander banks deliver payment solutions seamlessly, faster and with better value

Payments is a **sizeable and fast growth** market in which Santander already has significant **scale**

We serve more customers than any other bank

148 mn
Customers

- **Single, autonomous company** providing payment solutions to merchants and consumers
- **Targeting Santander's existing ecosystem and open market**
- **Technology-focused** to deliver differentiated user experiences
- **Strategic, close partner** of Santander local banks

Leveraging on

Scale | Efficiency | Global reach

Our key assets for growth acceleration

Getnet
One Trade
Ebury
superdigital
PaymentsHub
mercury

Focused in **3 business verticals to accelerate growth**, leveraging on scale, 'being global' and efficiency

1 MERCHANT

Goal: To become a world leading acquirer providing end-to-end best-in-class solutions for in-store and online merchant payments

Our merchant payment services on one global platform are now being used across the Group as **Getnet**

Market growth		Santander's scale	
+11% Expected annual growth in e-commerce	**EUR 80 bn** Merchant acquiring global revenue pool	**>1.1 mn** Active Merchant business customers	**c.60 mn** Active credit and debit cards

2 TRADE

Goal: To deliver fast, efficient trade finance, supply chain and FX payments solutions for international SMEs that were once only accessible to corporates

Significant investments in **4 key assets:** Ebury, One Trade, Mercury and PaymentsHub

Market growth		Santander's scale	
+3% Annual growth international trade	**EUR 350 bn** International trade revenue pool	**>4 mn** Group SME customers	**>200k** Group SME customers trading int.

3 CONSUMER

Goal: To deliver simple, highly engaging payment solutions for individuals in order to become embedded in our customers' daily lives

Leveraging our **Superdigital** proposition

Solution for the unbanked in Latin America → **With a high growth in active customers and transactions value in 2019**

We have integrated **ESG criteria** into our new strategic priorities: Developed consumer solutions (such as Superdigital) within **PagoNxt** scope will benefit individual lives through **financial inclusion** and domestic and international payments for all.

3. Digital Consumer Bank:

Combining the scale and leadership of SCF in Europe with the platform of Openbank.
Our vision is **to become the largest digital consumer bank in the world**

A Openbank			B Santander Auto
Global consumer financing business serving **offline and e-commerce merchants**	Largest **full-service global digital** bank in the world	+	Auto loan and leasing business serving **OEMS and dealers**
>55k Merchant POS c.EUR 20 bn Loans	1.2 mn Customers c.EUR 10 bn Deposits		>75k Dealer & OEM POS c.EUR 85 bn Loans

C **Digital Banking APIs (SaaS model)** — **Openbank technology and data capabilities** grow revenues by adding services and improving productivity

Our ambition: to grow revenues and x2 PAT [A] in the medium term and build the most innovative consumer lending business in Europe

Great potential...	... to build a new paradigm...	... and deliver strong financial results
Santander Consumer Finance: c.18 mn Active customers	→ **Common apps**, data and systems infrastructure across regions	Medium term goals
Openbank: 4.5 Avg. products per customer	→ **Single streamlined operating model** across auto, consumer lending and retail in 15+ countries	c.15% Underlying RoTE [B]
	→ **Simplified license and common compliance model**	39% Efficiency ratio [C]
	→ New auto, consumer lending and retail banking **country launches**	

A. Underlying.
B. Medium term goals for underlying RoTE do not represent guidance. The actual underlying RoTE may vary materially in the medium term.
C. Medium term goals for the efficiency ratio do not represent guidance. The actual efficiency ratio may vary materially in the medium term.

We have integrated **ESG criteria** into our new strategic priorities: **Digital Consumer Bank** is developing business solutions with a positive environmental impact. We have developed **green finance solutions** for consumers, such as clean vehicles, solar panels or heating systems amongst others.

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STARTING FROM SCRATCH WITH TUIIO

After becoming unemployed, Mercedes Cruz started a small homemade food business that changed her life. Her desire for self-improvement and entrepreneurial spirit turned a small loan into a big story. Tuiio is an initiative of Santander Finance for All, our strategy to contribute to financial inclusion and empowerment.

Mercedes and Ángel preparing a delivery at El Sazón de Ángel in Tizayuca, Hidalgo (Mexico).

Responsible banking

2020 Consolidated non-financial information statement

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Our approach

By delivering on our purpose to help people and businesses prosper, we grow as a business and can help society address its challenges.

"At Santander, we've always known we have a responsibility to support society – and I have no doubt that we'll continue to fulfil it. We are determined to help businesses and communities across the world build back better – and use this as an opportunity to address global challenges such as inequality and climate change. This is the right thing to do – the responsible thing to do, and the path to generate value for our shareholders.

In 2020, the covid-19 pandemic forced us to face yet another challenge – an economic crisis that devastated millions. As we look ahead, governments and companies must come together to build back better, so that we emerge from this crisis stronger, supporting inclusive and sustainable growth around the world. Banks have a critical role to play. We are part of the solution. We have a crucial duty and an essential role: to support our employees, our customers, and to deliver sustainable returns to you, our shareholders".

Ana Botín, Group executive chairman.

By being responsible, we build loyalty

In our day-to-day business, we make sure we don't just meet our legal and regulatory requirements, but also exceed people's expectations by being Simple, Personal and Fair in all we do.

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

How we helped people and businesses prosper in 2020

People

EUR 10,783 million
Staff costs[A]

95%
of employees are full-time

53.7%
of employees are women

Customers

EUR 916,199 million
loans outstanding (net)

EUR 497,987 million to households

EUR 319,853 million to companies

EUR 21,227 million to government agencies

EUR 77,132 million to others[B]

EUR 469 million
to microenterprises via microfinance programmes

Shareholders

EUR 477 million
Total shareholder remuneration[C]

EUR 44,011 million
market value at year end, second highest bank in the eurozone

Communities

EUR 204 million
invested in communities

EUR 110 million
invested in universities

EUR 94 million
invested in community programmes and projects

Suppliers

EUR 5,230 million
paid to suppliers[D]

4,592
suppliers selected under our global procurement model

94.7%
local suppliers[D]

Tax contribution

EUR 6,443 million
Total taxes paid by the group

EUR 2,946 million
corporate income tax

EUR 3,497 million
other taxes

A. From group consolidated financial statements.
B. Including financial business activities and customer prepayments.
C. The maximum allowed in accordance with the limits set by the European Central Bank (ECB) in its recommendation last December.
D. Data refers exclusively to purchases negotiated by Aquanima.

What our stakeholders tell us

To build a more responsible bank, understanding and responding to all our stakeholders is fundamental.

Listening to our stakeholders and creating value

Loyalty is key to lasting value. Earning and retaining it depends on our ability to understand all our stakeholders' concerns and respond to their needs. By listening to them and measuring their perceptions of Grupo Santander, we not only identify issues, but also find opportunities to add value.

Grupo Santander has several approaches to gauging stakeholder opinion. We run surveys and speak-up channels for our employees. We engage our customers through interactive platforms. We also respond to demands from top analysts, investors and indexes interested in environmental, social and governance (ESG) matters.

We keep pace with new regulations and best practices worldwide. We take part in consultations with authorities, sector associations and other organizations that influence sustainable development policymaking. We assess externalities to identify risks and opportunities to our business, appraise our impact on the community and create value for society and the environment.

We are also involved in major local and international initiatives to support inclusive and sustainable growth (see 'Joint initiatives to promote our agenda' in 'Governance and priorities').

Key dialogue channels for stakeholders

People

83% of employees think Santander provides the flexibility they need to be productive

86% of employees feel Santander's response to the pandemic is effective

22,500 employees surveyed in the 2020 global pulse survey

4,390 complaints through ethical channels

Customers

3 millions of surveys to measure customer satisfaction

42,670 banked individuals surveyed about Santander being Simple, Personal and Fair

464,310 complaints received

Communities

1,432 agreements with universities and academic institutions

2,283 partnerships with social institutions and entities

322 social media profiles and **23** million followers

Shareholders

15,260 shareholders surveyed about Santander being Simple, Personal and Fair

27,446 shareholders and investors participated in studies and qualitative surveys

132,857 queries handled by email, phone, WhatsApp and online

210 meetings with shareholders and **1,137** contacts with institutional investors

Materiality assessment: Identifying the issues that matter

Grupo Santander analyses the environmental, social and governance issues our stakeholders care about the most. Every year, we run quantitative and qualitative assessments of our value chain, gathering information from internal and external sources, including the dialogue channels mentioned above. We weight inputs on their level of materiality, which is revised every year to reflect reality.

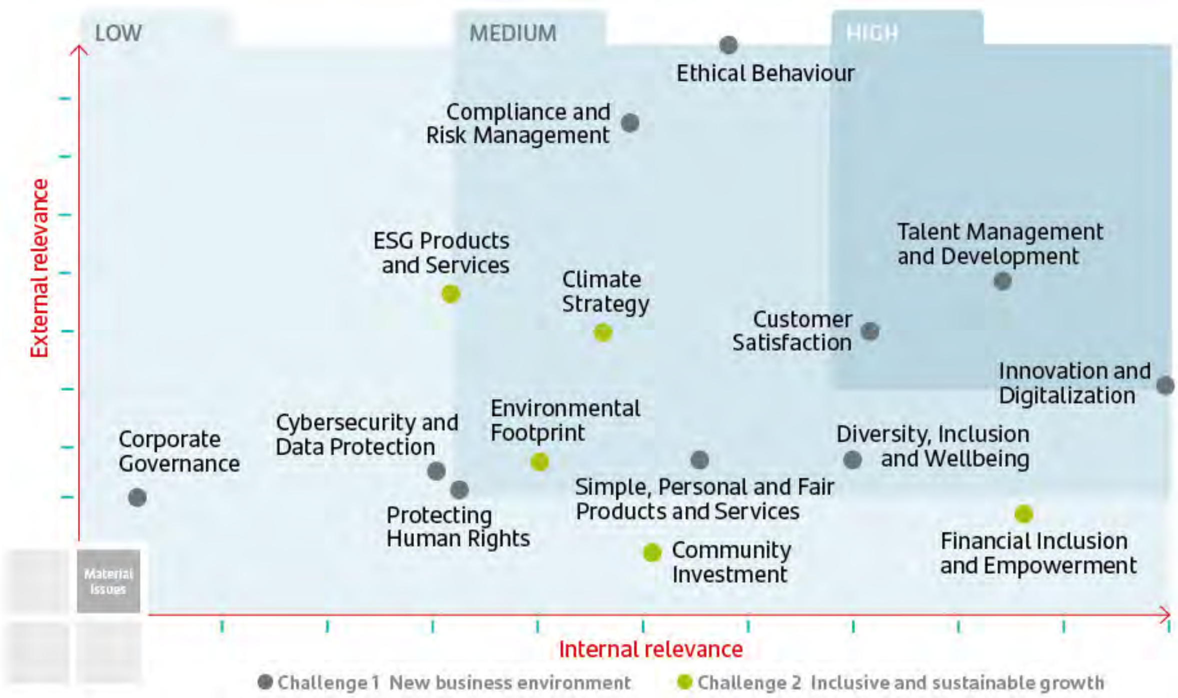
The matrix below, which shows the topics our stakeholders consider most relevant for Santander, helps us focus our priorities, initiatives and programmes across the Group. In 2020, we addressed these issues in order to strengthen our responsible business practices and ethical behaviour, tackle climate change, support the transition to a low-carbon economy, promote financial inclusion and create a diverse and talented team, while managing and developing it.

Analysis inputs

→ **External**
- 2020 megatrends (WBCSD)
- Customer satisfaction (Net Promoter Score drivers)
- ESG analyst and index evaluations (including roadshows)
- Public opinion (social media and digital press analysis)
- Reporting trends in the banking sector (peers' material issues, RepRisk Rating and others)
- Requirements of regulators and international institutions (World Bank, WEF, UNEP FI, ...)
- ESG reporting standards requirements (GRI, SASB)

→ **Internal**
- Santander's strategic view (public commitments, internal communications, workshops, top risk analysis)
- Responsible banking agenda (responsible banking, sustainability and culture committee; Culture, and Inclusive and Sustainable Banking steering groups, messages from the chairman and CEO)
- Employee feedback (surveys)

Group material topics matrix[A]



Changes in the analysis from 2019

We've redefined certain material topics:

- Talent Management and Development includes incentives linked to ESG criteria.
- Diversity, Inclusion and Wellbeing includes health and welfare-related aspects.
- Financial Inclusion and Empowerment includes financial literacy.
- Simple, Personal and Fair (SPF) products and services refers to responsible practices towards customers.
- Climate Strategy covers the integration of climate change into the climate change risks & business opportunities strategy.

We've added inputs to the materiality assessment: 2020 megatrends from the World Business Council for Sustainable Development (WBCSD), social media, Net Promoter Score (NPS) drivers for customers, new employee surveys and insights from Responsible Banking workshops.

Three topics – Diversity, Inclusion and Wellbeing, ESG Products and Services, and Financial Inclusion and Empowerment – gained significance in 2020.

A. Issues such as food waste, light and noise pollution, and biodiversity are not material to the group.

Challenges and opportunities

Grupo Santander operates in a fast-changing world, full of new challenges and opportunities. Our materiality assessment identified two core challenges: the new business environment, and inclusive and sustainable growth. By addressing these, we embed our approach to the environment, society and governance in all we do.

Challenge 1
New business environment

Adapting to an evolving world

The economy is changing fast. Digital technology is transforming markets as well as business models. In this highly competitive environment, companies must work in new ways to ensure responsible business practices.

Santander, like all businesses, needs a motivated, diverse and skilled workforce that is able to deliver what customers want, while harnessing the power of new technology. We operate in a fast-moving highly regulated business environment. Our task is to exceed our stakeholders' expectations by doing 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 details on our strategy, see 'Challenge 1: New business environment' in this chapter.

Challenge 2
Inclusive and sustainable growth

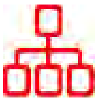
Helping society achieve its goals

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

We can play a major role to promote inclusive and sustainable growth. 'Inclusive' means meeting customer needs, helping people open businesses and create jobs, promoting financial empowerment and getting people the education they need. 'Sustainable' means financing renewable energy and smart infrastructure and tech to tackle climate change. We take the social and environmental risks and rewards of our operations into account, contributing to greater balance in the economy and society.

For more details on our strategy, see 'Challenge 2: Inclusive and sustainable growth' in this chapter.

Integrating ESG issues that matter into our strategy to meet the two identified challenges.

	Material issues	Impact on our value chain
Challenge 1 New business environment 	**Corporate governance**	Robust, diverse and transparent corporate governance leads to more responsible and sustainable strategies.
	Ethical behaviour	A strong corporate culture and policies and procedures ensure we behave ethically and safeguard all our stakeholders' interests.
	Compliance and risk management	Well-defined compliance and risk management procedures help reduce the risks an organization faces. The participation of all employees in risk management is crucial and reinforces the risk culture (Risk Pro).
	Talent management and career elopment	The right talent management and career development programmes inspire loyalty and cement responsible banking practices.
	Diversity, inclusion and wellbeing	A diverse workforce that reflects the make-up of society is critical to success in an ever-changing environment. Our employees wellbeing must be a priority.
	Innovation and digitalization	Investing in technology puts us at the cutting edge of our industry and strengthens our value proposition.
	Customer satisfaction	Focus on customer experience drives us to improve our services and builds loyalty.
	SPF products and services	Responsible products and services tailored to customers in a way that is Simple, Personal and Fair promote inclusiveness and lasting loyalty.
	Cybersecurity and data protection	Innovative and robust cybersecurity mechanisms protect customer data and boost confidence in our business.
	Human rights	Preventing the risk of our activities having a negative impact on human rights is key to the development of a responsible business model.
Challenge 2 Inclusive and sustainable growth 	**Financial inclusion and empowerment**	A financial system that is accessible and understandable to all builds trust, bolsters the economy and creates new business opportunities, helping communities prosper.
	Climate strategy	Banks play a key role in the transition to a low-carbon economy by managing their financial risks and helping finance the green agenda. Our contribution is vital under the Paris Agreement framework.
	ESG products and services	Financial products and services with social and environmental value added criteria help us do business responsibly. Funding renewable energy and green initiatives better positions our bank and society to counter the effects of climate change.
	Environmental footprint	Environmental footprint reduction helps us lead the transition towards a low-carbon economy.
	Community investment	Our commitment to education and the wellbeing of the communities we serve contributes to growth and progress across broader society.

Governance and priorities

All our activity is guided by principles, frameworks and policies to ensure we behave responsibly in all we do. We revised and strengthened our responsible banking governance to help us tackle the two challenges we identified.

Core policies that integrate ESG criteria into our business model, to make us a more responsible bank

General code of conduct	Corporate culture policy[A]	General sustainability policy	Human rights policy	Environmental, social & climate change risk management policy[B]	Sensitive sectors policy
Brings together the ethical principles and rules of conduct all Group employees must follow, and is central to our compliance function.	Establishes the guidelines and standards to ensure a consistent group culture.	Outlines our general sustainability principles and voluntary commitments aimed at generating long-term value for our stakeholders.	Sets out how we protect human rights, in line with the UN Guiding Principles on Business and Human Rights.	Details how we identify and manage environmental, social and climate change risks, in oil and gas, energy, mining and metals, and in soft commodities.	Provides guidelines for assessing and deciding on our participation in industries which carry reputational risk.

Other policies that support our responsible banking strategy

Consumer protection policy[C]	Code of conduct in security markets	Cybersecurity policy	Third-party certification policy[D]	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. It replaces the sectoral policies on energy, mining and metals and soft commodities.
C. Includes financial consumer protection principles.
D. Includes principles on the responsible behaviour of suppliers.

The responsible banking function's core policies can be found on our corporate website.

Policy changes in 2020

All local boards adopted our **General sustainability, Corporate culture** and **Human rights** policies.

In addition to update them as every year, we merged the policies on oil and gas, energy, mining and metals, and soft commodities into the **Environmental, social and climate change risks management policy.**

We published our **Financing of political parties policy** and the **Policy on contributions for social purpose** on our corporate website.

Strategic framework

Governance

→ The **board of directors** approves and supervises the general policies and strategies on our corporate culture, values, responsible business and sustainability. It also makes sure all the group's employees act ethically by following the laws, customs and good practices of the industries and countries where we operate.

→ The **responsible banking, sustainability & culture committee** assists the board with oversight of the group's responsible banking agenda and strategy.

The committee is supported by two steering groups:

- **The Culture steering group** promotes our culture, The Santander Way, is embedded in all we do and ensure consistency in corporate and local actions.
- **The Inclusive & Sustainable Banking steering group** reviews initiatives on social and financial inclusion; promotes education and training; supports the transition to a low-carbon economy; and backs investments to benefit society.

See section 4.9 'Responsible banking, sustainability and culture committee activities in 2020' in the 'Corporate Governance' chapter.

Responsible banking network

→ **The corporate responsible banking unit** coordinates and drives the responsible banking agenda. A senior advisor on responsible business practices supports this unit and reports directly to the executive chairman.

→ **Our subsidiaries' sustainability and culture units** execute their responsible banking agendas, ensuring they are aligned with our corporate strategy and policies.Their responsible banking governance is led by a senior manager, who is part of the group-wide Responsible banking network.

→ **Guiding principles** for subsidiaries and global business units ensure our responsible banking agenda is embedded across the group.

→ **The Responsible Banking network** meets every two months. In addition, the corporate responsible banking unit and local units hold regular bilateral meetings. In 2020, the network ran the second Responsible Banking workshop with responsible banking representatives from all businesses and geographies.

→ **New working groups** ensure we focus, and promote collaboration on financial education, sustainable finance, climate change, simplification and other areas.

Strategic priorities: Embedding ESG in our busines model

What?	How?
(E) Contribute to the **Paris Agreement** and a low-carbon economy	→ Pursuing a climate strategy that plays a part in achieving the Paris Agreement goals → Helping our customers transition to a low-carbon economy with value-added products and services to manage environmental and social risks → Minimizing our environmental footprint
(S) Have a **best-in-class, inclusive proposition** to maximize our social impact	→ Cultivating a workplace that attracts and retains diverse talent → Providing value propositions to meet the needs of our broad customer base → Fostering financial inclusion and empowerment → Supporting society through Santander Universities and other community programmes
(G) Do things the right way through **robust and transparent processes**	→ Promoting our strong culture, The Santander Way → Listening to our stakeholders → Applying best-in-class policies based on ethical behaviour → Ensuring sound corporate governance and risk management → Implementing Simple, Personal and Fair practices with customers and suppliers

We have **11 targets that place responsible banking** at the heart of our business strategy (see section '2020 highlights' in this chapter).

Helping society tackle global challenges: 2030 agenda

Our activity and investments contribute to several United Nations' Sustainable Development Goals and support the Paris Agreement's aim to fight climate change.

We ran an analysis of the contribution of our agenda to SDGs. It also has revealed which goals are most relevant to Grupo Santander's activity, commitments, strategic focus, and other external factors.

SUSTAINABLE DEVELOPMENT GOALS

SDGs where our activity and community investment carry the most weight

1 NO POVERTY

We want to reduce poverty and boost the welfare and economy of the countries we operate in. Our financial inclusion products and services and community investment programmes empower millions each year.

4 QUALITY EDUCATION

Our pioneering Santander Universities programme helps universities and students prosper, promoting education, entrepreneurship and employment. Also, Santander Scholarships is one of the world's largest private education grant funds.

5 GENDER EQUALITY

We promote an inclusive and diverse workplace, ensuring equal opportunity as a strategic priority. We also run initiatives to drive diversity.

7 AFFORDABLE AND CLEAN ENERGY

We're the global leader in renewable energy financing, and also finance energy efficiency projects; low-emission, electric and hybrid vehicles; and other cleaner transport solutions.

8 DECENT WORK AND ECONOMIC GROWTH

Our skilled and committed team allows us to respond to customers' needs, help entrepreneurs create businesses and jobs, and strengthen local economies.

10 REDUCED INEQUALITIES

Our products and services give society's most vulnerable better access to financial services, and we teach them the concepts and skills they need to manage their finances effectively.

11 SUSTAINABLE CITIES AND COMMUNITIES

We finance sustainable infrastructure and promote access to affordable housing to guarantee basic services and inclusive economic growth.

13 CLIMATE ACTION

We tackle climate change by reducing our own carbon footprint and helping our customers transition to a sustainable economy.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We promote transparency, the fight against corruption and the need for robust institutions for sustainable development. We have policies and codes of conduct that regulate our activity and behaviour, and frame our commitments towards more a more responsible banking system.

17 PARTNERSHIPS FOR THE GOALS

We participate in prominent local and international initiatives and working groups.

A. In the coming months we will publish a detailed analysis and results of this analysis on our corporate website.

Joint initiatives to promote our agenda

We drive our responsible banking agenda through a number of local and international initiatives and working groups, including:

- **UNEP Finance initiative.** We are a founding signatory to the United Nations Principles for Responsible Banking and signed up to the **Collective Commitment to Climate Action** (CCCA) to transition the financial sector to a low-carbon economy faster. In 2020, we participated in Phase II of the UNEP FI project on the TCFD's recommendations for banks, alongside 38 other financial institutions from six continents. We also reported on the progress made to accelerate the adoption of low-carbon and climate-resilient technologies and business models in society.
- **United Nations Global Compact.** We've been part of the Global Compact network since 2002. In 2020, we joined the United Nations Global Compact's gender equality programme. We also joined the Target Gender Equality (TGE) programme, launched in 19 countries with the goal of increasing the number of women on company boards and in executive roles.
- **World Business Council for Sustainable Development (WBCSD).** Our Group Executive Chairman, Ana Botín, sits on the WBCSD's executive committee. In 2020, we supported the Vision 2050 and Future of Work initiatives and signalled our intention to participate in the new Scaling Positive Agriculture project under the Food, Land & Water Programme.
- **Banking Environment Initiative (BEI).** We continued to participate in the Bank 2030 initiative, aimed at building a roadmap for the banking industry to help society in the transition towards a low-carbon economy.
- **CEO Partnership for Economic Inclusion.** We're part of a private-sector alliance for financial inclusion, led by Queen Máxima of the Netherlands, Special Representative of the United Nations, to promote inclusive financing for development. Amid the covid-19 pandemic, we attended a meeting with participants' CEOs to explore ways to make low-income customers and small businesses more resilient to the crisis.
- **Equator Principles.** We analyse the environmental and social risks of our lending according to the Equator Principles and help draw up common criteria.

We joined the **Green Recovery Alliance of the European Union** and the **Consultative Group of the Taskforce on Scaling Voluntary Carbon Markets**.

Santander Brasil drew up a **comprehensive plan** with Itaú Unibanco and Bradesco **to promote the sustainable development of the Amazon.** The plan includes ten measures targeting the three areas considered the top priority for the region: environmental conservation and the development of a bioeconomy; investment in sustainable infrastructure; and the guarantee of basic human rights.

Santander US joined **the Hispanic Promise**, a non-legally binding sign of intention to create a more inclusive and equitable work environment for Hispanic workers. This initiative launched at the 2019 World Economic Forum and has been endorsed by more than 150 companies.

Other international and local initiatives that Santander supports

- UN Women's Empowerment Principles
- The Valuable 500
- UN Principles for Responsible Investment
- CDP (Carbon Disclosure Project)
- UN Global Investors for Sustainable Development (GISD) Alliance
- International Wildlife Trade Financial Taskforce
- Round Table on Responsible Soy
- Working group on Sustainable Livestock
- Climate Leadership Council
- The Wolfsberg Group

Our response to covid-19

As a responsible bank, in 2020 we did all we could to protect the health of our teams and customers, while helping reduce the economic impact of the crisis.

Contingency plans:

Our Comprehensive Special Situation Corporate Framework centralizes governance in crises like covid-19

Special Situations Management Committee for conducting and monitoring the management of events.[A]

Regular dry runs to raise awareness of, and prepare for, certain stress situations.

Ensuring business continuity:

As an essential service, we guaranteed our operations would continue with the same standards of quality

Special measures in all our countries:

- Social distancing and shift patterns
- Designation of critical staff
- Segregation of technology infrastructure

People:

Our priority was to keep our 191,000 employees healthy and safe

Teleworking: more than 100,000 employees at the height of the pandemic, gradual returns to the workplace with safety measures, and more flexible work-life balance policies.

Support measures: Salary advances and other financial provisions, office equipment and healthcare supplies delivered to homes, and psychological support.

Health and safety protocols: Testing and health monitoring, as well as track and trace on mobile apps.
#SafeTogether

FlexiWorking

See section 'A talented and engaged team' in this chapter.

Customers:

We supported our customers in three areas: Preserving their health, guaranteeing uninterrupted service on all channels and promoting their financial resilience

Stronger channels:
Call centres
New digital solutions
Easy access to government-backed lines of credit.

Branches: Special business hours, shifts, selective closures and spaces adapted to safety measures.

Support for the most vulnerable: Liquidity and credit facilities; grace periods and payment holidays; reduced fees; and covid-19 cover in health insurance policies.

See sections 'Acting responsible towards our customers', 'Meeting the needs of everyone in society' and 'Financial inclusion and empowerment' in this chapter.

See section '3.3 covid-19 credit risk management' in the 'Risk management and compliance' chapter.

A. Both the Corporation and relevant Subsidiaries shall constitute this Committee. And shall be invoked by the top senior executive to strategically steer and manage a Special Situation

Santander All. Together. Now.

We delivered a co-ordinated response across the Group, and created a common branding - All. Together. Now.

Communities:

We collaborated on global initiatives to tackle the pandemic, raising more than EUR 100 million

- **Together Solidarity Fund** for healthcare supplies.
  Senior management commitment: Pay cut taken by the Group executive chairman, CEO, board directors and top two executive segments in the Group
- **Support through Santander Universidades** to projects facing health and educational challenges due to the crisis.
  Online scholarships #YoMeQuedoEnCasa for more than 20,000 young people
- **Cooperation with the public sector**: Tracing app in Mexico (with BBVA) and management of ICO loans.

See section 'Supporting communities' in this chapter.

Shareholders:

We met our obligations towards shareholders.

- We held a virtual April 2020 AGM.
- We adapted our dividend policy to ECB recommendations.
- We held a hybrid October 2020 AGM, where we approved a new remuneration proposal charged against the 2019 and 2020 results.

more than
30,000
new shareholders since Dec. 2019

See section 'Shareholder value'.

See section 1.3 'Alignment of executive compensation with the Group objetives and the covid-19 crisis' in the Corporate governance chapter.

Euromoney recognized Santander's management of covid-19 and support for SMEs

→ **Always informed**: www.santander.com

→ ***Ask Ana***: Regular talks and Q&As with employees hosted by the Group executive chairman. We held 10 meetings, which attracted 140,000 connections/ views

→ **Work Café**: 65 online events with more than 200,000 attendees

→ ***Esto lo superamos juntos*** **(We'll get through this together):** Local websites with helpful information and resources to navigate the crisis

2020 highlights

Our 11 public commitments to build a more responsible bank

Grupo Santander works to maintain a strong culture, developed by a skilled, motivated and diverse workforce, able to deliver the right solutions for our customers' needs while improving the communities we serve. We offer financing our customers can afford and support education that increases their financial resilience. We also strive to foster the global transition to the green economy, while reducing our own environmental footprint.

In 2019, we disclosed 11 public commitments which reflect our ambitions for the responsible banking agenda. Our pledges help us integrate ESG aspects into business management, and are set out to be SMART (**S**pecific, **M**easurable, **A**chievable, **R**ealistic and **T**ime-bound) so we can fulfil the UN SDGs intrinsic to our operations, and make progress towards the targets set out in the Paris Agreement on climate change.

In 2020, we made significant progress, achieving carbon neutrality and fulfilling four of our 2021 commitments one year early.

Our public commitments

	2018	2019	2020	2021	2025
Top 10 company to work for[A]	4 > > > > >	5 > > > >	6 ✓	6	
Women on the board	33% > > >	40% > > >	40% ✓	40% - 60%	
Women in senior leadership positions[B] (%)	20% > > >	22.7% >	23.7% > >	> > > > > > > > >	30%
Equal pay gap[C]	3% > > > >	2% > > >	1.5% > >	> > > > > > > > >	~0%
Financially empowered people[D]	———	2.0mn	4.9mn	———	10mn
Green finance raised and facilitated[E] (EUR)	———	19bn	33.8bn	———	120bn
Electricity used from renewable energy sources[F]	43% > > >	50% > > >	57% > >	60% > > > > > >	100%
Becoming carbon neutral in our own operations[G]		> > > > >	0% ✓		
Reduction of unnecessary single-use plastics in corporate buildings and branches[H]	> > > > > >	75% > > >	98% > > >	100%	
Scholarships, internships and entrepreneurship programmes[I]	———	69k	225k ✓	200k	
People helped through our community programmes[J]	———	1.6mn	4.0mn ✓	4mn	

——— Cumulative target   > > > > From... to...

A. According to external indexes in each country (Great Place to Work, Top Employer, Merco, etc.).

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

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

D. Unbanked, underbanked or financially vulnerable individuals receive tailored finance solutions and can increase their knowledge and resilience through financial education.

E. Includes Grupo Santander's contribution to green finance: project finance; syndicated loans; green bonds; capital finance; export finance, advisory services, structuring and other products, to help customers transition to a low-carbon economy. EUR 220bn committed from 2019 to 2030.

F. In countries where we can confirm electricity from renewable sources at properties occupied by Grupo Santander.

G. In our core geographies (G10).

H. The reported percentage takes our core geographies (G10) into account. Specific measures taken to cope with the covid-19 situation that might have involved use of plastics has not been penalized in the calculation of this percentage

I. Beneficiaries of Santander Universities (students given a Santander scholarship will do a work placement in an SME or take part in entrepreneurship programmes Grupo Santander endorses).

J. Beneficiaries of our community investment programmes (not including Santander Universities and financial education initiatives).

We continue to tackle the new business environment...

- The corporate culture policy approved by the Group board in December 2019 was approved by all local boards in 2020.
- Our new 5-year D&I strategy raises awareness and introduces new enablers to cultivate an inclusive workforce in terms of gender, LGBTI, people with disabilities, age, ethnicity, religion and educational background.
- Our new, simple and easy-to-access escalation channel, *Canal Abierto*, is available in all our countries, offering full anonymity to users.
- Our new global simplification network mapped all our simplification initiatives and introduced consistent plans, KPIs and qualitative ways of measuring progress and impact.
- Our new pilot programme offers better assessment and onboarding for c. 400 core suppliers based on ESG criteria.
- Salesforce remuneration scheme: we significantly increased the weight of conduct/quality on variable remuneration (40% or more). Customer satisfaction and service quality are the basic pillars of this model.
- Thematic reviews on overdrafts, packaged accounts and revolving cards.

...and promote inclusive and sustainable growth

- We updated our climate strategy, committing to: i) aligning our power generation portfolio with the Paris Agreement by 2030; ii) stop providing financial services to power generation customers with a revenue dependency on coal of over 10% in 2030; iii) reduce our worldwide exposure to coal mining production to zero by 2030; iv) and the ambition to be net zero carbon emissions by 2050.
- Local boards approved the most recent sustainability and human rights policies.
- Our second EUR 1 billion green bond launched under our Sustainable & Green Bonds framework. We also released an initial report on the first issuance.
- We offset our all emissions from our operation, thus become carbon neutral.
- We released our first reports for the UNEP FI Collective Commitment on Climate Action.
- We joined the Green Recovery Alliance of the European Union and the Consultative Group of the Taskforce on Scaling Voluntary Carbon Markets.
- We mapped solutions and products for our new Green Book.
- Santander CIB created a new ESG team to expand our ESG solutions.
- Santander Brasil partnered with Bradesco and Itaú Unibanco on sustainable development in the Amazon.
- Our global financial education site further reinforced our financial empowerment objectives.

Our efforts have been recognized the world over

Member of Dow Jones Sustainability Index

The Dow Jones Sustanibility Index (DJSI World) listed Grupo Santander for the 20th year in a row, with top marks in financial inclusion, crime prevention, tax strategy, customer relationship management, environmental reporting, operational eco-efficiency and social reporting. We also improved our FTSE4Good and Sustainalytics scores.

Among top 10 in Bloomberg Gender- Equality Index

Grupo Santander 7th in the Bloomberg Gender- Equality Index (BGEI) scoring above average in every category. Top score achieved in equal pay and gender pay parity. The BGEI is a golden seal for companies around the world that show a firm public commitment to equality and women in the workplace through policymaking, visibility and transparency.

One of the world's best places to work

Great Place to Work put Grupo Santander among the world's 25 best workplaces for the second year, out of more than 10,000 organizations worldwide that ensure exceptional employee experiences and high-trust relationships rooted in fairness and equality. The institute also named us one of the Best Places to Work in Latin America.

Top Employers 2020

Top Employers recognizes the excellent work environment of our bank in Spain, Poland, the UK and Chile, and of Santander Consumer Finance in Germany, the Netherlands, Austria, Italy, Poland and Belgium. As Santander has won awards in more than five European countries, it also received the Top Employers Europe certification.

Best bank for diversity and inclusion, and for SMEs

Euromoney gave Santander its global 'Best Bank for Diversity and Inclusion' award for the first time, in addition to our third global 'Best Bank for SMEs' award in five years. The magazine highlighted the breadth and ambition of our diversity and inclusion programmes. It also presented us with its "Excellence on Leadership" award for our covid-19 response in Europe.

One of the 100 most valuable brands in the world

Thanks to our work helping communities prosper in a way that is Simple, Personal and Fair, we have been recognized as the biggest bank in the eurozone and the sixth bank in Interbrand's 2020 Best Global Brands ranking.

Local Awards

UK

The Times listed Santander UK as one of the Top 50 employers for Women 2020.

Argentina

Great Place to Work named Santander Argentina one of the five best companies for women.

Chile

Santander Chile was named a Leading Company in Sustainability by ALAS20, as well as being made a member of DJSI Chile, DJSI MILA Pacific Alliance and DJSI Emerging Markets

Brazil

Santander Brasil was chosen by *Great Place To Work* as one of the 10 best companies for women and for the 11th year running featured in the *Índice de Sustentabilidade Empresarial* (ISE) portfolio.

Mexico

Santander Mexico placed ninth in *TOP Companies*' Súper Empresas 2020 ranking. It is a member of the new S&P/BMV Total Mexico ESG Index and DJSI MILA Pacific Alliance. It was also named by *International Finance* magazine as the Best Bank for Financial Inclusion in Mexico for the TUIIIO microfinance programme, which also received socially responsible company honours from *Centro Mexicano para la Filantropía (Cemefi)* and *Alianza por la Responsabilidad Social Empresarial (AliaRSE)*.

Poland

Santander Polska featured among *Wprost* magazine's “best employers in times of crisis”.

Portugal

Great Place To Work named Santander Portugal the “Best Bank to work for in Portugal” and we ranked third overall in its category for companies with over 1,000 employees.

The new business environment

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

Our strong and inclusive culture: The Santander Way

A strong corporate culture is critical to succeeding in today's competitive, fast-moving environment.

A talented and engaged team

The more prepared and motivated our workforce is, the stronger its commitment to helping people and business prosper will be. Our team reflects the diversity of the communities where we operate.

Acting responsibly towards our customers

We develop our products and services responsibly, and aspire to deliver excellent customer service.

Responsible procurement

Our procurement processes apply ethical, social and environmental criteria to ensure we operate in a sustainable way.

Shareholder value

We have clear and robust governance that manages risks and opportunities prudently and devises long-term strategy to safeguard the interests of our shareholders and broader society.

A strong and inclusive culture: The Santander Way

The Santander Way is our purpose, our aim and how we do business. It's our bedrock for building a more responsible bank.

Being more responsible requires a strong culture

Santander's corporate culture is critical to building a more responsible bank. By fulfilling our purpose of helping people and businesses prosper, our business grows and creates value for everyone.

The Santander Way

Our purpose

To help people and businesses prospers.

Our aim

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"

Our values

Simple | Personal | Fair

Corporate behaviours

- Show respect
- Truly listen
- Talk straight
- Keep promises
- Actively collaborate
- Bring passion
- Support people
- Embrace change

risk pro

Leadership commitments

Being open and inclusive	Inspiring and executing transformation
Encouraging the team to prosper	Leading by example

To live The Santander Way and be Simple, Personal and Fair in everything we do, we have eight **corporate behaviours** embedded in every stage of the employee lifecycle, from recruitment and training to performance reviews and compensation. In addition, our principles on **diversity and inclusion (D&I)** strengthen our relations with our broad base of stakeholders, making sure we are fully inclusive.

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

Cultural transformation: an ongoing journey

We understand a strong culture takes time to embed. Since The Santander Way launched in 2015, we've strived to ensure everything we do for our customers, employees, shareholders and communities is **Simple, Personal and Fair**. This ambition is reflected in the **standards** we uphold across Grupo Santander.

By virtue of our **talented and engaged workforce**, guided by **clear governance**, we've made great strides to strengthen our culture and values. Our **employee engagement scores have increased by** 12 percentage points (pp) since 2014. 86% of employees said they felt **proud to work** for Santander (+8 pp since 2014). 81% would **recommend working at Santander** (+10 pp since 2014), and 84% (+13 pp vs 2014) said their job gives them **purpose and motivation** to build a bank that is even more Simple, Personal and Fair.

Culture plan 2020: objectives and achievements

	Objectives	Achievements
Diversity and inclusion	Drive our D&I strategy with enablers of an inclusive workplace Implement global minimum standards on parental leave	• Women make up 23.7% of senior management (up from 22.7%) and 40% of the board of directors. • Cultural diversity increased from 50% to 66% among senior managers[A]. • The percentage of employees with disability rose from 1.8% to 1.9%. • The board approved a D&I strategy. • Among top 10 in the *2021* Bloomberg Gender-Equality Index and named the World's Best Bank for D&I by *Euromoney*.
Speaking up	Implement ethical channels in our core markets	• Our ethical channels with global minimum standards were implemented across our footprint.
Acting responsibly towards our customers	Uphold customer protection principles Lay down corporate guidelines on vulnerable customers	• We mapped out initiatives and rolled out guidelines on vulnerable customers in our core countries. • Responsible Banking unit´s 3-year strategic plan incorporated progress indicators to measure responsible practices towards customers. • We implemented covid-19 measures for customers, sharing best practices. • We completed our 3-year plan to include customer satisfaction indicators within salesforce remuneration schemes.
Responsible procurement	Roll out an ESG pilot programme for suppliers Enhance governance for critical suppliers	• Our pilot programme assessed c. 400 key suppliers according to environmental, social and governance (ESG) criteria. • We improved our risk management model.
Simplification	Identify and map out projects that streamline processes Improve metrics about simplification	• Our global simplification network mapped 115 projects. • Key performance indicators applied to 100% of projects. • 100% of the projects align with how we measure simplification through our Global Engagement survey or Net Promoted Score (NPS) results. • We developed a global project in Legal within 10 countries with more than 30 initiatives that managed to shorten some contracts in 50%, procedures in 20% and have also reduced the number of contractual models.

A. Cultural diversity considers race and ethnicity, nationality, age, experience and career background locally and abroad.
For more details on diversity and inclusion and speaking up, see the next section titled "A talented and engaged team". Further information on the Simple, Personal and Fair approach towards customers and suppliers can be found under the "Acting Responsible Towards Customers" and "Responsible procurement" sections respectively.

Risk pro: Our risk culture

Prudent risk management is essential to any responsible bank. This requires clear policies, processes and lines of accountability. Over the years, banks have been subject to greater scrutiny by the European Central Bank (ECB) and other regulators who pay close attention to how the financial institutions they oversee understand risk at all levels. Therefore, at Santander we make risk management everyone's business.

While risks and regulatory requirements for banks often change tune,Grupo Santander's risk management has consistently ensured excellent, sustainable growth, owing to our robust risk culture called Risk pro (or I AM Risk in the UK and the US).

In Risk pro, everyone is responsible for managing the risks they encounter,regardless of level or role. Therefore, 10% of our common performance management model, MyContribution, is based on daily risk management. As one of the common standards of our corporate culture policy, Risk pro instils prudence and vigour into our risk management, proving more effective than ever in the covid-19 crisis.

Promoting and enhancing our risk culture

In 2020, Grupo Santander's risk culture grew stronger. The Risk and the Compliance & Conduct divisions worked together to **embed Risk pro in recruitment, onboarding, day-to-day operations and leadership across all businesses**. Communications and mandatory training have acted as key levers that continue to drive the importance of ethical behaviours in our day-to-day work.

We do this through such initiatives as Risk Pro Heroes (to recognize employees' efforts to escalate risk); the speak up channels in place across our footprint to encourage the reporting of reputational and business risks; and the Risk pro Week/Month. In 2020, we ran a joint Risk pro Week for the first time involving the UK, Mexico, Chile, Argentina, Peru, Colombia and the Corporate Centre in Spain, cultivating employees' appreciation for risk management in everyday functions with informative materials, messages, videos and webinars.

To measure our progress in embedding Risk pro in Grupo Santander, we reviewed risk profile assessments (RPAs) completed by local teams and simplified the metrics of the Risk pro dashboard, which gave us better insight into local adoption of our risk culture across our footprint. We also improved group-wide cooperation and shared best practices thanks to six new working groups that devised an operating model based on local risk management.

Risk management: The bedrock of a responsible bank

Grupo Santander's risk management and compliance model, driven by our core values, culture, ethical behaviours and responsible banking strategy, consists of three lines of defence:

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

The board of directors is in charge of controlling risks and setting risk appetite. It receives expert support from its risk supervision, regulation and compliance committee.

Building a responsible bank rests on our analysis and handling of risks to our reputation, regulatory compliance, conduct, digitalization, society, the environment and climate change. In 2020, Grupo Santander continued efforts to identify, analyse and spread awareness on climate-change risks on the TCFD's recommendations (for more details, see the section on sustainable finance).

For more details on environmental and social risks, see section 2.5 in the 'Risk Management and Control' chapter.

For more details on our prevention of corruption, bribery, money laundering and terrorism financing, see section 7.2. 'Compliance and conduct risk management' in the 'Risk management and compliance' chapter.

For more details on MyContribution model see 'Performance review and remuneration' in 'A talented and engaged team' section.

risk pro
Everyone's business

Cybersecurity

Cybersecurity is critical in the digital age. Cyber attacks and fraud pose systemic risks to financial services. Customers expect their data to be secure and ethically processed.

Cybersecurity is built into our culture to foster crucial behaviours that protect our bank and our customers' information. The group culture steering approved an initiative to **include cyber security as part of the 10% risk objective of the employees' performance management**. With global cyber threats on the rise, we gave training to payment operators, developers, executives and board members, and launched an **updated version of our mandatory cybersecurity training course**. Our awareness initiatives on digital channels help customers and our communities stay safe online. We started a global **cybersecurity campaign under the UEFA Champions League and Copa Conmebol Libertadores sponsorship**, using football analogies to share our five cyber tips. We continue raise cyber awareness for personal and business customers through our websites, social media and online workshops.

We work **with public and private organizations to promote knowledge sharing and collaboration on cybersecurity**. We lead efforts in key geographies to increase information exchanges with government agencies and financial institutions. We also champion the creation of international exchange mechanisms to help combat cyber crime.

Our cybersecurity and IT conduct policy is fundamental in our cybersecurity endeavours to protect our bank and our customers. It outlines how Santander equipment and Information Technology (IT) services should be used. It highlights areas of risk and misconduct. It explains how our rules can avoid, mitigate and manage reputational and commercial risks. It also sets out how Grupo Santander and subsidiaries must handle the technology, work tools and information we provide employees with to prevent legal, reputational and cyber-related incidents.

Cybersecurity is the responsibility of everyone who works with Santander

For more details on employees' cybersecurity training, see the section 'A talented and engaged team' in this chapter.

For more details on our cybersecurity plan, see section '6.2 Operational risk management' in the 'Risk management and compliance' chapter.

93% of employees can identify risks in their job every day

91% of employees see cyber security as a top priority

75% of employees feel encouraged by managers to report important information, even bad news

79% of employees say they can report unethical conduct without fear of retaliation

Source: Global Engagement survey 2019. Next survey expected in May 2021

A talented and engaged team

Our team reflects the diversity of our communities and adapts to the new business environment, inspiring customer loyalty and meeting society's needs.

Our people, the cornerstone of our strategy

Talent management

Robust talent management means attracting and retaining the best talent while encouraging our people to learn and develop.

Performance reviews and remuneration

Our performance reviews and remuneration align with our culture.

Diversity and inclusion

A diverse and inclusive workforce is pivotal to our cultural transformation and to delivering our strategy.

Employee experience

A motivated workforce builds the best work environment that promotes wellbeing, flexible working schemes and speaking up.

Our goal

Treating our employees responsibly builds stronger teams willing to go the extra mile for our customers and guarantees the returns our shareholders expect. This way, we can invest more in our communities while making our people proud to be part of Grupo Santander in a virtuous circle of loyalty that drives our success.

Last year, we set out to be among the top 10 companies to work for in 6 of our geographies by 2021.[A]

Achievement in 2020

Top 10

company in
6 geographies[B]

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

B. Spain, Portugal, Argentina, Mexico, Uruguay and Chile, using the latest publications at our disposal. In Portugal and Argentina the rankings used only consider companies with more than 1,000 employees.

Talent management

Our talent management strategy helps us attract and retain the most talented and skilled employees. It also contributes to accelerating our transformation by fostering their continuous development. Several projects further this objective:

- **Strategic Workforce Planning (SWP)** identifies employee challenges and gaps in skills and expertise. It helps us create action plans to make sure each area has the skills it requires.
- **Skill Model** helps define common job profiles across the group. As the skills we require become increasingly similar across geographies, it is an opportunity to define common role requirements that can help our employees understand what is critical in their jobs and focus on new areas to drive our transformation.
- **Dojo** tackles the transformational challenge of our training and career development. It brings all our global subsidiaries under one training platform that up-skills and re-skills employees faster.
- **Workday** is our new global HR platform. It gives us an overview of people's skills and expertise, and allows us to collaborate and communicate more easily.

These programmes are complemented by local initiatives to cultivate talent according to each geography's specific requirements.

Talent management figures	2020	2019
Total employees (thousand)[A]	191	196
% employees with a permanent contract[A]	97.9	97.9
% employees working full time[A]	94.9	94.9
Employees joining/leaving (turnover)	12.6	17.6
% of workforce promoted	6.7	8.3
Average length of service (years)[A]	10.2	10.2
% coverage of collective agreements[A]	74.5	74.5

A. At year end

For more details, see the 'Key metrics' section in this chapter.

Talent attraction

We must attract talent that will drive our transformation while boosting skills and streamlining processes.

In 2020 we integrated our countries into our global career website, where applicants can now find our openings across the globe in just one place.

We also relaunched a section in our intranet, *Global Job Posting*, which opens internal vacancies from our countries to all our employees. Our new search engine simplified employee experience and increased access to more than 800 job descriptions in various geographies, fostering the functional and geographical mobility that is key to talent development. We also explored innovative technology solutions to support our digital transformation, maximize efficiency in recruitment processes and enhance applicants' experience.

Attracting tech/digital professionals

Our employee value proposition, *The Santander Effect*, drives the impact the tech and digital experts we recruit can have on our organization.

Santander Global Technologies launched *Be Tech! with Santander*, an initiative to find and onboard 500 new employees with different digital backgrounds and degrees in STEM disciplines. The critical in-house knowledge and skills we are gaining, as well as new ways of thinking and problem-solving, is enriching our capabilities in Cloud, Data and Cybersecurity.

In Poland, our *SantanderTech* programme offers a six-month work experience to students and recent graduates with projects that give them a unique advantage in their career development.

Career development

Santander's transformation is boosted by our continuous learning approach. Our training and development programmes help employees acquire new skills, sharpen old ones, increase performance and productivity, and become better leaders.

These are our main talent and career development programmes:

- **Talent reviews** to assess our employees' potential and support the professional growth of highly promising individuals.
- **Succession planning:** Our strategic approach is critical to ensuring Santander's future success by identifying potential replacements for key roles and provide them with valuable development opportunities.
- **Action Learning Programme Santander (ALPS)** for senior managers. ALPS fosters business leadership and problem-solving in a collaborative environment. 2020 marked its third year, with 35 executives taking part.
- **Young Leaders** engages 280 emerging leaders from 22 countries who possess outstanding expertise in digital and innovation, and uphold our Simple, Personal and Fair (SPF) culture. Participants work with senior managers to implement Santander's strategy and share new ideas.
- **Top Talent** focuses on accelerating the development of our most senior leaders. Participants reflect on their managerial style and are given individual feedback and support to create a development plan based on their key strengths and areas of improvement.

Corporate mobility

Mobility is vital to developing our employees and making our teams more diverse. Our main mobility programmes are:

- **Global Job Posting** offers employees the chance to apply for jobs in other countries, companies and divisions of Grupo Santander. Since 2014, it has posted over 5,700 openings.
- **Division Talent Mobility Programmes:** CIB, Accounting and Control, Internal Audit and other businesses and functions have international mobility programmes to expose employees to new realities and projects, boosting their career development.
- **Mundo Santander** has been one of Grupo Santander's flagship talent programmes since 2008. It supports the development of +2,000 employees who have taken part in strategic assignments in other countries for 3 to 6 months. Due to current travel restrictions, Mundo Santander was re-designed in 2020, so participants could work virtually on international projects in the future to foster their career development under these new circumstances.

"Mundo Santander was a fantastic opportunity to connect with colleagues from other countries, and learn different perspectives on how we do business"

Styvenson Peña, Corporate Centre

Santander, a great company to work for

In 2019, we set the target to be a top 10 employer in six of the countries we operate in by 2021. We changed our target from being a "top bank" to being a "top company to work for" to stay ahead of the competition in attracting the best talent.

We featured in the *Great Place To Work* list of the **25 best companies to work for in the world** for the second year in a row, out of more than 10,000 organizations from 92 countries. We are also **the highest ranked bank worldwide**. The ranking considered us one of the **Best Places to Work in Latin America**, as well as naming Santander Argentina one of the five best companies for women and Santander Brasil one of the ten best companies for women.

We received the **Top Employers 2020 certification** in Chile, Spain, Poland, the UK and in our SCF units in Germany, the Netherlands, Austria, Italy, Poland and Belgium. This honour recognizes excellent working conditions and contributions to personal and professional development. Thanks to the achievements made in Europe, we obtained the **Top Employers Europe 2020 certification.**

Furthermore, Santander México ranked ninth in TOP Companies' *Súper Empresas* 2020 ranking. The *Times* listed Santander UK as one of the Top 50 employers for Women 2020, and Santander Polska featured among *Wprost* magazine's best employers in times of crisis.

Learning and development

We value continuous learning so our employees can adapt to a fast-paced, ever-changing environment. We have a global induction, training and development policy to:

- transform our business.
- manage talent, encourage innovation, share knowledge and identify key employees in various areas.
- embed our culture in line with the governance standards of Grupo Santander, which include the corporate culture policy and the code of conduct.

In 2019, we laid the groundwork for two transformational projects, **Skill Model** and **Dojo**, to support our Strategic Workforce Planning and enhance the skills required to future-proof the workforce. Skill Model identifies common job profiles across our markets to drive simplification and consistency, leveraging internal know-how and helping Santander track what their employees know to facilitate talent management. Dojo tackles transformational training and development challenges by creating common learning paths and learning objectives and bringing all our geographies under one global training platform through academies and badges (certifications) to up-skill and re-skill employees faster.

In 2020, Dojo launched and, by October, it had reached 2,167 employees from Retail and Consumer in 11 geographies with a minimum viable product (MVP) that includes three initial academies (Agile, Engineering and Cloud), a Customer & Commercial Academy (to launch in the first quarter of 2021), and the first Badges (certifications) in *Agile framework fundamentals*, *Agile for Teams*, *Agile Metrics*, and *Scaling Agile at Santander*. Today, **Dojo covers 243 skills with more than 38,000 learning activities**.

In 2020, we trained employees in third-generation human rights issues, namely diversity and inclusion, health and safety, relations with customers and suppliers, the environment and the fight against corruption.

Likewise, and as a result of the covid 19 pandemic, Banco Santander has promoted the use of digital channels to continue the training of its employees

Main Group data	2020	2019
Millions invested in training	61.3	102.6
Investment per employee (euros)	320.7	522.3
% employees trained	100.0	100.0
Hours of training per employee	30.9	40.7
Employee satisfaction (over 10)	8.2	9.3

For more details, see the 'Key metrics' section in this chapter.

Global training

Our main initiatives are:

- → The **Risk Pro Banking School and Academy** and other risk management centres help establish the best strategies for our employees and promote a strong, uniform risk culture.
- → The **Global School of Internal Audit** offers practical solutions designed to adapt to business and regulatory changes.
- → The **Technology & Operations School** has rolled out the Agile, Engineering Excellence and Cloud Academies at Dojo, as well as the first virtual Advanced Operations Programme and the Cybersecurity programmes for key roles within Grupo Santander.
- → **Global mandatory online training** strengthens our commitment to complying with financial regulation. Available in all of our countries, we integrate it into performance and incentive schemes. Courses cover topics such as cybersecurity, *Risk pro*, financial crime, data protection, conduct risk (i.e. **Cyber Heroes**, an online programme to reinforce the direct role we all play in protecting Santander, our people and our customers). Each local unit has other mandatory courses based on local regulations and requirements.
- → **Leaders' Experience** is an executive business and cultural transformation programme to help participants (849 senior leaders and 280 young leaders) acquire the tools and skills they need to accelerate the transformation of Grupo Santander.
- → The **Faro Community** has been created to leverage our global footprint and direct our executives' focus to accelerate Grupo Santander's transformation.Grupo Santander
- → Through our **Responsible Banking** endeavours**,** we've designed a new e-Learning course that raises awareness about the damaging effects of **climate change** on the economy. We also began a series of virtual talks by leading experts about climate change and what it means for banks, to which all senior managers were invited. In addition, our board members received climate-related training.

Some subsidiaries and global units had additional training on climate change, as well as on sustainability, sustainable finance, and diversity and inclusion.

Sharing best practice

We leveraged our global scale to improve our performance faster with these group-wide initiatives:

- *Risk Pro/I AM Risk Culture* **Workshop** to discuss subsidiaries' progress and establish a global Risk Pro Culture collaboration model.
- **First Workshop to create global communities and promote a collaborative culture** across Grupo Santander, adding value through knowledge sharing. The workshop was organized by the Compliance and Conduct Collaboration Community
- **Non-Financial Risk Workshops** on topics pertaining to Santander Consumer Finance.
- **Managing Retail Credit Risk through the covid-19 crisis** to share core lessons learned from the payment holidays offered to retail customers.
- 2nd **Responsible Banking Workshop** to outline Grupo Santander's future responsible banking strategy. Our Responsible Banking team also holds regular video conferences with country teams to introduce new initiatives and share best practices.
- **Our global D&I network**, which shared their local good practices and voted on one initiative to implement globally.
- **Common Culture Workshop** focused on setting priorities and learning from best practices.
- **Simplification network** established to identify and share local initiatives globally, enabling us to set a common simplification methodology while tracking progress towards clear targets.
- **Customer Experience (CX) community** created to support subsidiaries in achieving the public commitment to be in Top 3 NPS. It acts as a forum to share best practices towards customers, contents and tools. It also helps implement local customer experience plans.

Social dialogue and restructuring

Grupo Santander promotes and upholds all employment regulation and trade union rights, including the International Labour Organization's main standards, on freedom of association and the right to collective bargaining. We are in constant dialogue with employees' legal representatives, with bilateral meetings and special committees where parties can share information, raise concerns and queries, and negotiate.

Our restructuring processes are an example of how we promote social dialogue. In recent years, Grupo Santander has had to undergo restructuring in Spain, Argentina, Portugal, Poland, the UK and other core geographies, consistently implementing internal and external flexibility measures to lessen the impact on employees and support their transition to new employment:

Restructuring

When restructuring affects jobs, we always:

- Negotiate with local trade unions and legal representatives to ensure employees' rights are upheld.
- Pay severance above the amount required by law, in keeping with agreements with trade unions.
- Help employees find new roles in Santander or other companies.
- Consider employees' special circumstances (i.e. disability, children with severe disease, etc.) and offer special support.

Assisting off-boarded employees

Santander Poland executed a restructuring plan to adapt to the new landscape. To ease the transition to new employment and provide emotional support, we created a **protection package** to help leavers realise their potential. It gives them information on the job market and ways to search for opportunities, as well as encouraging them to contact prospective employers.

We launched communication campaigns, with webinars, online consultations and new helplines. We also offered support to managers through a change experience framework, which they could draw on to outline their employees' journey.

External relocation programme

We restructured the organization in 2016 and 2018 alongside strategic partner Lee Hecht Harrison (LHH) to help those affected decide what to do after leaving the company. The programme committed to achieving 100% reassignment[A] and also assisted employees interested in retirement, starting up a business, specialized training and other options. The measures were available to all leavers and their closest relatives free of charge and for as long as it took them to find a new job.

Due to the pandemic, in early 2020 the bank committed to not placing any employees on furlough (known as ERTE in Spain).

In December, we announced further workforce restructuring, set for completion in 2021. Around 3,500 employees will leave organization and another 1,500 employees will be reassigned within the Group.

A. In 2016 and 2018, 100% of active job seekers found employment through our outplacement programmes.

Performance review and remuneration

Our comprehensive remuneration framework combines fixed and variable schemes based on employees' and company achievements. Short- and long-term variable remuneration reflects **what** we have accomplished (group-wide quantitative and qualitative targets, as well as individual and team targets) and **how** (e.g., behaviour, leadership, sustainability, commitment, growth and risk management), in addition to pension plans, banking products and services, life insurance and medical insurance and other competitive benefits our employees can choose. Fixed remuneration schemes reflect local market conditions. To set pay, we strictly apply the benchmarks and collective agreements in force in each country and community.

To comply with EU regulations on compensation, we class 1,389 employees who make decisions that may have a material impact on Grupo Santander's capital as *identified staff*. They are subject to a variable remuneration deferral policy that defers a significant amount of their variable pay (40%-60% depending on their responsibilities) for three to seven years in accordance with internal and local regulations. 50% is delivered in shares and subject to potential reduction (malus) or recovery (clawback).

Main initiatives in 2020:

- → Inclusion of our responsible banking targets (including being a "top-10" company to work for; women senior managers, financially empowered people; green finance; and ethical channel standards) as a qualitative metric in our executive remuneration bonus scorecard.
- → Mitigation of remuneration-related risks.
- → Increase awareness of fair pay practices in terms of equal pay and gender pay gap reduction.

For more details on remuneration data, see the 'Key metrics' section of this chapter.

For more details on board remuneration, see section 6 of the 'Corporate governance chapter'.

MyContribution

MyContribution is our **common performance management model**. Performance management is key to enriching our culture and ensuring colleagues perform to the best of their abilities in keeping with their career goals. Our model applies to senior managers; employees who take risks deemed "critical" under policies on governance, regulations and remuneration; and employees at the Corporate Centre and in Spain, Brazil, Mexico and Santander Consumer Finance. We plan to implement it in other core markets in 2021.

MyContribution has **three components**:

- **What**: 50% is based on employees' individual goals set in line with group-wide strategy.
- **How**: 40% is based on how employees deliver on objectives and foster the values of Simple, Personal and Fair, the eight corporate behaviours and the four leadership commitments, which combine to form *The Santander Way*.
- **Risk**: 10% is based on how employees manage risk in their day-to-day role.

MyContribution is updated regularly. It now highlights our risk culture with a separate category created in 2020 to assess it.

Diversity and inclusion

Our commitment to a diverse and inclusive work environment is a cornerstone of our corporate strategy. Our global D&I executive working group and D&I expert network of local representatives perform a vital role in driving and cascading the importance of diversity and inclusion across Grupo Santander.

To recruit, manage and develop talent that reflects broader society, we developed a **diversity and inclusion (D&I) strategy** in 2020. It sets out to consolidate an inclusive workforce in terms of gender, LGBTI, people with disabilities, and cultural diversity (age, ethnicity and race, nationality, educational and professional background, and international experience) by:

- **encouraging leaders to get involved**: their commitment to being open and inclusive and to promoting diversity will help consolidate our diverse and inclusive culture.
- **increasing awareness**: promoting diversity and shaping our culture through global standards and actions such as FlexiWorking, parental leave, training, employee networks and the celebration of international days.
- **promoting balance:** special focus on increasing the number of women in management and in development programmes.

53.7%
of employees are women -1 pp vs 2019

23.7%
of senior managers are women[A],+1 pp vs 2019

39.2
Average age of the workforce, + 0.6 pp vs 2019

1.9%
of employees have a disability[B], +0.1 pp vs 2019

Data at year end.
A. Senior managers are 1% of total headcount
B. Data from Mexico not included as it is confidential information.

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

C. 2019 Global engagement survey. Next survey expected in May 2021

EUROMONEY AWARDS FOR EXCELLENCE 2020

Euromoney **gave Santander its first-ever global 'Best Bank for Diversity and Inclusion' award, highlighting the breadth and ambition of our diversity and inclusion programmes**

Initiatives and achievements in 2020

Gender

→ **3-year roll-out of maternity and paternity leave minimum standards:** Maternity standards improved in Argentina as well as in Mexico, where we also implemented secondary parent leave. **In 5 geographies, our standards have been met or exceeded;** roll-out will continue in other markets until 2022

→ An objective to achieve **gender balance in training and development programmes**

→ *GPTW* named Santander one of the **Best Workplaces for women 2020 in Brazil and Argentina**

→ **First global meeting of the *Santander Women Network*** held with representatives from Spain, Argentina, Chile, the US, the UK, Santander Consumer Germany and Santander Consumer Nordics. Our objective is to extend the network to all subsidiaries to act as a counseling body regarding local gender initiatives

→ **New communication guide in Argentina, which covers gender** and includes a protocol against gender violence

→ **Management skill programme for Women** launched in Chile to incorporate more women managers

Cultural

→ Our definition of **cultural diversity expanded** to include race, age and international background

→ Cultural diversity in senior managers increased from 50% to 66%

→ **Black inclusion action plan** rolled out in the UK to raise the number of Black senior managers

→ **"Through our eyes"** talks organized in the US for employees to share experiences, encouraging often hard conversations about racial and social injustice. This initiative was voted to be rolled out globally in 2021, adapted to local circumstances

LGTBI

→ ***Embrace*** **network leaders from each geography met together** in July to share best practices and set the first global LGBTI network objectives for 2021

→ **Survey conducted in Mexico to find out how LGBTI individuals feel** in the bank, in addition to LGBTI inclusivity workshops

→ Collaboration with the Office of Ethics and Employee Relations in Poland to **encourage speaking up**

People with disabilities

→ **Global mapping to share countries' best practices** for people with disabilities

→ Celebration of the People with disabilities week across the group

→ Paid work experience launched in UK, in addition to tailored **career support programme for students with autism**

→ **Inclusive recruitment methodology** applied in Portugal

Empowerment

→ **Compulsory online diversity and inclusion training for senior managers** to promote inclusive leadership and raise awareness

→ Panels organized in Mexico on **positive masculinity and inclusive leadership**

→ **Monthly seminars on D&I and gender** diversity in Argentina

For more details on our D&I initiatives, see the **Diversity and Inclusion report in our corporate website.**

Gender equality

Grupo Santander continues to prioritize equal opportunity for men and women. Although 53.7% of employees are women, we recognize the figure is lower in leadership roles and we're taking significant measures to bring in more women leaders at all levels.

In 2019, we set diversity targets for senior managers [A]; in 2020 our initiatives continued to promote gender equality, covering issues ranging from work-life balance and parental leave standards, to recruitment, career development, equal pay and awareness. Across our footprint, we applied the global minimum standards for parental leave approved at the end of 2019. They include initial paid maternity leave of at least 14 weeks in Argentina, Mexico and the US as well as secondary parental leave of at least 4 weeks in Brazil, Chile, Mexico, Poland and Uruguay.

Grupo Santander is also taking measures to fight sexual harassment, which has been explicitly included within our global code of conduct. In Spain, we have an equality plan with protocols against sexual and gender-based harassment.

A. Senior managers are 1% of total headcount.

Grupo Santander is one of the leading companies in the Bloomberg Gender-Equality Index, achieving the top score in equal pay and gender pay parity.

Equal pay

Our strategy also prioritizes pay parity between men and women, which we measure in terms of the equal pay gap and the gender pay gap.

Gender pay gap: 31.7%

What it measures:

The gender pay gap measures differences in compensation between women and men in an organization, business, industry or the broader economy, irrespective of the type of work. At Santander, fewer women hold senior and business management roles than men (something we are focussed on addressing), while more women work in retail banking and support roles.

We calculate the gender pay gap as the difference of median of remuneration paid to male and female employees expressed as a percentage of the male remuneration. Our remuneration schemes factor in base salary and variable pay, but not corporate benefits/in-kind compensation or local allowances.

Our progress:

Santander addresses the gender pay gap with a methodology based on best practices and common guidelines for the group and local units. We are extremely committed to fostering a diverse and inclusive working environment. We maintain rigorous standards for promotions, recruitment, succession planning, implicit bias training and talent pipelines to strengthen diversity, with communications from executives as well as mentoring, networking and other actions aimed at achieving greater balance in the organization. Local units have action plans in place based on their own characteristics and conditions.

The gender pay gap slightly increased from 31% in 2019, owing to a larger sample size coming from enhancements to our methodology and its comprehensiveness.

Equal pay gap: 1.5%

What it measures:

The equal pay gap gauges "equal pay for equal work" for women and men in the same job at the same level. Our comparison does not consider certain factors, such as tenure, years of service, previous experience or background.

Our progress:

Grupo Santander set up fair pay programmes to reduce the equal pay gap. They include systematic reviews tied to remuneration cycles (merit-based promotions and bonuses), work reorganization and career development plans to recruit, engage, and retain diverse talent.

Our equal pay gap, which stood at 2% in 2019, declined this year as a result of our strong commitment and wide-ranging action plans across the organization. We will continue conducting robust reviews and analyses of pay data to detect, understand and act on any gaps.

People with disabilities

Grupo Santander has plans in place to include, and increase accessibility for, people with disabilities, which we believe is a question of talent, ethics and responsibility. While their inclusion promotes their independence, freedom and dignity, it also enriches the teams they join.

Our D&I strategy sets two objectives to foster the inclusion of people with disabilities:

- To meet (or exceed) the legal quota for employees with disabilities in a direct way, increasing the 2019 headcount of employees with disabilities by 1% in countries without a legal quota by 2025[A].
- To comply with local accessibility laws, requiring the AA-level accessibility standards dictated by the Web Accessibility Initiative (WAI) for all new digital products.

In 2020, these global initiatives increased the number of employees with disabilities in Grupo Santander from 1.8% in 2019 to 1.9%:

- A global mapping to share countries' best practices across the group.
- Recruitment of talent with disability benchmarks through trainee programmes.
- Volunteering and mentoring for people with disabilities.
- Awareness campaigns.
- AA-level digital accessibility criteria required in the validation of Grupo Santander websites and apps.

Fundación Universia is a core partner in Grupo Santander's efforts to include people with disabilities.

A. This measure exempts countries where it is not legal to collect disability data.

Differently abled

Since 2018, the *Differently abled* programme has been preparing organizations to employ people with disabilities to promote inclusive and diverse workplaces. This year, the project focused on spreading awareness about the rights and needs, and benefits of employees with disabilities, in addition to tearing down barriers and creating an environment where they could feel free to talk about their disability.

Differently abled's recruitment and other activities, which help strengthen our brand as a socially responsible employer, include:

- workshops, webinars, guides and articles on the Intranet for employees and hiring managers (e.g., on how to recruit people with disabilities, best practices, rights of people with disabilities).
- benefits for employees with disabilities (one-off financial support for health-related purposes.
- assistance with disability certificate applications.
- cooperation with universities, foundations and other external organizations to employ people with disabilities.
- awareness campaigns to mark the International Day of Persons with Disabilities inside and outside Grupo Santander.

Promoting the inclusion of people with disabilities

Santander Argentina carried out a series of initiatives to raise awareness and promote the inclusion of people with disabilities:

- We ran training for blind people and people with intellectual disabilities.
- We included training about disability and ran sign language courses for employees on our education platform, Academia.
- We implemented initiatives on adapted sports, sign language and inclusive design to celebrate the People with Disabilities Week.
- We created a **network for colleagues with disabilities** and allies to share experiences, propose ideas and act as their own ambassadors.

Employee experience

Our motivated workforce is vital to ensuring commitment and success in helping people and businesses prosper

1. Speaking up, active listening and taking action

As a responsible bank, everyone should feel able to suggest better ways of doing things and alert management when things go wrong or they suspect misconduct.

Promoting speak up without fear

This means:	What we do:	How we do it:
Protect	Management of risks and ethical concerns, internal governance	Ethical channels and whistleblowing lines, committees and forums
Innovate	Ideas, solutions, simplification, improved processes	Agile working, Validate (open innovation platform)
Engage	Recognition, performance management, feedback	StarMeUp, MyContribution; Employee pulse surveys

Our listening strategy

In line with our corporate behaviours, we truly listen to colleagues and encourage them to speak up and talk straight. We take action driven by feedback, data and experience, rather than process, with advanced reporting and network analysis to bring about change. The many large-scale **internal listening exercises** we undertake, such as **all-employee surveys** (our *Global engagement survey* is bi-annual), **pulse surveys** (global and local) and **crowdsourcing initiatives** (such as *Validate*, our open innovation platform) are **supplemented by performance check-ins and appraisals, exit interviews, incident tracking and whistleblowing channels**. We're also reviewed by *Top Employer, Great Place To Work* and other certifications that place importance on how we listen to our employees.

In 2020, our listening approach covered financial crime, covid and other topics. Additionally, employees participated in a **global pulse survey on** our **corporate purpose**, **employee Net Promoter Score (eNPS)**, **simplification**, **collaboration** and covid. Simplification and collaboration had been the two areas with the lowest scores on the 2019 *Global engagement survey*.

According to the results of our global pulse survey, our employees are committed to our purpose to help people and business prosper, and believe Santander responded effectively to the pandemic's economic and business-related challenges, and the bank has been taking appropriate action to ensure employees stay safe and healthy. Our people also indicated a willingness to retain some mode of remote working in the future, which our global FlexiWorking framework will support.

In terms of simplification and collaboration, the main areas of improvement were streamlining processes, improving IT capabilities, access on internal portals to find information and clearer guidelines and procedures.

Amid the first wave of the pandemic in March, we held open, **virtual *Ask Ana* meetings** with Group Executive Chairman Ana Botín so everyone could remain up to date with current affairs at the bank and ask questions on pressing matters. Although most meetings highlighted the pandemic, they also looked at strategy, business, diversity and other topics. In 2020, we held 10 *Ask Ana* meetings, which attracted 140,000 connections/views.

86% of employees agree Santander's response to economic and business challenges has been effective during the pandemic

78% of employees say they're open to remaining under some type of remote working model

+ 22,500 employees surveyed, of which 51% responded [A]

A. 2020 global pulse survey results

Ethical channels

We have ***Canal Abierto*, our ethical channel model,** in place in our core markets. In 2020, it was launched in Portugal and Argentina and at Openbank. Its purpose is **to enable employees to report violations of the general code of conduct** and **actions that fail to uphold our corporate behaviours**. It promotes eight minimum standards, including easy access, anonymity, third-party management and awareness. In 2020, we focused on implementing them across Grupo Santander, especially through:

- support and sponsorship by the Group executive chairman and local CEOs for employees to use the channels to speak up about misconduct;
- acceptance of complaints about non-ethical conduct that runs counter to Simple, Personal and Fair behaviour;
- Enhanced measures to prevent conflicts of interest during investigations; and
- the common minimum standards were part of the criteria on the Responsible Banking executive remuneration scorecard.

For uniform channel management and reporting, Grupo Santander enacted the ***Canal Abierto* policy in 2020.** It includes common standards, management criteria, guarantees for users and local initiatives all channels must meet to promote the channel's use among employees. It also sets a taxonomy of cases that can be reported, including sexual harassment.

Canal Abierto helped us hear and handle approximately 300 concerns from employees **about covid-19** in 2020 (7% of total complaints). Overall, they were about hygiene measures, non-compliance with social distancing, quarantine, staff resources and managers' responses to the pandemic. 189 were deemed substantiated, and 25 led to disciplinary action. This improved our crisis management and other internal procedures.

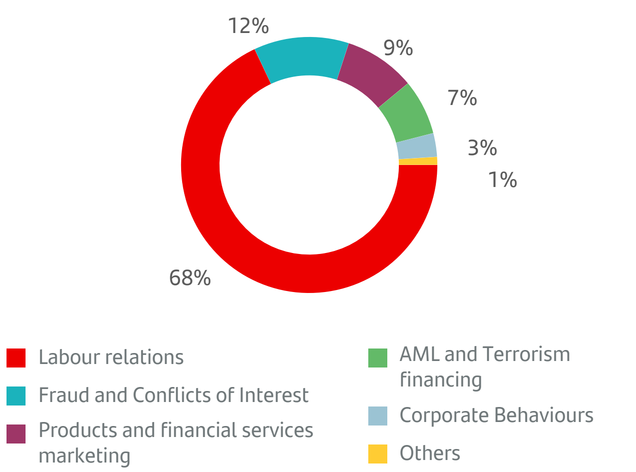
In 2020, we received 4,390 issues mainly related to labour relations (+3 pp vs 2019), including 28 that alleged workplace discrimination (six of which led to sanctions, including three dismissals); fraud and conflicts of Interest (-7 pp vs 2019) and products and financial services marketing (no change yoy). On average, issues were processed in 35 days. No cases of corruption or human rights violations were confirmed.

Mexico

In 2020, our Mexico team's Línea Ética (ethical channel) added a covid category for employees to report violations of internal health protocols, hygiene measures and potential infections. This was driven by a strong communications campaign, timely follow-ups on filed complaints, action plans and disciplinary measures.

Approximately 147 complaints were received and resolved during the pandemic. The number of complaints fell significantly in the final months as a result of mitigating actions. Internal controls helped remind everyone of the company's and employees' obligations and disciplinary measures. In the most serious cases, those engaged in behaviours increasing the risk of contagion were warned, suspended or dismissed.

Types of issues received



	2020	2019
Issues received	4,390	4,473
Issues deemed well-founded for investigation	3,787	3,534
Disciplinary actions	1,083	920
which led to dismissal	315	294

2. Corporate benefits

We offer several benefits for employees across all geographies. Each country establishes programmes adapted to local conditions. **Benefits range from free services for employees and family members, to discounts on products and services. During the pandemic**, we extended those services to guarantee our employees' wellbeing in all our countries to **help our people stay physically and mentally healthy during lockdown**. We adapted health cover to new circumstances and needs. In Spain, we reinforced our medical services and launched a new advice programme with health, social and legal experts. In Brazil, we had a 24-hour remote medical assistance service available for all employees and their relatives.

For more details on our initiatives promoting employees' wellbeing, see "Our wellbeing" in this section

Corporate benefits in Argentina

Santander Argentina offers benefits to employees in different areas:

- Family: Nursery subsidies, schools camps and scholarships for employees' children.
- Health: Excellence plan for all employees, with permanent access to doctors, dentists, psychologists, social welfare officers and other health professionals.
- Financial products: Reduced interest rates, credit cards without extra costs, access to mortgages with beneficial conditions, etc.

During covid-19, they also offered discounts at supermarkets and petrol stations, favourable lending conditions to buy cars and motorcycles, discounts on internet bills and material to facilitate remote working.

3. The way we work

We promote our employees' work-life balance through flexible working and health and wellbeing programmes.

FlexiWorking

Our global FlexiWorking framework consists of formal and informal measures addressing where, when and how much we work:

- "Where we work" incorporates home/remote working and other measures.
- "When we work" considers compressed hours/days, flexible start/end and break times, and alternative working patterns.
- "How much we work" is about part-time working, special leave, flexible holidays, job sharing and other measures.

The agreements we have signed with major trade unions provide measures to improve employees' work-life balance. We made a pledge to promote practical time management and the use of technology that helps our employees better organize work and upholds their right to "disconnect digitally" when they are away from the workplace.

As part of our covid-19 response in Spain, we implemented automated tools advising employees to avoid sending emails or hosting meetings outside working hours. FlexiWorking ultimately enabled over **100,000 employees to work remotely during the peak of the pandemic**, while maintaining strong levels of wellbeing (as seen through our regular pulse surveys).

83%

of employees say Santander is providing the appropriate flexibility they need to be effective and productive.[A]

A. 2020 global pulse survey results.

To adapt the way we work and fulfil employee expectations, we are working on a project to review our global flexible working proposal according to subsidiaries' realities, gaining flexibility in the workplace and with new digital capabilities. Changes will be gradually implemented in 2021 and afterward.

Agile methodologies

We implement agile methodologies to foster collaboration, accelerate decision-making and drive change through remote teams in several countries. In 2020, we focused on implementing them in Brazil, Portugal and Poland.

In Poland, 1,400 employees are now working in agile units. The significant improvements this brought about include greater cooperation between IT and business areas, higher engagement and transparency.

4. Volunteering

Volunteering builds a strong team spirit and a sense of purpose, while helping the communities we serve. The corporate volunteering standard in our corporate culture policy entitles employees to spend a certain number of working hours each month or year volunteering.

We hold two important group-wide volunteering events for employees each year: our *Santander Week*, observed in all our countries at the same time, and International Volunteering Day. Locally, the group's subsidiaries organize multiple volunteering programmes as part of their community investment commitments.

We continued supporting communities despite the pandemic

Our collaboration and commitment to social organizations did not waver during the pandemic. Our volunteers in every market continued to devote their time to promote a more inclusive society. When we couldn't run our regular volunteering programmes face-to-face, we delivered them virtually. We also launched several **social initiatives covering new needs.**

Santander also set up the ***Together* solidarity fund** to raise money for the most urgent needs generated by the pandemic, such as medical equipment and research. Employees in all our countries made personal contributions to this fund.

For more details, see the 'Supporting Communities' section in this report.

Mães da Favela programme

In 2020, more than 46,000 collaborators from Santander Brasil participated in the *Mães da Favela* project, organized by the NGO *Central Única des Favelas* (CUFA). They put together a 12-hour live festival to help single mothers from disadvantaged communities. More than 20 TV and radio channels streamed the event, which raised over R$3 million. Santander Brasil matched this amount to bring the total to R$7.2 million. The initiative benefited 11,000 women across the country.

+26,000
employees participating in community activities

+56,000
hours volunteered

Volunteering initiatives during covid-19

In Uruguay, we gave talks through Santander Universities to groups affected by the pandemic. They included a session on "How to do business during the covid-19 crisis", where leading business school figures shared content and useful insights into how to cope in this new landscape.

In Spain, the *Minutos en compañía* campaign (together with *Adopta un abuelo* and *Fundación United Way*) gave training to 75 volunteers who called elderly people living alone or in care homes or hospitals to lift their spirits (12,300 minutes in one month).

In Poland, our people sewed over 15,000 protective masks and donated them to health centres, care homes and other institutions. The material used to make the masks was sent to employees' homes.

In Chile, volunteers provided online guidance and support to students from disadvantaged communities to continue their education.

In Argentina, volunteers provided assistance to the elderly, buying them food, and providing emotional support and assistance. Volunteers also gave talks on financial education to different audiences and mentored young people in social vulnerability situations.

In the UK, over 2,500 employees volunteered with Alzheimer's Society and Age UK to make social phone calls to lonely and vulnerable people, pledge social actions to support people affected by dementia, support local services , and help older people get online and develop their digital skills.

5. Our wellbeing

Keeping our **employees safe, healthy and well** has always been a core **priority for us** – and especially in 2020. On top of the measures we took to protect our employees, we have collective bargaining and other sector and bank agreements that include provisions on employee health and occupational risk prevention such as check ups and testing on a regular basis or following prolonged absence.

Our structure and resources are designed to mitigate work-related risks. We have appointed a **global head of health and safety** to coordinate and centralize all initiatives on employees' wellbeing. We also work with employee representatives to regularly revise our **occupational risk prevention plans**, which we implement through:

- regular workplace assessments of health and safety risks and preventative measures to eliminate or control them.
- considering health and safety issues when designing, contracting for or acquiring offices, furniture, equipment, products and IT equipment.
- procedures to control and guarantee safe working conditions, which are developed by the Occupational Risks prevention area in collaboration with other units. They consist of the identification of risk factors affecting employees' health and safety; the assessment of risks that cannot be avoided; and the adoption and scheduling of preventive measures.
- information and theoretical/practical learning for employees.
- integration of occupational risk prevention into management to embed it in all operations that may impact on employees' health and safety.

In 2020, to **guarantee our employees' wellbeing during the covid-19 pandemic,** our protocols and prevention measures consisted in:

- **delivering masks, gloves and protective screens** to office and branch-based employees; applying strict personal hygiene protocols; and reorganizing spaces to ensure social distancing. In Spain, we committed EUR 15 million to sanitary material purchases and disinfection activities, and performed more than 70,000 tests. In addition, we provided employees and their families with less expensive tests and protective equipment.
- **offering information and training** on covid-19 prevention, with a specific site on our corporate Intranet featuring coronavirus updates and Q&A sessions with our executive chairman.
- **executing a corporate de-escalation plan** with prevention measures and guidelines for all geographies that fit local government indications and included monitoring of employees' health via apps, tests and surveys.

BeHealthy

We are committed to being one of the healthiest companies in the world. We offer employees health and wellness benefits, and raise awareness through our **global BeHealthy wellness programme.**

BeHealthy has four key dimensions: Know Your Numbers, Eat Well, Move and Be Balanced.

In response to covid-19, we created the **BeHealthy at Home brand** to empower and enable colleagues to be healthy and look after their families. Our teams gave advice on working and exercising at home and on nutrition. In the UK, we created a podcast series called *The Wellbeing Podcast*, which featured leaders discussing key topics during the pandemic. In Poland the CEO launched a challenge to burn more calories than him in a steps challenge.

Our global partnership with Gympass saw the launch of **Gympass W** (a **digital platform** to access 1:2:1 live sessions with fitness trainers, cooking classes and much more).

We also launched a series of videos based on the book by Chief Wellbeing Officer Dr MacGregor, with messages about wellbeing and encouraging action through experiments, quizzes and other activities.

87%

of employees say Santander is taking appropriate steps to ensure employees stay safe and healthy[A]

A. 2020 Global Pulse survey results

3.1%

absenteeism[A,B]

10,305

thousand hours missed due to non-occupational illness and accidents[B]

0.07

Severity rate[C]

For more details on absenteeism data, see the 'Key metrics' section in this chapter.

A. Days missed due to work-related accidents and non-occupational illness or accidents for every 100 days worked.
B. Santander UK does not count hours not worked due to covid-19 as absences so they will not affect the remuneration objectives set prior to the health crisis.
C. Hours missed due to occupational accidents involving leave for every 100 hours worked.

Acting responsibly towards our customers

Being responsible means offering our customers products and services that are Simple, Personal and Fair. We need to do the basics brilliantly and solve problems fast, while learning from mistakes.

As a responsible bank, our customers are at the centre of everything we do

We focus on our customers

We listen to them and enhance their experience with us.

We protect our customers

By identifying vulnerabilities and avoiding product mis-selling.

We manage their complaints

In case something goes wrong, we act and learn from it.

Transforming customer experience

In 2020, we reinforced our customer experience (CX) strategy to ensure we offer the best service, always. The diverse CX initiatives we ran focused on active listening.

We aim to become a leader in customer satisfaction (top 3 in NPS) in all our geographies. Supported by our new global multidisciplinary team, we prioritize projects with the greatest impact on NPS, and oversee improvements to the customer experience wherever we operate.

We created that team based on four pillars:

- **Strategy:** To unify Grupo Santander's CX vision, we started to create common CX guidelines that will boost customer journeys and touchpoints, ensuring customers remain at the centre of our efforts.
- **Analytics:** To enhance the team's performance and bearing on our business, we evolved CX metrics in line with local initiatives to ensure all our plans are customer-centric, based on data and action-driven.
- **Community:** Working as one team helps us serve our customers better. We created a global CX community to generate synergies and share best practices, knowledge and tools across Grupo Santander.
- **CX plans:** We helped devise and execute local plans to improve customer experience. We also focused on improving customers' emotional experience through *Emotional hub* in Mexico, the *C+ Santander* model in Argentina and other initiatives.

Emotional hub

The Emotional hub initiative seeks to listen to our customers **to understand and improve their emotional experience**. We combine customer and employee interviews with design-thinking to build an emotional map that helps us uncover sensitive issues which we can address. We identified much-needed enhancements for full service, customization, and product and process simplification. We listened to 600,000 customers and more than 1,000 employees, who gave us a holistic view of their emotional experience.

C+Santander model

The C+Santander (Customer+Santander) is a data-driven model for decision-making to create memorable customer experiences by transforming perceptions into data; data into knowledge; and knowledge into action. We measure every touch point via NPS to keep a close track of customer claims. We then correlate them with business performance indicators, generating a constant flow of data each area can use to focus on delivering customer strategies that can make the greatest difference.

Thanks to this approach, we moved into the top 3 in NPS in 2020. We also developed experience guidelines on how to approach customers in personal and digital interactions.

We use **interactive channels to listen to, and better understand, our customers**. Our customer centres in Chile, Mexico, Spain and Portugal enable us to get to know more about what they think of our products and services and the way we do things. Meanwhile, our corporate Consumer Protection function shares best practices across Grupo Santander through CuVo (Customer Voice), a monthly global working group formed by all our customer-facing areas.

In 2020, **we continued to simplify our processes and product catalogue**. In Portugal, we streamlined our product portfolio by reducing the number of accounts and bank cards from 141 in 2019 to 38 in 2020. We also created the *Santander One* account, which brought together several accounts into one and helped increase transparency, offering subscription-based plans and free, essential services to loyal customers; it was launched in Spain and will be progressively implemented in all our European units.

Poland, a case study on simplification

As part of our Agile transformation, Santander Polska simplified products and processes. This significantly improved how we design and market our products and services, while solving customers' problems with easier processes. So far, we have:

- developed new digital cash loans, reducing the time and steps to complete the transaction and vastly increasing new cash lending.
- set up a new way to open accounts in branches that only takes 2.5 minutes (as opposed to the 33 minutes previously) and only requires a signature for completion, halving the number of clicks.
- created 15-minute SME smart loans (down from 90 minutes) without a loan application. The process is omnichannel and can be completed in a single tool.

Expanding our new branch models and promoting inclusiveness

We are constantly adapting our branches to customer needs. In 2020, we opened Work Cafés in Poland and the US, and took steps to make our branches and channels more accessible and inclusive. In Spain and Portugal, we use universal design principles (induction loops, tactile paving, accessible toilets, etc.) to fit out our Smart Red branches and Work Cafés. Santander Polska's Barrier-Free Service includes branch accessibility measures and sign-language video calls with customer service advisers.

We are working tirelessly to adapt our ATMs for the visually impaired: 95% of Santander Brasil's machines are braille-enabled; 1,286 have been adapted in Argentina; more than 2,000 in Portugal are equipped with voice command; and 1,300 in Poland are speaker-driven and braille-enabled.

Customer satisfaction

Our strategy sets out to inspire loyalty in our customers. We conduct more than a million customer surveys per year to monitor their opinions and experiences with Santander and see how we can adapt our products and services to improve their experience.

To **measure customer loyalty and satisfaction**, Santander uses the **Net Promoter Score (NPS).** NPS is an indicator that summarizes our relationship with customers. It depends on three main drivers we care about and constantly work to improve: service, product and price, and image. It contributes to the variable remuneration schemes of most employees. In 2020, our **NPS was in the top 3 in 6 out of 9 geographies**. Loyal customers in 2020 are 22.8 million, up 6% from last year.

Our customers' expectations changed largely because of covid-19. Therefore, we focused on improving our service at contact centres and digital channels (which have been the most widely used channels during the pandemic). We also worked on simplification, which we found to have a profound impact on NPS.

Top 3

6 of 9 countries[A]

A.Santander US has a different objective and does not account for the metric.

	South America				Europe				North America	
2018	5º	3º	3º	2º	3º	5º	3º	1º	3º	9º
2019	4º	2º	2º	2º	3º	4º	3º	2º	4º	9º
2020	**3º**	**2º**	**1º**	**3º**	**2º**	**5º**	**1º**	**6º**	**4º**	**9º**

Internal NPS benchmark to measure customer satisfaction, audited by Stiga / Deloitte
Main peers by country: Argentina: Galicia, BBVA, ICBC, HSCB, Macro and Nación; Brazil: Itaú, CEF, Bradesco, Banco do Brasil; Chile: BCI, Banco de Chile, Itaú, BBVA, Banco Estado; Uruguay: Brou, Itaú, BBVA, Scotiabank; Spain: BBVA, Caixabank, Sabadell, Bankia; Poland : ING, Millenium, MBank, Bank Polski, Bank Pekao; Portugal: BPI, Millenium BCP, CGD, Novo Banco; UK: NationWide, Barclays,Halifax, Natwest, Lloyds, HSBC, TBS, RBS; Mexico: Scotiabank, Banorte, Bancomer, HSBC, Banamex; US: JP Morgan, Bank of America, Capital One, PNC, M&T Bank, TD Bank, Citigroup, Ctizens, Wells Fargo.

We monitor all NPS drivers

SERVICE		
	Branch	General service, waiting time, branch assistance, layout
	Channels	Mobile, internet, ATM, CDM, contact centre, personal manager
	Personal	Personal attention, kindness, employee professionalism
	Simple	User-friendliness, speed and agility
	Communications	Clear statements, information on offers and deals, coherent information
	Problems	Percieved issues
	Others	Data protection
IMAGE		Strong and sound, social responsible, innovative, trustworthy, transparent
PRODUCT & PRICE		Simple product and service proposition, fees and charges, benefits, credit cards

Group NPS by channel[A]

56	45	60	68
Branch	Contact Center	Internet	Mobile

Branch: Does not include Chile
Internet: Does not include UK, Chile and Uruguay
Mobile: Does not include Uruguay
A.Based on the results of surveys made to customers 48h after their interaction with the Bank. It presents a pondered average of the Group's active customers.

Protecting consumers and helping vulnerable customers

Being responsible means offering our customers products and services that are Simple, Personal and Fair. Our daily operations must be brilliant, and we must go beyond legal minimums to give our customers an exceptional experience.

Consumer protection policy and principles

To further embed our customer focus, the Compliance & Conduct function implemented the consumer protection policy. It sets out principles we expect our teams to follow, ensuring high ethical standards in our relationship with customers.

Consumer protection principles

To apply our consumer protection principles to our day-to-day practices – reflecting our aspiration to be Simple, Personal and Fair in all we do – this year we implemented a reporting process in all geographies. By using customer voice and business indicators, it allows us to identify customer outcomes and local gaps (e.g., poor assistance, incidences with fees and ATM issues) and develop plans to tackle them. We plan to add artificial intelligence to the process to gain insights we can use to increase customer protection.

The Compliance and Conduct function repeatedly identifies potential risks to customer protection from new regulations or problems with products or services. It carries out **thematic reviews** for the entire group, assesses the situation and makes decisions to improve and mitigate risks. In 2020, thematic reviews focused on responsible business practices in account packages, revolving cards, and overdrafts. Their findings and suggested best practices for transparency, disclosure to customers, sales, commissions, loan approval and credit conditions, were shared across geographies. Next year, we expect subsidiaries to close the gaps identified against the group's responsible business standards. In general, all subsidiaries are well positioned to fulfil those standards.

We also ran **awareness campaigns and workshops** on product governance and consumer protection that matched strategic priorities.

Consumer protection principles

- Treat customers 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

Our **global vulnerable customers and over-indebtedness prevention guidelines,** approved in 2019, aim to ensure a consistent group-wide approach in guaranteeing fair treatment to customers, with empathy according to their particular circumstances, and in avoiding over-indebtedness. For example, when validating a product or service, we must specify if we can offer it to a vulnerable customer.

Although most countries have laws that state when a customer can be considered vulnerable, our definition is wider and covers circumstances beyond financial stress, mindful of the various personal factors that lead to a state of vulnerability.

By the end of 2020, all subsidiaries had locally approved the vulnerable customers guidelines. This puts us in a good position to face regulatory trends as we continue to build a more solid vulnerable customer model.

"Here & Now" for our elderly customers

To **support elderly customers during the covid-19 pandemic** (especially those unfamiliar with digital channels), Santander Portugal launched *Here & Now*. This initiative is a personal contact and community programme and free service for employees to help elderly customers with digital channels, payments, and daily tasks like making purchases at the chemist. We contacted more than 55% of our customers over the age of 65 (more than 150,000 people), many of whom told us things like "You've called me more than two of my three children" and "I thought that this type of service was only given to rich people".

We also distributed 580 tablets and communication cards to care homes across the country, so residents could talk to their families during the Christmas holidays.

Product governance

Santander's governance structure enables us to protect customers' interests.

Our **Product Governance and Consumer Protection** function in our Compliance & Conduct division sets standards to manage products and consumer protection properly. Our **product governance forum,** which involves the Responsible Banking unit, ensures the products and services we market meet the needs of identified target segments, are available on the right channels and deliver the desired outcomes for customers. Our product validation assesses whether a product can be categorized as ESG and is considerate of vulnerable customers.

In 2020, our product governance focused on:

- **digital contracting and contents:** This includes the scope, consistency, presentation format and access to information on digital channels (Online Banking/Mobile Banking). We paid special attention to pre-contractual information, withdrawal rights, complaints handling and post-sale information.
- **responsible consumer credit lending**: To ensure credit terms are reasonable and prevent over-indebtedness, we focused on revolving cards and drafted an internal guide to regulate conduct standards that must be observed.

Salesforce cultural transformation

We include customer satisfaction indicators in our remuneration schemes so the first line of defence are incentivized to meet customers' rising expectations. Our three-year transformation plan (which started in 2018) continued to **revise the remuneration of our salesforce**. Corporate Compliance & Conduct, with the collaboration of HR and local teams, monitored the implementation of local action plans to confirm significant improvements. The action plan covers governance; variable/fixed remuneration ratios; linear business objectives that do not promote specific products; the weighting of quality components against adequate diversification of conduct metrics; and other topics.

In executing this plan (especially in 2020), we have **significantly increased the weight of conduct/quality on variable remuneration (equal to or above 40%)**. Customer satisfaction and quality are the basic pillars of this model.

Our employees' knowledge and skills are key to ensuring the highest quality customer service. As part of our continuous improvement process, in 2020, several group subsidiaries **updated their conduct risk with customer training material** (part of global mandatory employee training) and a specific course on conduct standards in collection and recovery.

Conduct in collections and recoveries

In the first half of 2020, we developed plans in all geographies to increase focus on collections and recoveries conduct. This improved our conduct in that regard, while strengthening controls over transparency, data protection, vulnerable customers, training and remuneration practices in collections and recoveries.

Our plans focus on:

- boosting controls to mitigate conduct risks (fair treatment to customers and end-to-end customer management).
- re-designing communications with customers to make them more transparent and to enhance data protection controls.
- identifying and referring vulnerable customers.
- enhancing quality assurance and third party risk management to ensure a fair customer journey with qualitative conduct indicators.
- providing specific conduct training to all employees involved in debt collection.

Our efforts **accelerated owing to covid-19.** With the pandemic, defaults are likely to increase, making it even more important that our processes ensure our customers are treated fairly.

For more details on product governance, consumer protection and conduct and collection & recovery, see section 7.2. 'Compliance and conduct risk management' in the 'Risk management and compliance' chapter.

Data protection

Grupo Santander is committed to collecting, storing and processing personal data safely and securely. Our compliance programme guarantees robust risk-related management of data. It includes:

- corporate-based criteria as **general lines of action** to meet regulatory requirements.
- **local subsidiaries' responsibility** to fulfil the General Data Protection Regulation (GDPR) and local regulation on data protection.
- **a solid governance** model (available on the corporate website), consisting of:
  - corporate and local policies.
  - a data protection officer (DPO) and/or managers in each unit where necessary. We formally disclosed appointees to local authorities.
  - a corporate oversight programme based on a bi-annual monitoring forum chaired by the Group chief compliance officer, where subsidiaries report on compliance status, management indicators and half-year evaluations.

Other items that bolster our commitment to personal data protection are:

- a homogeneous group-wide monitoring model, which includes monthly reporting on performance indicators.
- data protection integrated into the annual Internal Audit review programme. The number of units reviewed by internal audit since 2018 is 38 (and counting).
- a corporate data protection management tool that records group-wide data protection activities (c. 6,000 treatments).
- promotion of corporate initiatives and the exchange of best practices among units, including workshops and training courses.
- special training for DPOs and privacy "champions".
- constant monitoring of regulatory developments to update and consolidate criteria, methodologies and documentation.
- employee training and awareness.

Principles of action in our relationship with political parties

In our goal to be a responsible bank, Grupo Santander maintains a good relationship with all its stakeholders. Grupo Santander is governed by principles of transparency, honesty and impartiality in its interactions with political parties and other entities with public and social purposes that are also political in nature.

Since 2016, our **policy on financing political parties** (available on our corporate website), which our board's executive committee approved, applies to all our subsidiaries worldwide. It prohibits making monetary or in-kind election donations and contributions. In the commercial relationship, Grupo Santander prohibits full or partial debt forgiveness for political parties and their affiliates, even though they can negotiate the terms of debt with our subsidiaries at interest that can never be below market rate. Furthermore, this policy applies to political parties' electoral candidates to the extent local laws provide.

Grupo Santander rejects any and all acts of corruption by employees and managers in our relations with political parties and any other entities with public and social purposes.

According to our policy, in 2020 Grupo Santander did not make any donations or contributions to political parties.

Delivering for customers during the covid-19 crisis

Through this unprecedented crisis, Grupo Santander has worked hard to help our customers overcome financial challenges. In addition to facilitating regulatory and governmental assistance, the measures we took to maintain high-quality, accessible services and relieve financial distress included:

- **expanding the terms and scope of grace periods and payment holidays** for all customers (beyond legal requirements).
- **helping channel government liquidity** to SMEs and businesses.
- **expanding insurance cover** for pandemic-related claims in line with payment holidays.
- making sure we continued to deliver quality service to customers during lockdowns, mainly through **better online channels** (at call centres, ATMs and on new apps) and branch recalibration.

Our Product Governance and Consumer Protection teams verified those measures locally to ensure transparency and avoid additional costs for customers, which special concern for our most vulnerable customers.

Health and safety

We implemented measures to guarantee our customers' health and safety at all times. We adapted our branches and encouraged the use of digital channels via "Stay at home" notices, tools, tutorials and cyber tips, plus coronavirus helplines for frequently asked questions. We undertook initiatives to support and protect elderly customers, people in rural areas, at-risk patients and other special groups. We set up priority services and business hours for elderly customers.

We increased our call centres' capabilities through plans in all countries to facilitate working from home and channel deflection, optimize resource use and anticipate customers' needs. This increased our global service volume by 21% on average.

Customer approach during covid-19 in the UK

Santander UK provided product support such as payment holidays on mortgages, credit cards and personal loans; early access to savings with no penalties; and waivers and reduced rates on overdrafts. We also undertook these initiatives to ensure vulnerable customers could access services and to help relieve their financial challenges:

- → ***Reaching Out,*** a programme where branch employees made thousands of **phone calls to customers** who might be vulnerable or at risk of financial exclusion, **check** on their **wellbeing and provide additional support**. We provided these calls from April-November 2020, reaching over 81,500 customers.
- → A coronavirus helpline for customers unable to visit branches or access the Internet.
- → A new and improved online chat service on the Santander website, mobile app and online banking, providing easy-to-access information and keeping phone lines free for customers who needed to use them.
- → Access to cash for self-isolating customers, whereby an authorized third party could obtain cash on their behalf.
- → Guidance to identify the signs of domestic/financial abuse and inform customers on ways of reaching out for help.

For more details, see 'Meeting the needs of everyone in society' and 'Financial inclusion and empowerment' in this chapter and 3.3 'Covid-19 credit risk management' in the Risk chapter.

Complaints management

Our complaints management and analysis sets standards for all units to properly handle complaints, ensuring regulations are met and complaints and interaction logging is firmly embedded in all customer contact channels to provide the best possible service. More than this, we use complaints to improve our service and products, so that complaints do not arise in the first place.

In 2020, we focused on resolving complaints at the first point of contact with customers and better complaints handling based on customer feedback. We also improved mitigation plans, governance and root-cause analysis to effectively identify opportunities for issue reduction and proactive resolution. We worked to **boost the capability** of not only our specialist teams, but **all teams**, to increase reporting. We took 267 corrective and preventive actions involving ATMs, fraud, web/ mobile app access and use, and more customer-centric debt collections.

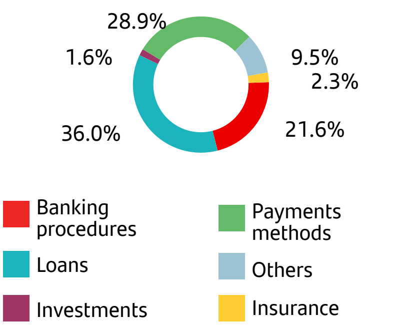
We closely monitored our subsidiaries to analyze complaints trends driven by the pandemic and, as relief measures expire, to take actions to ensure the best possible outcome for our customers.

We closely monitored our subsidiaries to analyze complaints trends driven by the pandemic and, as relief measures expire, to take actions to ensure the best possible outcome for our customers.

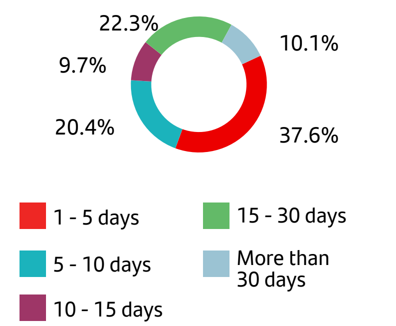
Our performance during the crisis proved successful. **Covid-19-related complaints** (2-4% of complaints group-wide) were **very low** compared with the number of relief measures we managed to implement in short timeframe. In addition to adjusting systems and tools, we closely monitored our subsidiaries to analyse complaint trends driven by the pandemic and take actions ensuring the best possible outcome for our customers once relief measures expired.

For more details on complaints management, see section 7.2. 'Compliance and conduct risk management' in the 'Risk management and compliance' chapter and our Culture report in our corporate website.

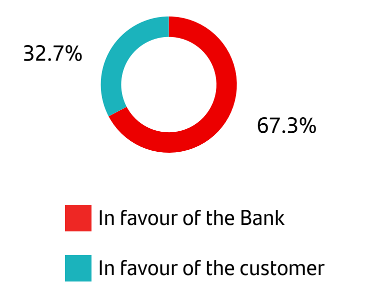
Type of complaints[A] (%)



Average resolution time[A] (%)



Resolution[A, B] (%)



A. Personal Protection Insurance (PPI) Complaints excluded from the volume, distribution by product, and resolution term figures. Regarding uphold ratio, UK has been fully excluded since PPIs represent about 80% of the formal complaints received.
B. Complaints metric follows the criteria established by the Group, homogeneous in all geographies.

Process enhancement

Santander UK continued to improve customer issues resolution in 2020. Complaints and dissatisfaction inflow reduced 25% YoY. A dedicated knowledge tool that provides customer-facing employees with better access to information and enables them to solve customer problems faster, helped enhance customer experience via first-line contact in branches and telephone channels.

The strategy followed cases escalated by customers to the Financial Ombudsman Service. An ongoing collaborative relationship with the Ombudsman resulted in an overturn reduction of 6% in H1'20 vs H2'19 to 24%. Inflows also declined by 14% to 5,200 cases in the same period.

At Santander US, we monitored customer complaints closely, with bi-weekly reports issued to senior managers and regulatory agencies (OCC and CFPB) in order to assess customer impacts and implement service changes. Complaint volumes remained stable throughout the year, with fluctuations correlating with servicing changes.

Santander prioritizes support for vulnerable populations and developed processes to manage complaints from service members, elderly customers and people with disabilities. Specialized training and partnerships with the legal team for response review were key to ensuring the correct resolution of complaints.

Responsible procurement

Our suppliers have an impact on society and the environment. That's why we expect them to act responsibly and uphold ethical, social and sustainable standards just as we do.

Being responsible also involves our suppliers

- Third-party certification policy
- Responsible behaviour principles for suppliers
- Risk control
- Whistleblowing channels

Our **third-party certification policy** sets out a common methodology for all countries to select, approve and evaluate suppliers. In addition to price, quality of service and other traditional criteria, it includes ESG (environmental, social and governance) factors, such as diversity and inclusion, human rights and sustainability, which are covered by its **responsible behaviour principles for suppliers**. These principles apply to our 8,651 critical suppliers each year.

We are working to implement various controls and/or audits to make sure suppliers comply with our policy and corporate values. In 2020, to reinforce our commitment, we launched two pilot initiatives to assess ESG performance:

- **ESG criteria in third-party on-boarding**: We assessed approximately 400 selected suppliers according to ESG criteria in Spain, Portugal, the UK, Poland, the US, Mexico, Brazil, Argentina and Chile. The questionnaire consisted of 18 new ESG questions including carbon footprint; gender and disability inclusion; flexible working; minimum wage; and good corporate governance practices. As a result of the pilot, ESG criteria will be implemented in critical suppliers' on-boarding from 2021.
- **ESG criteria in third-party negotiations**: We used the questionnaires from bidding processes to collect information on suppliers' ESG impact in labour-intensive service categories (such as travel and energy).

Grupo Santander works with 8,651 certified suppliers (-12% vs 2019)[A]. 21.8% were certified for the first time in 2020 (+5.1 pp vs 2019). Through Aquanima[B], we entered into 8,875 agreements (+ 2% vs 2019) with 4,592 suppliers (-3% vs 2019), of whom 94.7% are companies that operate in the same geographical area of service. 96.5% of our total services (+0.8 pp vs. in 2019) are locally sourced, reflecting our support for local economies.

We have **escalation channels** for suppliers in our core markets, and plan to roll this out to all geographies in the coming period.

During the **covid-19** pandemic, we took actions to address the most urgent needs of our suppliers, particularly vulnerable suppliers. These included continuing to pay for basic services, providing liquidity through lines of credit, paying invoices early and reducing payment periods. We prepared recommendations for subsidiaries based on local best practices to make sure these efforts were consistent throughout the group.

A. An internal audit in 2020 to condense the group's external suppliers led to a reduction in the percentage of approved suppliers against 2019.
B. Aquanima is a Santander subsidiary specialized in procurement.

Risk control

- In 2020, we launched a **new supplier risk management platform** in our core markets. It is designed to streamline and integrate third-party management and key information. It allows us to combine all supplier certification data.[B] It currently collects data available on 10,252 third parties and18,789 services. It has 5,366 internal users.
- We unified and grew our group-wide supplier risk assessment team. The team analyses the behaviour of our most important suppliers in Cybersecurity, Business Continuity, Physical Security, Facilities and Data Privacy.
- We keep records of our key suppliers and service providers by geography based on those five risk areas.
- We closely monitor, and regularly report on, the status of our 'high-risk' suppliers to senior managers.

B. Pending completion in the UK and US. Poland currently operates its own system.

Collaborating with suppliers to tackle covid-19

During the pandemic, the measures Santander España took to support suppliers and communities included:

- maintaining payments to suppliers even when the service could not be provided, to make sure their employees continued to receive wages.
- continuing to purchase meals from our caterers (even though our employees were working remotely) and serving them to healthcare professionals at makeshift hospitals in Madrid.
- using our internal transport services to take healthcare professionals from hotels to hospitals.

Shareholder value

We build lasting loyalty among our four million shareholders by delivering profitable and sustainable growth

Communication with shareholders

We aim to align our interests with our shareholders', creating long-term value and maintaining their trust and the trust of broader society. We provide shareholders and investors with information that meets their expectations and upholds our values and corporate culture. We communicate with them continually, making sure their opinions are taken into account by the Board.

Shareholder remuneration

In December, shareholders received the new shares related to the share capital increase, equivalent to EUR 0.10 per share, as a complementary payment from 2019. Each shareholder received a free allotment right of new shares for each share they hold and had the option of either selling in the market or receiving new shares. **As a result, total remuneration for 2019 rose to EUR 0.20 per share.**
With regard to the dividend payment against 2020, the board of directors intends to pay a cash dividend of EUR 2.75 cents per share, the maximum allowed in accordance with the limits set by the European Central Bank (ECB) in its recommendation last December.

The board's intention is to restore a payout of 40-50% of the underlying profit, in cash, in the medium term. **With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the European Central Bank recommendations so allow, in line with the announcement of April 2020.**

Banco Santander shares

Banco Santander is listed on five markets: Spain, Mexico and Poland; the US (as American Depository Shares), and the UK (as CREST Depository Interest).

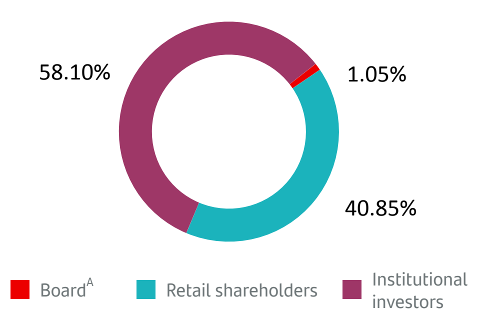
>4
million shareholders
(+30,000 vs 2019)

For further details about Santander Group's communication with shareholders, see sections 1.4 'Active communication with shareholders during the pandemic' and 3.1 'Shareholder engagement' in the Corporate Governance chapter.

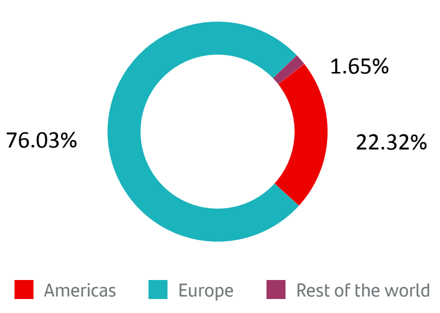
For further details on Santander Group's shareholder remuneration, see section '3.3 Dividends' in the Corporate Governance chapter.

Fot further details on Santander share, see section '2.6 "Stock market information'in the Corporate Governance chapter.

Share capital ownership



Geographical distribution of chare capital



For more information, see section 2.1. 'Share capital' in the Corporate Governance chapter.

A. Shares owned or represented by directors. For more details on shares owned and represented by directors, see 'Tenure and equity ownership' in section 4.2 and subsection A.3 in section 9.2 'Statistical information on corporate governance required by the CNMV' of the 'Corporate Governance' chapter.

Engagement with shareholders, investors and analysts

In 2020, the Shareholder and Investor Relations team prioritized:

- **digital transformation**: simpler online platform to delegate and cast votes at general meetings; new electronic channels for participating in general meetings (such as telephone lines and digital platforms at branches); means provided/help for shareholders to exercise their rights at the October 2020 AGM in accordance with Directive (EU) 2017/828; new virtual forums and events to report on Grupo Santander's strategy and quarterly results, and improvements to virtual service channels and WhatsApp Business.
- **constant, clear communication** with shareholders, investors, analysts and rating agencies.
- **reporting about the group and share performance**.
- **offering personal attention to shareholders via online and face-to-face channels and gather their opinions with diverse surveys.**
- **exclusive products and benefits** on *yosoyaccionista.santander.com*. Grants for shareholders and relatives with disability (60 grants given in 2020) and other initiatives.
- **enhancement of Grupo Santander's image in the markets**. Shareholders and Investors Relations area dedication has been recognized by important publications of the sector, as *IR Magazine* and *Institutional Investor*. Our efforts in the integration of new channels (Whatsapp business) were recognized by *AEERC* and *OZ*.

27,446
opinions from shareholders, analysts and investors through studies and qualitative surveys

1,137
contacts with institutional investors (including 19 meetings with ESG investors and analysts, and 58 calls about corporate governance)

210
events with shareholders

132,857
queries managed by email, phone, WhatsApp and virtual meetings

>1,300
communications using mainly digital channels

For further details, see sections 1.4 'Active shareholder engagement during the pandemic' and 3.1 'Shareholder engagement' in the Corporate Governance chapter.

ESG indices and analysts

Our sustainability performance is regularly assessed by renowned indices and ESG analysts. We use their findings internally to identify improvement opportunities.

For 20 years in a row, Banco Santander has featured on the Dow Jones Sustainability World Index (DJSI World). In 2020, we are again among the 25 banks included in the index made up of 323 companies. Our score was 83 points out of 100, just six points below the leader, ranking us 14th. We obtained the top score (100) in financial inclusion, anti-corruption policy and measures, fiscal strategy, customer relationship management, environmental reporting, and social reporting.

Sustainalytics improved our ESG risk rating score. From 32.7, considered high risk, to 27.1 medium risk. It recognized us for above average preparedness measures to address resilience, human capital, data privacy and security issues.

In 2020, Santander improved **CDP** by two notches, from C to B, reaching "Management level" in the financial sector group, which implies a coordinated action on climate issues.

In 2021, Santander is leading among our global peers in the **Bloomberg Gender-Equality Index (BGEI).** We are 7th overall and 5th among banks. This remains well above average (+18.67) and above financial services scores (+16.93 pp), with top mark in equal pay and gender pay parity.

We have, once again, been named a constituent of the **FTSE4Good Index Series**, raising our score to 4.3 out of 5. Furthermore, according to the **ISS-ESG** Corporate Rating, our ESG performance is above the sector-specific Prime threshold. We are also assessed by other ESG analysts such as **MSCI and V.E (Vigeo Eiris**.

ESG analyst valuations[A]

Rating/Scoring	2020	Vs.last year	2019	Vs. Sector average
S&P Global CSA	83	▼	86	95th percentile, 14th out of 253 banks
MSCI[B]	BBB	=	BBB	Average among 192 banks
Sustainalytics	27.1	▲	32.7	30th percentile, 289 of 978 banks
V.E (Vigeo Eiris)	62	▼	63	74th percentile, 8th of 31 diversified banks
ISS-ESG	C	=	C	Decile rank of 2 out of 285 banks, equivalent to 80th percentile
CDP	B	▲	C	Among 28% of all banks scoring a B
BGEI	85.13	▼	90.39	1st global bank and 5th from 126 financial institutions

A.Source:Most recent ratings for each ESG analyst in 2020.
Sustainalytics has developed a new methodology for measuring risk. Thus, a higher score indicates higher risk. 1st percentile is the lowest risk.
V.E (Vigeo Eiris) conducted an "ESG Performance Review" in which key ESG indicators are updated. A comprehensive assessment will take place in 2021.

B. Please review page 123 for MSCI disclaimer

For more details 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 personalized solutions to respond to customer demands and meet the needs of everyone in society.

Supporting green transition

We contribute to the transition towards a more sustainable economy by managing climate-related risks and opportunities, building a comprehensive sustainable and green finance proposition; and reducing our environmental footprint.

Environmental and social risk analysis

We manage the environmental and social risks of our customers' activities in sensitive sectors such as energy, mining and metals, and soft commodities.

Financial inclusion and empowerment

We help people who are at risk of financial exclusion by giving them access to basic financial services, boosting entrepreneurship and employment, and providing them with the skills they need to manage their finances efficiently

ESG investment in Wealth Management and Insurance

Working under the highest international ESG standards, we embed ESG in our decision-making, offering a sustainable value proposition for customers, and an active ESG engagement.

Supporting communities

We support education and social welfare in the communities where we operate, with a special focus on higher education as the driving force behind society's progress. We also run multiple social and cultural support programmes.

Tax contribution

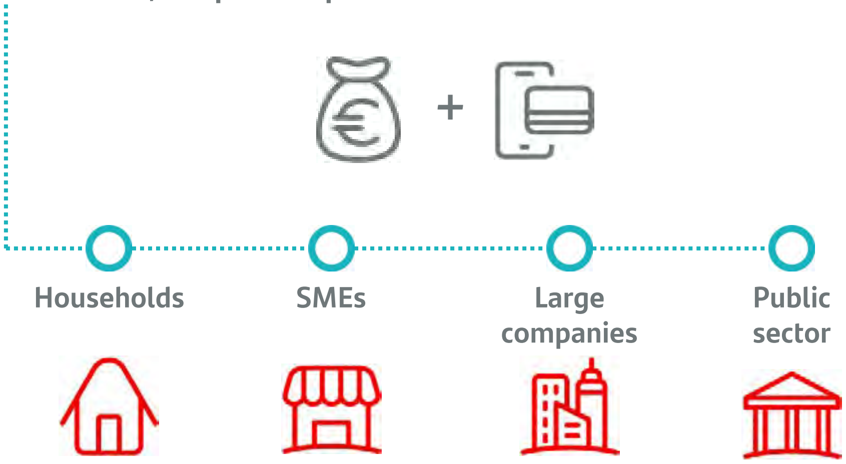
We pay our fair share in taxes everywhere we operate, contributing to the growth and progress of our communities.

Meeting the needs of everyone in society

We want to increase loyalty through products and services that enable all our customers to manage their finances in the best possible way, while helping them make more sustainable decisions.

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

Innovative, simple and personalized solutions



Total customers
148 million

Loyal customers
22.8 million

Customer loans
EUR 916 billion

Customer deposits
EUR 849 billion

Against the backdrop of the economic and social crisis caused by covid-19, we resolved to provide customers with solutions for them to continue pursuing their goals and navigate such testing times.

We ran ambitious initiatives to protect our customers' health; to ensure that services continued; and to offer tailored financial solutions to provide liquidity to people and companies affected by the pandemic. We rapidly facilitated state-backed lines of credit and adapted various products and services to local circumstances. We also eased financing conditions with payment holidays of up to several months in most of our geographies.

We bolstered our digital proposition for retail customers and corporates, focusing the lion's share of our efforts on expanding Openbank and our mobile payment services.

Covid-19: Supporting our customers

The key during the crisis was to maintain financing levels to combat the effects of covid-19, meet our customers' most pressing needs and implement measures to protect our most vulnerable customers, which included:

- providing liquidity and credit facilities with favourable terms and conditions;
- suspending certain banking fees and commissions;
- temporarily increasing credit card and overdraft limits;
- granting mortgage payment holidays; and
- proactively supporting vulnerable customers and opened a new helpline for all customers.

By the end of the year, these initiatives had supported more than 6 million customers in all our geographies, including payment holidays to 4.8 million customers worth EUR 112 billion, which represents 12% of our lending portfolio.

In 2020, loans and advances to customers fell 3% (excluding the exchange rate impact, loans were up 5% against 2019). By segment, household lending decreased 4.2% year on year; and lending to enterprises and entrepreneurs remained at 2019 levels.

Households[A]

Loans to customers at 31 December 2020, net of impairment losses

	EUR million
Residential	324,152
Consumer loans	157,118
Other purposes	16,717
Total	**497,987**

Companies and entrepreneurs[A]

	EUR million
Large companies	167,390
SMEs and entrepreneurs	132,359
Other purposes	20,104
Total	**319,853**

A. See note 10. 'Loans and advances to customers' of the Auditor's report and consolidated financial statements.

For more details, see 'Financial inclusion and empowerment' in this chapter and 3.3 'Covid-19 credit risk management' in the Risk chapter.

Specific measures individual countries took as part of our covid-19 response

Spain: Advanced pensions to retirees and lent nearly EUR 100 billion to entrepreneurs, sole traders, SMEs and companies through internal resources and ICO lines of credit (in which we have the biggest share).

Poland: Pledged PLN 2 billion to support SMEs in fighting covid-19 and deferred selected fees and charges for customers who suspended their business operations.

Portugal: Channelled EUR 120 million (31%) on the first *covid-19* state-backed aid line "Capitalizar 2018", as well as EUR 4 billion in lending to SMEs for short-term treasury needs, with no changes to the spread or related fees.

UK: Participated in the government-backed Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS), with no interest to be paid on either loan for the first 12 months.

Argentina: Lent ARS 1 billion (EUR 14.2 million) to SMEs to support teleworking.

Chile: Gave USD 6 billion in pre-approved lending for consumer, mortgage and business customers.

Brazil: Launched *A Gente Banca*, a new product to provide newsstands with loans to renovate their premises.

Mexico: Participated in government-backed lines of credit to help one million micro-enterprises, in addition to four-month loan repayment deferrals.

US: Lent USD 25 million to Community Development Financial Institutions (CDFIs) to benefit small businesses.

Working with multilateral institutions

We continued our work with multilateral entities to offer our customers more lines of credit under better conditions.

In **Spain,** we signed seven agreements worth a total of EUR 1.205 billion with the EIB Group (including the European Investment Fund, or "EIF"), combining senior loans with portfolio guarantees and synthetic securitization transactions. Those agreements allowed Santander to provide additional liquidity and investment capacity for SMEs and mid-caps to tackle the pandemic, renew their transport fleet or become more sustainable.

In **Portugal,** a guarantee agreement with the EIF is allowing us to furnish agricultural and agro-industry companies and entrepreneurs with up to EUR 100 million in working capital and investment capacity in the processing, marketing and development of agricultural products, and to help young farmers invest in their business. The EIB Group also participated in the Banco Santander Consumer Portugal's first STS securitisation in the Portuguese market, providing EUR 587 million for SMEs and mid-caps to renew their transport fleets, including the acquisition of less-polluting vehicles.

In **Brazil,** a USD 100 million loan facility from the IFC supports projects that promote the use of renewable energy and energy efficiency, as well as Santander's working capital lending programme to Brazilian SMEs, with at least 10% of the proceeds earmarked for female entrepreneurs.

In **Poland,** a synthetic securitization agreement signed with the EIB Group is allowing us to provide around PLN 2.8 billion in new funding to SMEs and mid-caps against the backdrop of the covid-19 outbreak.

In the last four years, Grupo Santander has signed agreements worth EUR 11.1 billion with the European Investment Bank Group (EIB), the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), the Council of Europe Development Bank (CEB) and the Development Bank of Latin America (CAF).

Digital solutions for better financial management

We are constantly developing smarter and more accessible products and services for our customers, and enhancing existing ones, including our fully digital bank Openbank and our mobile payment services (Global Trade Services, Global Merchant Services, Superdigital, Pago FX).

Openbank

Openbank continued to grow in 2020 by broadening its proposition in Portugal, Germany and the Netherlands. Customers in those countries are now able to trade shares in 4,000 companies listed on 25 markets, as well as dealing in exchange-traded funds. They can also use the Digital Wealth Manager (for new and experienced investors), which includes funds that follow socially-responsible investment criteria.

All Openbank cards are linked to charitable causes our customers can choose from among the bank's selected organizations. Every time customers pay with their Solidarity Card, they can round their payments up and donate the difference.

Global Trade Services

Grupo Santander helps **SMEs access** trade finance, supply chain, payments, foreign exchange and other global services.

In 2020, we strengthened our SME international trade operations by investing in **Ebury**, one of the world's leading payment, FX and cash management platforms for SMEs, providing them with the necessary tools for cross-border expansion.

We also invested EUR 30 million to become the majority shareholder in **Mercury TFS,** an innovative company specializing in digital trade finance solutions, with 130 employees and operations in Spain, Mexico, Chile and Colombia.

Global Merchant Services

We also give online and offline retailers the ability to accept various forms of payment, helping them better manage and grow their businesses. These value-added services are based on Getnet, a leading platform in Latin America, giving merchants from micro-enterprises to multinationals a unique experience.

Santander Cash Nexus: global connectivity for Banco Santander's largest multinational corporate customers

Through Santander Cash Nexus, Santander Corporate & Investment Banking (SCIB) offers a standardized digital service in our core geographies. It helps customers be more efficient with greater control over their transactions.

We offer a simple, competitive solution that digitalizes and centralizes cash management for international businesses. Customers in more than 15 countries have a single point of entry to streamline their operations and make payments in the formats and channels that best fit their models.

In 2020, it launched Santander Cash Nexus Sign, which gives access to Santander Cash Nexus on any mobile device so customers can sign for transactions safely, anywhere and anytime.

In March, Global Finance magazine named Santander Cash Nexus the "Best Payment Hub Solution" in its “Best Treasury & Cash Management Providers” category.

Mouro Capital. Helping fintechs grow.

Mouro Capital, the successor to Santander Innoventures, is an independent venture capital firm that invests in fintechs and adjacent businesses (artificial intelligence, payment solutions, access to credit and financial inclusion).

With USD 400 million in allocated funds, it will manage the portfolio of Santander Innoventures, which since 2014 has invested in 36 startups in Europe and the Americas.

The fund will continue to deploy capital and remain a key driver of our ambition to be the best banking partner to startups, generating tangible value through strategic collaborations. Today, 70% of the fund’s current portfolio companies work with Santander.

Supporting the green transition

Tackling climate change is a key objective at Grupo Santander. We support the climate change goals of the 2015 Paris Agreement. Our ambition is to achieve net zero by 2050 and we have set our first decarbonization targets.

Main lines of action

Aligning our portfolio to meet the Paris Agreement goals

We have the ambition to achieve net zero by 2050 supported by first decarbonization targets: eliminate all exposure to thermal coal mining worldwide and align power generation portfolio by 2030.

Supporting our customers in the green transition

We are building a complete Sustainable and Green finance proposition across the group. We are a world leader in the financing of renewable energy projects.

Reducing our environmental impact

We are strongly committed to protecting the environment by reducing our footprint and have become carbon neutral.

Target

To help our customers make the transition to the green economy and to raise or facilitate the mobilization of EUR 120 bn between 2019 and 2025, and EUR 220 bn between 2019 and 2030, in green finance to help tackle climate change.[A]

A. Includes our overall contribution to green finance: project finance, syndicated loans, green bonds, capital finance, export finance, advisory services, structuring and other products to help our customers in the transition to a low-carbon economy.

Progress

Green finance

Raised or facilitated[B]

33.8 bn — 120 bn

2019 — 2025

B. 2020 SCIB's contribution to the green finance target includes: Project Finance (lending): 5.1 bn; Financial Advisory: 3.2 bn; Green bonds (DCM): 2.8 bn; Project Bonds (renewables): 0.9 bn; Export Finance (ECA): 0.8 bn; M&A: 2.3 bn; Equity Capital Markets: n/a. For a total of 15,2 bn. Information obtained from public sources, such as Dealogic, Inframation news, TXF or Mergermarket league tables. All roles undertaken by Banco Santander in the same project are accounted for. Other sustainable finance components, such as financial inclusion and entrepreneurship, are excluded.

Climate change is a global issue that the Paris Agreement of December 2015 seeks to combat by accelerating the actions and investments needed for a sustainable, low-carbon future.

While climate risk is not new, it's an emerging driver of risk that impact banks' credit, market and operational risks, among others. The transition to a low-carbon economy presents banks with a big opportunity; according to the OECD, annual investment of USD 6.9 trillion to 2030 will be required to meet the Paris Agreement goals.

Our approach

Santander recognizes the actions we take this decade will be key to address the climate emergency. To contribute in a practical and tangible manner, we will focus on **aligning our portfolio to Paris Agreement goals**, starting with most material sectors as regards climate exposure. To drive alignment, we will continue working to better understand sectors and portfolio transition pathways, step by step towards our **ambition of net zero by 2050**. To achieve this we will **support our customers in the green transition**, engaging with them and developing financial products and services. Lastly, we will ensure that **Santander's own operations remain being carbon neutral**, by continuing to reduce our own emissions, increasing the use of renewable energy and offsetting remaining emissions by using certified providers as we started to do in 2020.

We made strides to fulfil regulatory requirements by working to implement the **European Banking Authority (EBA)** guidelines and standards as well as supervisory expectations of the **European Central Bank** in particular their Guide on climate-related and environmental risks disclosed in 2020

Disclosing our approach is key to helping markets and other stakeholders assess how we incorporate climate within our processes and policies and report on our climate performance. We take the **Task force on Climate-related Financial Disclosures (TCFD)** as the guiding reference in this regards. Our **Climate finance report 2019-June 2020** included information on, and expanded on, TCFD. Later in the year we will disclose our updated Climate finance report.

See our latest update on the TCFD's four-pillar framework (Strategy, Governance, Risk management and Metrics & Targets) below.

Further details on our Climate Report 2019-June2020 available at our corporate website.

Our Strategy

- We publicly support the **Paris Agreement** and joined the **UN Collective Commitment to Climate Action (CCCA)**. Our ambition is to **achieve net zero carbon emissions across the Group by 2050.**

  Central to our climate strategy are:

  - **setting sector portfolio alignment targets** to fulfill the CCCA.
  - the **green finance target:** to raise or facilitate EUR 120bn in green finance between 2019 and 2025 and EUR 220bn by 2030.
  - the **pledge to be carbon neutral** in 2020 and to source our entire electricity supply from renewable energies by 2025.

- We are now working on a **roadmap to be Net zero by 2050** prioritizing the most climate material sectors where data and methods are available. We will share progress on this ambitious goal in our Climate Finance Report at the end of 1st half of 2021.
- In 2020, we fine-tuned our **internal risk taxonomy** and updated our **heat map**, which plots each sector's climate-related risks (transition and physical) on a five-point scale to measure the materiality of those sectors on the group's balance sheet. This enables us to manage the emergence and concentration of climate change risks by sector, and it has been a critical input when defining our strategy. For more details on the materiality assessment, please see the Risk management section below.
- As part of the initial steps in building a roadmap towards our net zero ambition and to fulfil our CCCA, we have until September 2022 to (1) issue a statement indicating the sector(s) we are proposing to align with the Paris Agreement, and (2) set specific alignment targets. After analysing a number of inputs, based on the materiality assessment and using the PACTA methodology[A] as an initial approximation, **we have committed to aligning our power generation portfolio with the Paris Agreement by 2030.** To deliver on this commitment, we are devising a two-pronged coal phase-out strategy: (1) **Stop providing financial services to power generation customers with a revenue dependency on thermal coal of over 10% by 2030**; and (2) Reduce our exposure to **thermal coal mining to zero by 2030**. For more details, see the 'Aligning our portfolio to meet Paris Agreement Goals' section.
- Going forward, we will continue to assess the alignment of **the most concerning sectors** regarding climate change (oil and gas, mining and Metals, and car manufacture within Transport) in view of the data and methodologies becoming available and robust.

A. PACTA (Paris Agreement Capital Transition Assessment) from 2 Degrees Investing Initiative.

- In 2020, to help deliver on our green finance target we raised or facilitated EUR 15.2 bn (EUR 33.8 bn since 2019) and harnessed climate finance opportunities by working on diverse initiatives. For more details see next section "Supporting our customers in the green transition."
  - SCIB created an **ESG solutions** team to boost its sustainable finance proposition, reinforcing their long-standing leadership in renewables financing and advisory services.
  - We set up a **sustainable finance working group** co-led by SCIB and Responsible Banking, aimed at providing key insights on four areas: green buildings, clean mobility, renewables and sustainable agro.
  - We made great progress in developing an internal **Green Book** compiling all the green features of our products, as well as an internal classification system to identify ESG in general purpose lending.
  - We issued **our second EUR 1 billion green bond**, which will be used to finance and refinance renewable wind and solar power.
- In our own operations we have reduced CO_2 emissions and offset the emissions we have been unable to reduce, becoming **carbon neutral in 2020**. Furthermore, 57% of our electricity supply comes from renewables energies. Please see "Environmental Footprint" section below for more details.
- We defined climate-related timescales and embedded them in our strategic process; short term is up to a year aligned with budget; medium term is 3-4 years aligned with financial planning; long term is 5-7 years aligned with strategic planning; and, for ad hoc analysis, longer term is over 7 years.
  - **Our three-year planning** includes climate risks and opportunities to embed climate change in our **long-term business strategy** for the Group.

Governance

- The **responsible banking, sustainability and culture committee** (RBSCC) helps the board oversee the Responsible Banking strategy, which includes climate change. It meets every quarter and in 2020 was formed of eight board members: seven external directors (majority independent) and the executive chairman; its chair is an independent board member. All members are appointed in light of their knowledge and experience relating to the committee's mission.

- In 2020, the RBSCC held four meetings, three of which included climate change as a topic (the minimum is two meetings covering climate). The committee also conducted **reviews of climate-related financial risks and opportunities, roadmaps to fulfil TCFD and ECB expectations, our sustainable finance proposition** (to ensure we help our customers transition to a low-carbon economy), **plans for business lines and the progress of our carbon footprint and green finance commitments**. The committee issues a yearly report on the actions taken and reviewed. For more details, see the 'Corporate governance' chapter.

- The board took part in a second **climate change training** programme that included modules on the Paris Agreement and Net Zero. In Santander UK, the board and executive committee attended a climate change workshop delivered by external experts, which covered climate science, regulatory requirements and the TCFD recommendations. See below details on staff and management training.

- The executive management of the Responsible Banking agenda lies with the **Inclusive & Sustainable Banking Steering group** (I&SBS), which promotes the transition to a low-carbon economy and fosters sustainable consumption. The I&SBS feeds into the RBSCC and meets every six weeks aprox. It is formed of nine permanent executive members and two rotating members (country heads). In 2020, the I&SBS held seven meetings and addressed topics such as ESG performance, TCFD progression, smart infrastructures, climate change, sustainable finance in specific geographies and carbon offsetting.

- The **management committee of the Group** discuss twice a year on the progress of the Responsible Banking agenda (including climate change), with a focus on TCFD implementation and ESG business opportunities.

- In 2020, the **strategy committee of the Group** approved the climate change project as one of the bank's strategic projects, the progress of which will be reviewed twice a year according to the established roadmap.

- We included responsible banking objectives as a qualitative metric in our 2020 **executive remuneration scorecard**, aligning it with our public commitments, including the Green Finance target.

- Climate change is also part of our **general sustainability policy**, which we reviewed in 2020 and linked to the environmental, social & climate change risk management policy, where we set out the climate-specific lending criteria described further in the Risk management section.

- The climate change agenda and governance, and the implementation of TCFD recommendations, are designated to specialist working groups (see box below).

- The **climate working group**, co-led by SCIB, Risk and Responsible Banking, met regularly in 2020 to monitor and make headway with the climate project, based on a roadmap with defined milestones. With members from different functions and geographies, it receives feedback from executive directors as part of the I&SBS.

- In Q1 2020, the **Risk division completed a review of its governance in relation to climate change.** The review considered the terms of reference of governing bodies, their forward-looking agendas and the risk framework. In the annual review, all policies and internal procedures were re-examined, and specific references to climate change risk management were introduced.

For more details on the RBSCC, see section 4.9 'Operations of the responsible banking, sustainability and culture committee' in the Corporate governance chapter.

For more details on our policies and governance, see the 'Governance and priorities' section of this chapter.

Our General sustainability policy is available at our corporate website.

Climate-related working groups

Climate working group
comprises key functions and geographies to support the implementation of the TCFD and CCCA roadmap.

Risk division climate change working group
involves different risk areas to develop and implement the risk-specific tasks set out in the TFCD roadmap.

SCIB ESG working group
has a broad agenda that includes climate-based business positioning and opportunities.

Sustainable bond steering group
oversees the issuance, management and reporting of Grupo Santander´s sustainable bonds.

Public Policy Sustainability working group
advises on regulatory developments and coordinates the group's response to public consultations.

Santander UK climate change working group
coordinates the plan to comply with the PRA's supervisory statement on climate change risk management.

Sustainable finance working group
incorporates areas and countries to provide key insights on green buildings, clean mobility, renewable energies and sustainable agro.

Footprint working group
looks at how we measure and reduce our internal carbon footprint, as well as offsetting our remaining CO_2 emissions.

Management and staff training

To help the management team deliver on the challenges ahead and on our pledge to support customers in their transition towards a greener economy, we launched the **"Climate Dialogues"** programme for senior managers to discuss critical climate-related topics with renowned experts. In 2020, we held three sessions, with up to 940 participants in one single session, including 12 Promontorio executives. The programme will continue throughout 2021, with the first session held in January.

Based on the Banking Environment Initiative's (BEI) Bank 2030 vision, Santander, BEI and the University of Cambridge organized a workshop on **"How to accelerate the financing of the low-carbon economy**", attended by more than 100 people mainly from SCIB and Risk. The session provided a complete picture of the financial sector's role in the energy transition and encouraged participants to come up with ideas to make the most of the opportunities arising from a low-carbon economy.

Furthermore, we released a **climate change eLearning module,** available to all geographies to raise awareness of the negative impact climate change has on the economy.

To boost knowledge and expertise within the bank, we also created briefings on climate-related financial risks and opportunities for the power, oil and gas, mining, and steel industries. The aim is to support areas that make strategic climate change-related decisions, as well as identifying and exploring relevant topics regarding the impact on credit (including policy and regulation), the markets and technology.

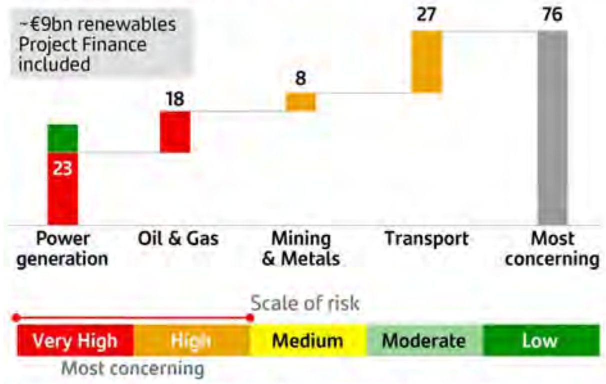
Risk management

- Grupo Santander's regularly updated framework for the identification, assessment, management and reporting of **climate change-related financial risks** helps increase our understanding of the risks and opportunities in our portfolios and enhances our forward-looking analysis.
- The correct assessment of environmental and climate change risks helps shape business strategy, deploy capital efficiently and meet the expectations of European regulators and supervisory authorities, as well as the Financial Stability Board and the United Nations.
- Our **top risk** identification and assessment includes climate change and is updated quarterly to reflect the environmental agenda.
- The **general risk framework** categorizes Grupo Santander's key risks, with environmental and climate-related financial risks (physical or transition-led) identified as factors that could impact the existing risks in the medium and long term.
- In 2020, we adapted our **risk appetite and related policies** to reflect the group's strategy in this regard.
- Our **internal risk taxonomy** identifies sectors that are exposed to climate change risks through physical and/or transition impacts, while our heat map assesses each sector's climate-related vulnerability on a five-point scale.
- This risk classification, based on the main activity of our customers (according to the NACE[A] code) and complemented with exposure data for each of the sectors and geographies, is the basis for the quantitative and qualitative measurement of the most relevant climate change-related risks, and is used to develop relevant risk metrics and to inform decision making on climate change-related risks.
- Based on an in-depth review of our exposures to climate change-related transition risk, we conduct a quarterly materiality assessment focusing on the group's main portfolios.
- The assessment shows that the **most concerning sectors exposed to climate change** are conventional power, oil and gas, mining and metals, and transport, while SCIB represents approximately 90% of our total exposure to rated companies. See figure on the top right.
- Other sectors classified as **medium risk** in the assessment are manufacturing, construction, agriculture and water supply. In SCIB, its exposure amounts to ~EUR 57bn. SCIB exposure represent ~70% of the total exposure to rated corporates.
- **Retail mortgages and real estate** represent exposure of approximately EUR 350bn (of which EUR 308.5 bn are retail mortgages, mainly in the UK and Spain), and are classified as moderate risk.

A. NACE: Statistical Classification of Economic Activities in the European Community.

SCIB[B] exposure to climate most concerning sectors

Data as of December 2020, EUR Bn



B. Business in scope: SCIB (excluding Export Finance). Exposure = REC before provisions (on and off balance sheet lending + guarantees + derivatives PFE)

Exposure to most concerning carbon intensive sectors represents approximately ~10% of the Group´s balance-sheet

- In 2020, **Santander UK** analysed the climate-related risks of its mortgage portfolio using scenarios from the UK Climate Programme. When assessing the most viable physical risk - flooding -, we found that 95% of our mortgage lending is on properties with negligible or very low risk of flooding. See table below.

Flood Risk[C]	Number of properties	%
High; >1:30	2,906	0.24
Medium: between 1:30 and 1:100	10,021	0.81
Low; >1:1000	49,678	4.02
Very low; >1:10,000	69,523	5.63
Negligible ; <1;10,000	1,102,435	89.3
Total Properties	**1,234,563**	**100.00**

C. Flood Risk is expressed as a ratio, where 1 in 30 year (1:30) flood event refers to the likelihood of flooding occurring in a given year.

- Our Economic Research department analyses **climate scenarios and the economic impact of climate change** (current and future global warning) by reviewing external sources such as information published by the Network for Greening the Financial System, as well as its own assumptions. It uses Integrated Assessment Models and internal tools to create feasible scenarios and data including GDP, energy consumption and emissions.

For more details on our risk management approach and progress, see section 2.6 'Environmental and social risk' of the Risk management and compliance chapter.

Further details on our Climate Report 2019-June2020 available at our Corporate Website.

Metrics and targets

We produce **climate-related metrics** to disclose data regarding our business operations; our loan portfolio in relation to the most concerning sectors; our position in market rankings; green financing; and impact metrics such as the emissions we counteract in financing renewable energy.

We now include metrics based on the results of our climate materiality assessment, disclosing our exposure to the most concerning sectors (see data above).

Our report sets out metrics that track our performance and the achievement of our objectives, as well as how we manage climate-change related risks and opportunities. We continue to identify and develop new metrics for future disclosures.

Regarding our own operations, we disclose **performance data on scope 1, 2 and 3 emissions** as mentioned in the Environmental Footprint section, along with other climate relevant metrics like energy consumption. We also report against our targets on renewables and carbon neutrality.

In 2020, Santander became carbon neutral in its own operations, by continuing to reduce its own emissions, by increasing the use of renewable energy and by offsetting the remaining emissions.

Concerning our business activity, the next section of this chapter provides information about our performance and support to our customers in their transition to a low carbon economy. It does also include progress against our commitments, namely regarding our green finance target.

In 2020, to help deliver on our green finance target we raised or mobilized EUR 15.2 bn (33.8 bn EUR since 2019).

Regarding our scope 3 emissions related to financing, in 2020 we engaged with data providers, methodology-setting organizations and peers to further our understanding towards developing useful metrics. We are adopting a granular approach and providing emissions intensity data for the power generation sector (see below), where we will focus our efforts initially. Further below we provide information about our second PACTA exercise and more details about decarbonization targets as part of our TCFD disclosures.

Aligning our portfolio to meet the Paris Agreement goals

Santander publicly supports the Paris Agreement on climate change. We joined the UN Collective Commitment to Climate Action (CCCA) when it launched in 2019. Further to this we are now **setting the ambition to be net zero by 2050**. Later on the year, and in particular in our climate finance report which will be published after the first semester of 2021, we will provide further details on the roadmap towards this ambition which we will be improving in scope and detail as we progress on this journey.

We aim to contribute in a practical and tangible manner to Paris by aligning our portfolio with Paris. Alignment means embedding climate into our strategy and governance, in how we manage risks and opportunities. We are committed to supporting people and businesses in their transition towards a green economy.

Managing climate change risk and opportunity requires collaboration between internal functions and with external stakeholders to build and acquire knowledge. We are joining forces with financial authorities and sector associations by participating in formal consultations and industry forums. We also collaborate with peers and take part in debates to come up with financial solutions that support the UN Sustainable Development Goals and the Paris Agreement.

Progress on the Collective Commitment to Climate Action

To fulfil UNEP FI Collective Commitment to Climate Action (CCCA), we need to set and publish sector-specific, scenario-based targets to align our portfolio with the Paris Agreement goals. Santander has been working towards this aim and in September 2020 published its first CCCA progress report.

We continue to apply the methodology from the PACTA (Paris Agreement Capital Transition Assessment) 2 Degrees Investing Initiative, which focuses on high climate impact sectors. We undertook a second exercise to analyse our SCIB power generation portfolio (a material sector within our portfolio from a climate risk perspective).

For that second analysis, we focused on our SCIB loan book with our **power generation corporate customers**, excluding project finance. Our power generation project finance portfolio, which represents 32% of our total power generation portfolio, is made up of 92% renewable energy. Ultimately, we chose to focus on corporate customers as it's a key area for us to engage with customers and further support them in their transition to a low-carbon economy.

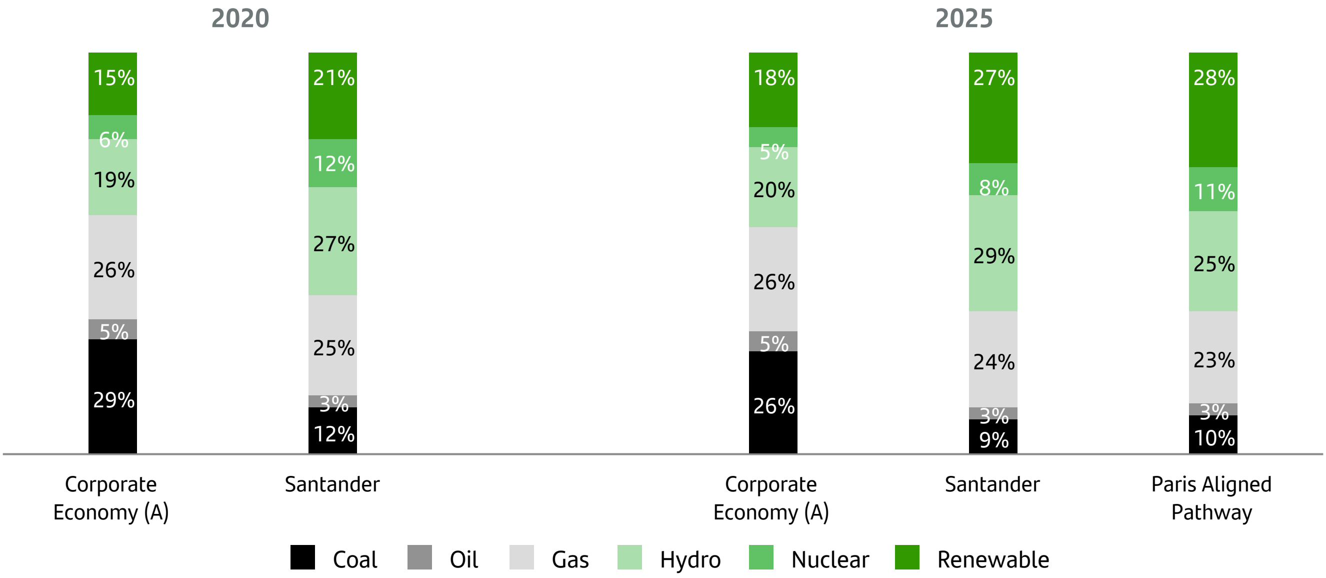
Our power generation portfolio compares well against the corporate economy[A], with a larger share of renewables (Santander 21% vs corporate economy 15%) and hydro (27% vs 19%) and a smaller percentage exposure to coal (12% vs 29%). Projecting our portfolio to 2025 (using the PACTA methodology), our position improves when compared to corporate economy with increased share in renewables (27% vs 18%) and also lower share in coal (9% vs 26%), which is fairly consistent with a Paris aligned pathway.

Our first CCCA progress report is available at www.unepfi.org/wordpress/wp-content/uploads/2020/09/Santander_CCCA-report_website092020.pdf

A. Corporate economy: represents the aggregate/combined production of all assets in the Asset Resolution's 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.

Power Generation

Production capacity across technologies (%)



A. Corporate Economy: represents the aggregate/combined production of all assets in the Asset Resolution's 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.

Power Generation portfolio alignment

Following our analysis and with the approval of the board:

We committed to aligning our power generation portfolio with the Paris Agreement by 2030.

As part of this, we're taking further steps by committing to:

Stop providing financial services to power generation clients with a revenue dependency on thermal coal of over 10% in 2030.

We will also work on a future pathway in line with the UNEP FI CCCA approach, where we will continue assessing alignment for our most concerning sectors with respect to climate, considering the data and methodologies available, and participating in working groups to further the development of alignment methodologies and approaches in the financial sector.

The carbon intensity of our current power generation portfolio for corporate customers is of 309.6 $grCO_2/KWh$[B] as a measure of physical intensity

B. Includes top 20 companies representing 85% of power generation portfolio. S&P Trucost Limited © Trucost 2021 has been used as the primary source of information for 2019 emission and production metrics, complemented with public information obtained directly from companies' annual reports.

By comparison, the world average carbon intensity of electricity generation is of 475 gCO_2/kWh according to the International Energy Agency

Coal phase-out

We took further steps to reduce our exposure to coal-related sectors and committed to **cut our worldwide exposure to thermal coal mining to zero by 2030.**

Net Zero by 2050

Our **ambition is to be net zero carbon emissions by 2050** in terms of its own operations (Scope 1 and 2, which are already carbon neutral) and Scope 3 emissions across our the Groups. Later on the year, and in particular in our climate finance report to be disclosed by end the first semester, we will provide further details on the roadmap towards this ambition.

UNEP FI engagement on the TCFD Pilot project and the Collective Commitment to Climate Action

We remain engaged with the **UNEP FI on climate.** Since 2018, we have participated in the TCFD recommendations pilots I & II, making headway with an internal methodology to assess climate change-related impacts on our credit risk exposures, and are very much looking forward to continuing our involvement in the next stages of the pilot. As part of the Collective Commitment to Climate Action, we participate in the working groups aimed at strengthening the initiative and further developing it.

For more details, see 2.6 'Environmental and social risk' section of the Compliance and conduct risk management.

Supporting our customers

Corporate and Investment Banking

Santander Corporate and Investment Banking (SCIB) aims to become a reference point in sustainable finance by providing ESG solutions in all our markets.

Leveraging a solid track record in renewable energies and strong product capabilities, SCIB is branching out to fully-integrated ESG advisory services across all sectors and products, serving an increasing appetite from corporates and investors.

Strengthening our long-standing leadership in renewable energy financing and advisory services

For the last 10 years, we have been the leading bank in financing renewable energies, and rank in the Top 3 by number of deals and Top 5 by deal value globally. Within this period, we have participated in 143 renewable energy finance deals, investing a total of more than USD 6 billion.

Santander Corporate and Investment Banking (SCIB) aims to become a reference in sustainable finance through ESG solutions.

Global Renewable Energy Project Finance Volume by MLA - FY 2020[A]

Rank	Mandated Arranger	Vol. (USDm)	Nº.	%share
1	Banco Santander	6,284	143	6.7
2	Bank 1	5,638	73	6.0
3	Bank 2	5,511	63	5.9
4	Peer 1[B]	3,779	76	4.0
5	Bank 3	3,737	52	4.0
6	Bank 4	3,436	54	3.7
7	Bank 5	2,962	28	3.2
8	Peer 2	2,601	32	2.8
9	Peer 3	2,589	40	2.8
10	Bank 6	2,313	24	2.5

A. As indicated by Dealogic and Bloomberg New Energy Finance league tables for project financing within the Lead Arranger category.
B. Peers are banks that due to their size and market capitalization are comparable to Santander, including BBVA, BNP Paribas, Citi, HSBC, ING, Itaú, Scotia Bank and UniCredit.

Banco Santander issues second green bond worth EUR 1 billion

In 2019, we created a **Global Sustainable Bonds Framework** and a **Global Green Bonds Framework** in line with the 2018 Green and Social Bond Principles. These frameworks are aligned with, and support, our Responsible Banking strategy, reflecting our intention to deploy additional capital for green, social and sustainable projects.

In October 2019, we set our **global sustainable issuance plan** in motion with a seven-year, EUR 1 billion green bond to fund wind and solar power projects, in line with UN Sustainable Development Goals 7 and 13.

In June 2020, we issued a **second green bond**; a seven-year, EUR 1 billion senior non-preferred issuance. The net proceeds will be divided between existing wind and solar assets on our balance sheet and new assets that will be added in our core markets (Europe, US and Latin America). The re-financing share will be less than 50% during the term of the bond.

Banco Santander, S.A. Green Bonds Framework and the Banco Santander, S.A. Global Sustainable Bond Framework (updated in 2020) are available at our corporate website.

Renewable energy projects

In 2020, we helped finance greenfield renewable energy projects with a total installed capacity of 13,765 MW, preventing the emission of 60 million tons of CO_2[A]. We also contributed to the expansion, improvement and maintenance of existing renewable energy infrastructure projects (brownfield), with a total installed capacity of 8,106 MW (further details in the graphs below).

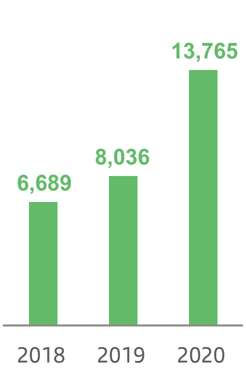
Our renewable energy project finance portfolio (greenfield and brownfield) totalled EUR 11.6 billion at the end of the year, approximately half of our project finance portfolio and spread over 307 transactions.

The renewables projects have a generation capacity equivalent to the yearly consumption of 10.3 million households.[B]

A. Emissions which the MW financed in 2020 will prevent over the course of the projects' useful lifespans. International Energy Agency emissions factors (source updated in 2019 with data from 2017) have been used.
B. Calculated using data on final electricity consumption for the residential sector by country published by the International Energy Agency (source updated in 2020 with data from 2018).

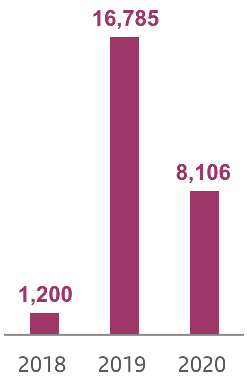
Financing of renewable energy (greenfield)

(MW financed)[C]



Financing of renewable energy (brownfield)

(MW financed)[C]



Breakdown of MW financed by type of renewable energy

	2018 Greenfield	2018 Brownfield	2019 Greenfield	2019 Brownfield	2020 Greenfield	2020 Brownfield
Wind energy	77%	--	77%	35%	77%	46%
Solar energy	22%	100%	22%	54%	18%	33%
Others[D]	1%	--	1%	11%	5%	21%

Greenfield Brownfield

Breakdown of renewable MW financed by country in 2020[E]

(greenfield and brownfield)

	USA	United Kingdom	Spain	Chile	Brazil	France	Poland	Portugal	Germany
Greenfield	3,796 MW	5,455 MW	706 MW	882 MW	1,587 MW	497 MW	242 MW	0 MW	0 MW
Brownfield	681 MW	630 MW	2,169 MW	0 MW	17 MW	0 MW	0 MW	3,510 MW	306 MW

C. In 2020, the MW attributable to Banco Santander according to its share in each project was: 19% of total for greenfield and 23% for brownfield.
D. Others greenfield: Taiwan (600 MW). Others brownfield: Italy (61 MW); Uruguay (52 MW); The Netherlands (600 MW); Sweden (80 MW)
E. Includes biomass for 2018 and hydropower for 2019, and solar-wind energy for 2020.

Renewable energy projects financed in 2020

We closed one of the largest deals in the Spanish renewable energy market worth EUR 567.8 million, under a hybrid structure format, including a bank loan and project bonds.

We participated in the financing of an Offshore Wind Farm, which will become the world's biggest. It will generate 2.4 GW of green energy to supply c. 3.3% of the UK's demand, powering four million homes per year.

###

Evolving our ESG product offering

We demonstrate our commitment to inclusive and sustainable growth and to the transition to a low-carbon economy through various products and services. Incorporating ESG into financial instruments for sustainable projects has extended to traditional bank loans, revolving credit facilities, bonds and even derivatives.

In 2020, we participated in 53 Green and ESG loan transactions in Europe, and ranked third in Refinitiv's European league table.

Green and ESG Loans, Europe - 2020 YTD

Rank	Lender	Vol. (EUR m)	Total Deals
1	Peer 1	99,308	81
2	Peer 2	72,532	56
3	Banco Santander	70,622	53
4	Bank 1	70,293	50
5	Bank 2	64,691	30
6	Bank 3	56,151	32
7	Bank 4	53,997	24
8	Bank 5	52,648	33
9	Bank 6	50,503	34
10	Peer 3	49,790	47

In recent years, we have developed frameworks that are the building blocks of our ESG product offering:

- Sustainable Guarantees Framework, with a second party opinion from VIGEO (2019)
- Social Loans Framework in Argentina, with a second party opinion from Sustainalytics (2020)

Our aim is to support our customers in defining and executing their strategy to transition towards sustainable models. As part of this, we have intensified and upgraded our dialogue and engagement on topics ranging from sustainability strategy to disclosure, financing needs, ESG ratings, specific solutions and new technologies.

Landmark deals in 2020

First ESG-linked facility in the aerospace sector

SCIB acted as ESG Coordinator, supporting the company in setting targets, developing pricing mechanisms, and on communication to banks and the wider market.

First ever gender bond in Mexico

SCIB acted as joint lead manager and bookrunner in the financing of a portfolio of new and existing loans targeting women as beneficiaries in three areas: financial inclusion, employment and entrepreneurship.

First Polish sustainability bond and swap

SCIB took on the roles of coordinator, lead arranger and bookrunner in financing a Polish group's transformation to zero-emission power generation.

First sustainability linked bond in Brazil

SCIB acted as a bookrunner for the first sustainability linked bond in Brazil, and second globally, for a pulp and paper producer aiming to reduce GHG emissions.

Retail and commercial banking

In 2020, we completed our **internal Green Book**, which compiles all products with specific **green features** of the Group according to international standards such as the Green Bond Principles. This initial classification will be enhanced with the EU Taxonomy and other global guidelines.

The Green Book products are specifically tailored to two main segments: **individuals and SMEs/Corporates.**

This enables us to identify how much finance we direct towards green assets through products with specific green features, and to promote green finance to our retail customer base.

In parallel, we are developing an **internal classification** system based on the EU Taxonomy and other international standards, to identify and manage the volumes of green financing in our standard credit.

Green book

Products for individuals and/or SMEs /corporates	Countries
Green mortgages	
Loan for energy efficiency	
Loan/lease for renewable energy installations	SCF
Loan/lease for clean transportation	SCF
Loan for low carbon agriculture	
Loan to foster circular economy	

Some of these green products include:

Hipoteca Fija/ Variable Online

Product that gives benefits for acquiring proprieties with an A or A+ energy efficiency certificate.

Crédito Pessoal para energias renováveis

Loan that incentivizes the acquisition of renewable energy generation or energy efficient equipment.

Eko leasing

Product for electric and hybrid vehicles with benefits such as financing up to 36 months, 30% off the first lease fee, customer support, insurance, etc.

CDC Sustentável Solar

Financing for renovations and projects using renewable energy and energy efficient installations, as well as accessibility, ergonomic and air quality upgrades.

######

Multilateral financing for energy efficiency and renewable energy projects

In **Spain**, thanks to the EIF's involvement in a synthetic securitization initiative, we aim to provide EUR 10 million in new climate-related investments. Similarly, we will allocate up to EUR 51 million to low-carbon and zero-emission vehicles in **Portugal** with the EIF's support. We are also helping renewable energy and energy efficiency projects in Brazil with a USD 50 million loan facility alongside the IFC.

In 2020, we entered into three financing agreements with MDBs to contribute EUR 104 million to green financing projects. In the last four years, the Group has signed agreements with multilaterals such as the EIB (European Investment Bank), EBRD (European Bank for Reconstruction and Development, IFC (International Finance Corporation), MIGA (Multilateral Investment Guarantee Agency), CEB (Council of Europe Development Bank) and the CAF-Development Bank of Latin America to provide over EUR 1,360 million in support of green finance in Spain, Poland, Portugal, Brazil and Peru.

AENOR sustainability seal for small and medium-sized companies

Santander España created the first AENOR-assessed seal that gives Spanish SMEs' a sustainability rating to set them apart in the eyes of their customers and suppliers.

Embedding ESG in all key areas of the bank

Leveraging on a solid track record in renewable energy and strong product capabilities across our platform, we are now moving towards fully-integrated ESG solutions, serving an increasing appetite from corporate and institutional customers. To better support our customers in achieving their own ESG objectives, in 2020 SCIB created a dedicated team to boost its sustainable finance proposition.

This new global team works closely with product teams such as Global Transaction Banking, Project Finance and Markets, to provide strategic solutions as well as product and financing structures tailored to specific industries, geographies and market sectors, helping our customers in their transition towards a more sustainable business model.

"The creation of this team further reinforces our contribution to Grupo Santander's responsible banking commitment to support inclusive and sustainable growth. We want to back our customers in their ESG transformation journey, helping them define and achieve their global sustainability objectives."

José M. Linares, SEVP (Senior Executive Vice President) and Global Head of Santander CIB

Playing an active role in shaping the external environment

- We shared insights on sustainable finance practice with the Banking Environment Initiative (BEI) to help with its Bank 2030 research report, which seeks to shed light on how banks can accelerate the transition to a low-carbon economy and to create a vision for the banks of 2030.
- The report is a significant contribution to the banking sector as it identifies barriers and opportunities for banks in the transition, which requires asset and behavioural transformation. We also work with the BEI on the 'Soft Commodities' Compact and the fight against deforestation.

- Grupo Santander participates in the Paris Agreement Capital Transition Assessment (PACTA) bank pilot led by the 2 Degrees Investing initiative (2Dii), which aims to provide information on the alignment of selected portfolios with regard to climate scenarios as proxies to the Paris Agreement.
- Our Credit Risk team worked alongside SCIB and Responsible Banking to supply 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.

- We are an active member of the Global Investors for Sustainable Development Alliance (GISD Alliance), a working group created as part of the UN's strategy for Financing the 2030 Agenda for Sustainable Development.
- SCIB collaborates on analysing how to invest in Colombia's clean energy, water and sewage sectors, as well as how to structure SDG-linked financing in the 4G road infrastructure programme. It is also involved in the call for action around covid bonds.

- We participate in the EBF-UNEP FI working group created to develop voluntary guidelines for banks on applying the EU taxonomy to their lending portfolios.

Additionally, SCIB hosted key panels related to sustainability to raise awareness among its customers and investor network at events:

- **October 2020:** Santander International Banking Conference ***- A sustainable and resilient Recovery, meeting the climate challenge while addressing economic and social needs***
- **December 2020:** Santander Chile ESG Webinar ***- Moving towards a sustainable capital market***
- **January 2021:** 25th Santander Latin American Conference ***- New frontiers for sustainable finance and ESG as an asset class***
- **February 2021:** XXVII Santander Iberian Conference ***- ESG, An opportunity for industrial companies***
- **February 2021:** ***UN PRI Panel - Deforestation as a Credit Risk -*** with Santander invited speaker (Santander Global Head of E&S Risk)

Environmental footprint

We are strongly committed to protecting the environment by reducing our environmental footprint. Our environmental management strategy focuses on three main areas:

- Reduce CO_2 emissions and offset the emissions we have been unable to reduce.
- Reduce and responsibly manage our waste.
- Increase awareness of environmental issues among employees and other stakeholders.

Since 2001, we've been measuring our environmental footprint through energy consumption, waste and emissions. And, since 2011, we've used strict criteria to draw up energy efficiency and sustainability plans to ensure we keep environmental impact to a minimum, yielding these results:

- Energy consumption reduced by 21%.
- Atmospheric emissions reduced by 61%.
- Paper consumption reduced by 75%.

We have also made two commitments involving all G10 countries:

- From 2020 on, Grupo Santander will be carbon neutral by investing in projects to offset our emissions.
- By 2025, 100% of the electricity we consume will come from renewable sources[A].

A. In those countries where it is possible to certify renewable sourced electricity for the properties occupied by the Group.

Becoming carbon neutral

Grupo Santander's plan to become carbon neutral comprises five projects in five countries that provide us with the carbon credits we need to offset emissions. We drew up an internal plan and put out a call to tender to select the projects to obtain the required carbon credits. We then assigned to each country unit a project through which it could offset its emissions.

Projects include renewable energies, reforestation and fuel switching and are certified under the sector's most recognized international standards, like the Gold Standard, the Verified Carbon Standard (VCS) or the Clean Development Mechanism (CDM). This collaborative, international initiative reflects our commitment to protecting the environment, fighting climate change and reducing our environmental footprint.

Use of energy from renewables sources

57% of the energy used in our buildings is renewable, with 100% green energy in Germany, Spain, Portugal and the UK. We continue to work towards 60% target for 2021 and 100% by 2025.

Thanks to the purchase of green energy, the emissions reduction due to electricity consumption was 21%. In terms of total emissions, this acquisition enabled us to reduce our emissions by 12%.

Projects to offset CO_2 emissions

Reforestation

Planting of native species in over 1,000 hectares scorched by forest fires in Alcoroches (Guadalajara).

Wind energy

Wind farm with 309 MW of installed capacity, including a social project to aid the development of local communities in Oaxaca.

Hydropower

Hydropower plant with a capacity of 182 MW that helps the community through job creation.

Reduction of N2O emissions

Eradication of the N_2O produced at a nitric acid plant, reducing its impact on the atmosphere.

Recovering energy from greenhouse gases

Capture of the methane produced at a landfill site in Spartanburg (South Carolina) to be converted into biogas for clean energy.

Certified environmental management system

We measure and manage the direct[A] environmental impact of our activities through environmental management systems implemented in most of our buildings, which are externally audited under ISO 14001.[B]

We also have:

- LEED PLATINUM certification in three buildings in Poland (Atrium I, Warszawa Atrium II and Poznan Business Garden).
- LEED GOLD certification in ten buildings in: Germany (Santander Platz and An der Welle 5), Brazil (Torre Santander and the two Campinas Data Centres), Spain (Tripark, Abelias, Luca de Tena and the Santander North Data Centre) and Poland (Robotnicza, 11 Street).

LED lighting

In 2020, we replaced 4,500 fluorescent lamps with LED lights in our Alhambra and Montepríncipe corporate buildings in Spain, reducing our energy consumption reduction by 400,000 kWh.

Single-use plastics

The #Plasticfree project is part of Grupo Santander's public responsible banking commitments. It aims to eliminate unnecessary single-use plastics in our offices and buildings in 2021.

At the end of 2020 we met 98% of our target, with all G10 countries working together.

Environmental awareness

The group organizes global and local awareness campaigns to involve employees in reducing consumption and waste. Via our internal Santander Today channel, we provide them with guides and other information to enable them to join the challenge of reducing the organization's environmental impact.

We also participated for the eleventh consecutive year in Earth Hour, an international initiative to raise awareness of the impact we as people have on our environment, by turning off the lights in our most iconic buildings.

A. Aspects such as light or noise pollution are not considered material.
B. The bank has buildings with ISO 14001 certification in Argentina, Brazil, Chile, Spain, Mexico and the UK.

2020 environmental footprint[C]

		Var. 2019-2020 (%)
2,064,113 M^3 water consumed from the supply system		-29.7
920 MILL. KWH total electricity	 57% renewable energy	-13.5
8,902 T total paper consumed	 83% recycled or certified paper	-46.0
5,926,139 KG paper and cardboard waste		-38.9
3,758,225 GJ total internal energy consumption		-13.1

		Var. 2019-2020 (%)
	194,159 T CO_2 teq total emissions (market based)	-41.6
Scope 1	24,818 T CO_2 teq direct emissions	
Scope 2	128,633 T CO_2 indirect electricity emissions (market based)	
Scope 2	282,216 T CO_2 teq indirect electricity emissions (location based)	
Scope 3	40,708 T CO_2 teq indirect emissions from employees travelling to work	

C. The environmental footprint table, with two-year historical data and the consumptions and emissions per employee, can be found in section 'Key Metrics' on this chapter.

Environmental and social risk analysis

We give great importance to managing the environmental and social risks that could arise from our customers' activities in sensitive sectors such as energy, mining and metals, and soft commodities.

Environmental, social & climate change risk management policy

The group's environmental, social & climate change risk management policy sets out the principles and criteria for identifying and analysing these risks in the oil and gas, electricity, and mining and metals sectors, as well as for soft commodity businesses. It also specifies activities within those sectors that we will not support (prohibited activities), as well as those which require detailed assessments of their environmental and social impact.

The policy replaces our separate sector policies on energy, oil and gas, energy, mining and metals, and soft commodities, and is aligned with, and applied alongside, the Group's human rights and sustainability policies (available at our Corporate Website).

We also have a defence sector policy outlining the criteria for the group's operations with companies that perform defence-related activities.

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.

E&S risk governance and management

Grupo Santander has full-time E&S risk and green analysts whose work includes annual E&S reviews of Santander Corporate & Investment Banking (SCIB) customers in every market where we operate.

The E&S risk management (ESRM) area has three functions:

Project analysis under the Equator Principles: in 2020, we updated our socio-environmental project risk analysis procedure, which are based on three lines of defence and integrated into credit admission process.

When an opportunity is identified, the business team uses a set of internal tools updated by the ESRM team to carry out a preliminary project screening that determines:

- the risk level and a preliminary classification under the Equator Principles´ categorization system.
- if socio-environmental due diligence is required, as well as its scope according to the potential risks the project entails.
  - For medium-risk projects, the business unit uses a set of analytical tools designed by ESRM in accordance with applicable international guidelines like the IFC Performance Standards, which also oversees the process.
- High-risk projects are directed to the ESRM team for analysis in accordance with applicable international guidelines like the IFC Performance Standards.

Annual customer analysis: We analyse SCIB customers under the scope of the E&S Risk Management Policy at the moment of onboarding and during the annual renewal of credit limits.

The analysis is initiated by the business managers, supported by questionnaires designed by the ESRM team. The local green analyst then reviews the questionnaires and conducts any further analysis required, before issuing a recommendation. The E&S risk global team oversees this entire process.

In 2020, these analyses included a detailed review of climate change-related items. In Argentina, Brazil, Peru and Uruguay, we conducted analyses on customers from sectors other than those covered under the environmental, social & climate change risk policy.

Other operations: ESRM also supports the business and risk teams on the analysis of other operations that may entail environmental or social risks, such as mergers and acquisitions, trade finance in high-risk sectors and all other project finance operations that are not covered by the Equator Principles.

In Brazil, the team also analyses operations related to guarantees, mortgages and customers' property portfolios.

For more details on the policies and their governance, see the 'Risk management and compliance' chapter.

The environmental, social & climate change risk management policy will be available on our corporate website.

Equator Principles

In 2020, we continued adapting our tools and procedures to the Equator Principles IV, which entered into force in October. We trained our business teams on the changes that those new procedures may entail when analysing and evaluating project finance operations.

We continue to contribute to the development of the Principles through participation in working groups.

We analysed 68 projects that fell within the Equator Principles scope.

Equator Principles

Category	Project Finance A	B	C
TOTAL	**1**	**59**	**8**
Sector			
Infrastructure	0	1	0
Oil & gas	1	0	0
Energy	0	58	8
Region			
Americas			
United States	0	9	0
Chile	0	4	0
Brazil	1	0	0
Europe			
Spain	0	26	8
United Kingdom	0	14	0
France	0	1	0
Poland	0	2	0
Asia			
Taiwan	0	1	0
Type			
Designated countries[A]	1	58	8
Non-designated countries	0	1	0
Independent review			
Yes	0	57	8
No	1	2	0

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

Protecting human rights

Grupo Santander's corporate culture respects and promotes human rights. We are a signatory to the United Nations Global Compact and the Equator Principles, as well as a founding member of the Wolfsberg Group.

Our **human rights policy** is inspired by our general code of conduct, consumer protection policy, corporate culture policy and environmental, social & climate change risk management policy. It sets out principles and commitments on actions and operations with a potential impact on human rights, underscoring:

- zero tolerance for discrimination against employees, customers and suppliers or for forced labour and child exploitation;
- respect for employees' freedom of association, collective bargaining, health and working conditions; and
- support for our communities alongside government agencies, civilian organizations, international bodies and other institutions with a view to ensuring a healthy, clean and safe environment while fighting corruption.

Human rights protection in our financing operations

When analysing the environmental and social risks of operations, we follow the best practices defined by the Equator Principles to identify any threats to, or impact on, human rights.

According to the risk category projects must comply with the IFC Performance Standards, observing employment rights and impact management on local communities. For projects with an identified impact on human rights, specific mitigation measures must be implemented as a condition for accessing the finance, and regular reviews are carried out to ensure compliance.

With the entry into force of the Equator Principles IV, we have aligned our due diligence processes with the United Nations Guiding Principles on Business and Human Rights.

Further details on how we manage human rights through our value chain, see 'Learning and development' and 'Ethical channels' in 'A talented and engaged team section'. You can also find out more in the 'Responsible procurement' section.

For more details on our human rights policy, visit our corporate website.

Ensuring full compliance with human rights in our operations

Energy project in Southeast Asia

The financing for the construction and operation of an energy generation plant was approved in January 2020. Before Financial Close and with the construction already started, several gaps were identified against local legislation and IFC Performance Standards related with contractor's working conditions and labour rights.

In order to correct this situation, Financial Close was conditioned to the commitment of the client to implement a Remedial Action Plan to address these issues within a reasonable timeline. This situation was closely monitored by ESRM during 2020 with the support of an Independent E&S Consultant that conducted on-site inspections. Most of the items in the Remedial Action Plan were fully implemented by the end of 2020.

Energy project in the Middle East

We finance this project as part of a syndicate. During its implementation, we detected working conditions in breach of both local legislation and the IFC Performance Standards (pay less than minimum wage, excessive overtime, lack of proper lodgings, etc.).

The syndicate held a meeting with the company to draw up a remedial action plan (RAP), and the company created a team to conduct regular, systematic due diligence including contractors´ operations.

On-site inspections were carried out in early 2020 and significant progress was noted.

Protecting the Amazon

Our environmental, social & climate change risk policy also details the following procedures to analyse and measure the potential impact of our customers on the environment, including the illegal deforestation of the Amazon in Brazil:

- All loan requests by farmers and ranchers to Santander Brasil are checked for government-issued embargoes due to illegal deforestation. If the financing is granted, we then check for new deforestation-related embargoes daily.
- The requests are screened to make sure that the properties do not overlap with officially-recognized indigenous peoples' reserves and parks.
- Annual ESG reviews of more than 2,000 customers, including meat processors, soy traders and farmers, as well as logging companies.
- There is constant dialogue with major Brazilian companies on the challenges posed by deforestation.
- Santander Brasil's requirement for all lumber companies in the Amazon to carry the Forest Stewardship Certification (FSC) or an equivalent in order to be a customer, becoming the first bank to require it.
- Involvement in forums that debate on, and propose, solutions to stop deforestation in Brazil. In July 2020, we announced a plan to promote sustainable development in the Amazon, including better controls over the value chain of meat processing firms and to enlist them to help end deforestation. Dubbed *Plano Amazonia*, it is a collaboration effort between the three largest private banks in Brazil, and it opened a constructive dialogue with the Government around this agenda.
- The plan prioritizes three things: preserving the environment and promoting the bio-economy; investing in sustainable infrastructure; and guaranteeing the fundamental rights of those living in the Amazon.

Following an update to the environmental, social & climate change risk management policy in 2020, special care must now be taken when financing retail customers carrying out farming and ranching activities within the Amazon biome.

Financial inclusion and empowerment

We help people get access to the financial system, set up and grow micro-businesses, and acquire the skills to manage their finances through financial education. Our aim is to financially empower 10 million people between 2019 and 2025.

Santander Finance for All is Grupo Santander's initiative to support financial inclusion and empowerment, comprising three areas:

Access

We help people access and use basic financial services through simple payment platforms and cash-in/cash-out services in remote and small communities.

825,454 people financially empowered in 2020

Finance

We provide tailored finance to individuals and SMEs with difficulties obtaining credit or in financial distress.

2,023,411 people financially empowered in 2020

Resilience

We help people improve their financial knowledge, making economic concepts more understandable and helping them make better decisions.

716,071 people financially empowered in 2020

Target

We believe 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. We aim to financially empower 10 million people between 2019 and 2025.[A]

Progress

Financially
empowered people

4.9mn[B] — 10 mn

2019 — 2020 — 2025

A. To assess our contribution to financial inclusion, we use a methodology that sets out the principles, definitions and criteria for counting people who have been financially empowered through our initiatives, products and services.

B. Accumulated figure since 2019. In 2020, the perimeter of the information was expanded to include information from Santander Consumer Finance Nordic and Santander Consumer Finance Portugal.

Our strategy targets the unbanked and underserved; individuals and SMEs across Europe, Latin America and the US who face difficulties obtaining credit; have limited financial understanding; or are in financial distress.

In Latin America, we focus on giving people access to the financial system. In mature markets, we seek to ensure that no one needs to leave the financial system.

In 2020, we focused on addressing the impact of the covid-19 pandemic, especially on the most vulnerable groups.

Access

We aim to make sure everyone can access basic financial services by promoting the use of payment digital platforms that make transactions easier, giving access to financial propositions targeted at the base of the pyramid, providing cash in/cash out services in remote areas and small communities, and offering targeted financial support.

Supporting access to the banking system and payment accounts.

We help financially underserved people access the banking system through digital platforms so they can make payments, use basic, tailored financial services, overcome barriers, take greater control of their finances and enjoy faster and more secure transactions.

825 thousand
people empowered through access initiatives in 2020

Superdigital - banking without a bank

Superdigital is Grupo Santander's flagship mobile platform for cash deposits, withdrawals and payments, driving sustainable financial inclusion among the unbanked and underserved in Brazil, Mexico and Chile. Developed with our own technology, building on growing smartphone ownership and better network coverage in Latin America, it helps communities through basic, user-friendly products that give customers a unique banking experience.

Our aim is for it to have five million customers by 2023 in Latin America. So far, it has financially empowered 197,026[A] people, allowing those without a bank account to make online financial transactions, split bills with others and receive automated alerts about their finances.

Its largest market is Brazil, where users range from micro-entrepreneurs who can pay suppliers and receive payments from customers, to companies with sizeable headcounts that large banks tend not to serve. In 2020, Santander Brasil allocated BRL 7 million (more than EUR 1 million) to Superdigital to give support to 20,000 households.

superdigital
Santander Finance for All

Find out more at Superdigital Brazil Superdigital Mexico and Superdigital Chile.

A. Not all Superdigital customers are counted as financially empowered. Only those with a reported income below the country's minimum salary are considered.

Other products and services that help us uplift those at the "base of the pyramid"

Cuenta Life

Since 2018, the *Cuenta Life* account has been opening up banking to everyone, serving 370,000 people. It drives financial inclusion through special products for the underserved, and its revamped value proposition features a life cycle that better suits young and elderly customers, with better prices and tailored customer content and perks. In 2020, *Cuenta Life* assisted more than 232,470 people.

Empowering the base of the pyramid

Santander Mexico's banking services financially empower the elderly and retirees with income of less than MXN 11,000 a month (EUR 190). It tailors products and services to their needs, including consumer credit with custom insurance, fraud monitoring, and a separate credit admission policy and sales channel, fostering the financial inclusion of more than 955 customers.

Guaranteeing access to financial inclusion

Grupo Santander seeks to provide access to basic products while making sure customers know how to use them. We have cash-in/cash-out services in place and offer financial support to special groups.

Cash-in/cash-out services help achieve financial inclusion in remote and sparsely populated areas through our dedicated branches. Also, our agreements with private and state-run entities widen our footprint to ensure underserved communities can have bank accounts and get cash virtually anywhere.

Branches in underbanked and remote regions

Financial inclusion branches and remote agents

Our eight financial inclusion branches serve 23,000 people in underbanked neighbourhoods in Buenos Aires that previously had no banking services, including Santa María, Castelar Sur, La Juanita and Don Orione. These basic services now benefit 250,000 people daily, helping fight social exclusion.

Branches in sparsely populated regions

694 agent offices, 504 branches and ATMs provide access to finance and fight social exclusion in communities with under 10,000 inhabitants.

Branches in small villages

We have 79 branches in small towns. They provided financial services to 37,224 customers in 2020. 27 branches are in the Azores and Madeira archipelagos, serving 15,192 customers.

Partnerships to reach unserved communities.

Correos postal service

Our collaboration with *Correos*, the state-run postal service, sets up basic financial services at 4,675 rural post offices. From January 2021, customers can withdraw and deposit cash, and postal workers deliver money to any address in Spain. Through this service, Grupo Santander reaches 75% more branchless towns of fewer than 1,000 people and 66% more customers who previously didn't have cash services nearby.

Partnered retailers

Santander's partnerships with retailers let customers carry out basic transactions in more than 26,769 convenience stores, such as 7 Eleven and Oxxo.

Promotion and training in the use of digital channels

Branch outbound calling

During the covid-19 pandemic, many elderly people became at risk financially by not being able to visit their branch or manage their finances as usual. In response, our employees reached out to make sure they could continue to look after their finances easily and securely from home.

Here & Now

To increase digital literacy among the elderly, our employees assisted customers in using digital channels to make payments.

Finance

Grupo Santander seeks to provide tailored finance to those who have difficulty in accessing credit, and to offer solutions to individuals and SMEs who are in financial distress.

In Latin America, our microfinance proposals target micro-entrepreneurs, offering them a complete value proposition. In mature markets, we support low-income households by financing their basic needs, such as affordable housing. We also support SMEs and individuals through debt renegotiation and cash injections.

In 2020, the great efforts Banco Santander has made to ease the covid-19 pandemic, which had a profound effect on society in 2020, have increased the number of customers benefitting from our initiatives.

2.3 million

people empowered by initiatives tailoring financial solutions to their needs since January 2019

Finance for SMEs and entrepreneurs with difficulties obtaining credit

Since 2002, we've offered micro-finance services to help bridge Latin America's significant social divide and promote financial inclusion. We aspire to help low-income and underbanked entrepreneurs grow their businesses, which drive the economy and social mobility.

Our extensive product line includes tailor-made micro-loans that help micro-entrepreneurs generate income and meet their working capital needs, as well as savings products, current accounts, cards and micro-insurance.

A large part of our lending goes to women, who are less likely to obtain financial services in developing countries.

Our micro-finance programmes in Latin America

EUR 231 million

outstanding credit to microentrepreneurs at the end of 2020 (-17%[A] vs. 2019)

1.1 million

micro-entrepreneurs supported in 2020 (+27% vs 2019)

59%

of microentrepreneurs supported are women

A. The year-end total outstanding loan volume declined due to the exchange rate effect. Nonetheless, outstanding loans with each microfinance programme grew at year-end in local currency (e.g., 8.4% in Brazil and 7.7% in Mexico).

Prospera

Prospera Santander helps micro-businesses and other small enterprises grow, benefitting low-income communities. It grants income-generating loans to micro-entrepreneurs, who collectively share the obligation to repay them. A team of loan officers who live in the community provide financial advice to guide borrowers throughout the term of their loans. With 99 branches, it plans to open 30 more and take on 300 employees in the first months of 2021.

All Prospera products have a digital component, making borrowers' operations more efficient while improving customer experience. For example, customers can get loan applications approved in under 10 minutes.

In the first wave of covid-19, Prospera's programmes, such as eight-week payment deferrals (in March and April) and *Seguro Responsa* micro-insurance, gave customers extra support to cope with not being able to work.

When businesses reopened in Q4, Prospera achieved a new accounts record (+18,000 in October), with over 540,000 active customers. It also granted BRL 2 billion in loans in 2020.

More details at www.santander.com.br/campanhas/microcredito

Tuiio

In Mexico, Tuiio offers low-income households and the underbanked digital services and products, including tailor-made loans, savings accounts and insurance. It has 85 branches and more than 72,000 customers in the communities it serves.

In 2020, Tuiio launched a new medical assistance proposition to help build a culture of prevention is the best cure, and to facilitate access to specialist doctors. It also helped its customers mitigate the effects of the pandemic by granting grace periods of up to eight weeks and loan term extensions from the previous four months to eight months, as well as keeping life and health insurance premiums at low prices for 32 weeks.

More details at www.tuiio.com.mx/

Mercedes Cruz

After the pandemic left her jobless, Mercedes Cruz, a cook, set up a kitchen with her mother-in-law to sell food door-to-door. Tuiio gave her a loan and financial education to start her venture, *El Sazón de Ángel*, and generate income to support her family.

"What we like most about Tuiio is that they gave us a debit card so we can save, buy goods and keep making headway. Knowing I have money on the card, I don't have to worry. Without this loan, we couldn't have got business off the ground. We started from scratch with that money. I would like to thank you for helping us build something and move forward."

***International Finance Magazine* named Santander *Best Bank for Financial Inclusion* in Mexico for Tuiio**

Prosperá

Prosperá was launched in Uruguay in 2019 as a pilot programme in the Salto region, offering loans and insurance to local entrepreneurs, and has since expanded throughout the country. Its value proposition features "Recommended Client", in which past Prosperá customers refer new entrepreneurs, thereby generating an interconnected entrepreneurship ecosystem. It also offers savings accounts, payment solutions and other products and services. Due to covid-19, Prosperá deferred fees and debt financing for entrepreneurs, and set up remote management services.

Other local initiatives

Small business administration loans

Santander US' "Inclusive Communities" plan provides financial assistance to struggling communities. It will mobilize USD 11 billion in loans, investments and charity donations from 2017 through 2021. Its lines of action include the Small Business Administration Loans initiative to fund small businesses with less restrictive requirements. In 2020, Santander lent more than USD 1.2 billion through the Small Business Administration's Paycheck Protection Programme (PPP), which helped save over 126,000 jobs.

Loans backed by MGIs for SMEs with limited means

In Spain, Banco Santander works with mutual guarantee institutions (MGIs) to lend to SMEs and entrepreneurs with limited means and help them secure lines of credit. In 2020, each MGI ran covid-19 relief initiatives.

Superclub Comprometidos, Via Bana, Formar and Potrero Digital

In Argentina, Banco Santander empowers customers and non-customers financially through *Superclub Comprometidos*, a loyalty programme where customers can connect to sell social and environmentally-friendly products; *Vía Bana* social ice cream parlours that offer basic banking and financial services and financial education; and *Formar* and *Potrero Digital*, two digital financial education programmes aimed at young people in vulnerable communities.

Financing basic needs for low-income households

We offer products and services that enable low-income households to access housing and meet other basic financial needs.

Affordable housing programmes

Santander US's Inclusive Communities plan includes affordable housing and home improvement programmes that help over 39,000 people though low-interest mortgages, lender-paid mortgage insurance and investment in projects for low-income homebuyers.

Social housing fund

Banco Santander currently has 1,594 social homes for rent in Spain, of which 1,364 are allocated to the *Fondo de Viviendas Sociales* (Social Housing Fund). In addition, we have 624 homes available to rent at reduced rates.

Special programmes for SMEs and individuals in financial distress

Payment holidays

Since 2012, we've undertaken more than 69,000 social and mortgage debtor protection actions; granted 12,163 mortgages under the Code of Good Practice (which includes debt restructuring and deed in lieu of foreclosure); renegotiated 27,457 mortgages under the loan repayment moratorium; and suspended 10,966 foreclosures (we haven't repossessed any homes since November 2012).
During the 2020 crisis, we offered our customers solutions in a proactive way, often taking a more flexible approach than the authorities. We suspended payments on 207,000 loans (including 160,000 within the sector agreement).

IRIS solutions to manage impairments

Our IRIS debt renegotiation programme analyses the situation of customers who are struggling financially and lends them a hand to meet their payment obligations. Since 2019, we've renegotiated the debt of 28,875 customers and supported 51,250 customers with our payment holiday solutions.

Agreements with multilateral entities

In Brazil, Spain, Poland and Portugal, the bank has signed agreements with entities such as the EIB, EIF and IFC to offer lines of credit with advantageous conditions to help mitigate the effects of the pandemic (see more in 'Meeting the needs of society' in this chapter).

Further collaboration: investing in fintechs

Through Mouro Capital (formerly Santander Innoventures) we support the growth of startups whose business models target emerging markets and people without access to financial services. In recent years, we've invested in the following companies, among others:

- **PayJoy**. Founded in 2015 in San Francisco (US), it provides access to smartphones and basic consumer financial services to reduce the number of underbanked and underserved communities in emerging markets. It aims to spread the use of digital tools and technology to remove the need for cash and to fight predatory lending.
- **ePesos**. Founded in 2014 as a digital project of Mexican microfinance company Quantum Capital, it provides financial services to those most excluded by Mexico's banking system. It focuses on creating new payment methods for individuals and companies with few financial services, while offering low-cost lines of credit without the need for a bank account. In 2017, it offered the first salary advance, and since then has been helping Mexican companies take better care of their employees' finances.

For more details, see '*Meeting the needs of everyone in society*' in this chapter.

Promoting financial education

We believe education is part and parcel of financial inclusion and customer protection, which is why it's at the core of our Responsible Banking agenda. In 2020, we committed more than EUR 3 million to 61 initiatives that helped financially empower 716,000 people in the countries where we operate.

To fulfil our goals of making financial concepts easier to understand, protecting the most vulnerable through special tactics, and promoting market stability, our programmes include content on financial and money management, digital banking, training for SMEs, behavioural economics and other topics for all groups (especially children, young people, senior citizens and vulnerable customers). We run programmes through face to face education, websites, videos, simulators, contests and games. We are using apps and other channels to make financial education more accessible and to maximize the impact of our initiatives.

In 2020, we launched a **global financial education page** on our corporate website. It showcases our learning initiatives from across the world under a common narrative and approach. It has a broad variety of contents and resources to help users make informed financial decisions and better their financial management.

716,000
people helped from financial education initiatives in 2020

61
initiatives supported in 2020

Content type

- Basic financial concepts
- Products and services
- Personal finance management
- Digital banking
- Entrepreneurship/training for SMEs
- Sustainable finance
- Behavioural economics

Target audience

- General public
- Children (up to 13 years old)
- Adolescents and young adults (14-20 years old)
- Elderly people (from 65 years old)
- University students
- Santander employees
- Vulnerable customers
- SMEs and entrepreneurs

South America

In South America, our initiatives – which aim to serve everyone – put special focus on **vulr** **university students and persons with disabilitie**s. They include *Fundación Techo* in Chile a Argentina. Mostly run online, their most popular topics include basic financial concepts ar finance management.

Europe

In Europe, most initiatives cater for the **general public, especially young people.** Online i increased amid covid-19, and many of them are now hybrid. Digital is one of the most pop special initiatives aimed at the elderly, such as *Formación Pioneros* in Spain and Go Digital

North America

In North America, we focus on contents about **personal finance management**. Our initiati prioritize vulnerable groups, include Tuiio for low-income households in Mexico and Santa volunteer service to boost financial empowerment. In 2020, we shifted to a virtual service initiatives in a safe environment.

Best practices

Pioneros

This initiative in Spain trains customer service and branch employees online on teaching elderly customers at branches to use our app and go digital.

Anti-fraud training workshops

Santander Scam Avoidance School (SAS) is a unique programme in the UK designed to equip customers with the tools to detect and prevent common acts of fraud. Before moving online via webinars due to covid, it was run in-branch by trained employees, and covers scams, the digital footprint, online safety and other topics.

Santander Life

Santander Life is an innovative value proposition promoting good financial conduct among customers. It rewards correct answers about banking commitments with merits for customers to access payment deferrals, lower fees, payment date changes and other benefits.

Tuiio

Tuiio in Mexico runs several initiatives to promote customers' financial education. In 2020, it launched its own financial education website using content and materials developed in-house. Since the beginning of the pandemic, Tuiio has shared advice on financial management in times of crisis, health tips and audio stories for children, among others, through instant messaging platforms, social media and the website. Through this initiative, it has financially empowered almost 200,000 people.

Visit tuiio.com.mx/educacion-financiera for more details.

Avançar

Avançar is an entrepreneurial programme with an exclusive value proposition for customers. Its web platform provides SMEs with contents and solutions relating to management and innovation, internationalization, team building and other relevant topics.

Visit santandernegocioseempresas.com.br/ for more details.

CAMPUS-Santander

This site runs several financial education initiatives for customers in Argentina, including *Cuenta Blanca* for health workers, *Duo* for finance and business, and *Nova* on daily life skills. It also provides finance courses aimed at women, SMEs and students.

Visit santander.com.ar/banco/online/campus-santander for more details.

Akana

SCF in Spain launched Akana, a tool for customers to check their finances easily. It analyses their transaction data and gives them tips to improve their finances, regardless of their bank.

Visit www.akana.es/FRONT/#/home for more details.

Financial literacy blog

Santander Portugal's new financial literacy blog offers articles and tips to help customers make more informed decisions about their finances. Topics include how to save better and how to draw up a budget.

Visit santander.pt/conta-em-ordem for more details.

Forging partnerships to boost financial inclusion

Our global networks consist of partnerships to further embed financial inclusion across our footprint. Those partnerships are important for sharing knowledge, learning best practices, and developing innovative approaches to bridging the financial inclusion gap. Alongside the CEO Partnership for Financial Inclusion (CEOP), we made progress on a number of initiatives that can help expand financial services at scale.

CEO Partnership for Economic Inclusion

Founded by the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, Her Majesty Queen Máxima of the Netherlands, the CEOP brings together an influential group of CEOs from a variety of industries who work together to boost financial inclusion around the world.

Santander BEST Africa

Santander BEST (Building Equality through Sustainable Tourism) Africa, is the first development cooperation programme promoted by Fundación Santander. This initiative seeks to contribute to social and economic development in Africa by supporting women entrepreneurs and their local areas in the tourist industry, which has been severely impacted by the covid-19 crisis.

Santander BEST Africa fosters a sustainable tourism network based on providing technical and financial assistance to entrepreneurship aimed at promoting and employing women, as well as environmental and social sustainability. The programme looked to secure the continuity of businesses and employment through the pandemic, and to encourage knowledge sharing and training between female entrepreneurs to strengthen the future economic sustainability of their industry.

Many of the beneficiaries are vulnerable women who promote or participate in the entrepreneurship selected by Santander BEST Africa due to their contribution to the preservation of the environment and the inclusive development of the community.

The programme is founded on two premises: the direct link between gender equality and sustainable development, and the potential of responsible tourism as a driver of economic and social progress in Africa post-covid-19.

Since its launch in October 2020, 17 projects across Gambia, Senegal and Morocco have received economic and technical support from Santander BEST Africa.

ESG investment in Wealth Management & Insurance

Our aim is to become the best responsible wealth manager in Europe and Latin America based on a sustainable value proposition for customers, active engagement and the highest international ESG standards.

In the past few years, ESG (environmental, social and governance) has become increasingly important in investment. More and more investors' assessments of risk-adjusted medium- to long-term returns are taking environment and social issues into consideration, while interest in ESG solutions among clients, employees and other stakeholders is also growing.

We have been embedding ESG factors into our decision-making for some time and, in 2020, reinforced our ESG strategy.

Santander Asset Management (SAM)

As a signatory to the UN Principles for Responsible Investment (PRI) and the Institutional Investors Group on Climate Change (IIGCC), we follow high-level international criteria and standards. We are also the only asset manager in Spain with a team exclusively dedicated to ESG in our investment unit.

We have developed our own ESG methodology, which we extended to Private Banking and Insurance. This helps us assign most of our funds a rating, based on the data of 15,000 companies and 190 governments. We also embedded ESG criteria in our investment, voting and engagement policies.

We offer a complete line of ESG products, holding around EUR 6.9 billion in assets under management in 21 ESG products and 50 mandates in six countries. Over the last six years, our solidarity funds have donated more than EUR 18 million.

In addition, Santander GO, a collection of products managed by external investment managers through partnerships, includes the Santander Global Equities ESG sustainable fund (managed by Boston Partners - Robeco). Also, we're working to apply ESG criteria to all our individual and collective pension funds and plans, which add up to EUR 20 billion.

We also engage with several companies to improve their transparency and ESG performance.

SAM ESG Product offering

Best-in-class ESG products in our core geographies

San Sostenible RF 1-3
San Sostenible Bonos
San Respons Solidario
Inveractivo Confianza
San Sostenible 1
San Sostenible 2
San Sost. Acciones
San Equality Acciones

7 Pension Funds

57 Mandates

San Ethical Ações
Go Global Equity ESG

San Sustentàvel

SAM RV Global ESG

Go Global Equity ESG

Acciones Global Desarrollado

Fixed income | Balanced | Equity | Portfolios

In 2021, SAM signed up to Climate Action 100+, an investor-led initiative that aims to promote cooperative dialogue urging the world's largest corporate greenhouse gas emitters to take action on climate change. It is coordinated by five regional investor networks, including two to which SAM is a signatory: Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

######

For more details, see www.santanderassetmanagement.es

Private banking

In private banking, we aim to embed ESG in our advisory services, as we have done with investment, risks and other areas. In 2020, our bankers and advisers across our footprint (over 1,100 experts), received special ESG training from our ESG dedicated team in SAM and Private Banking Global Team.

Our wide range of ESG products includes funds, alternative products, and ETFs. We are working on adding new products across all asset classes while we are developing an impact investment offering, in order to round off our value proposition. In addition, Private Banking has launched Future Wealth, a joint initiative with SAM, our thematic investment approach focusing on the trends with the strongest tailwinds, with environment as one of the key elements. On this sense, Future Wealth, offers our clients a complement to traditional investing strategies by seeking to capture innovative sources for growth and performance based on sustainability plus innovation.

It is important to note that SAM's ESG methodology allows us to also analyze 100% of the third- party funds we market.

Furthermore, we are also providing tailored-made ESG reports to our clients, providing a powerful portfolio look through, including information about their investments CO_2 and water consumption footprint, as well as how it performs according to our internal ESG methodology

For details on private banking, visit www.pb-santander.com

Insurance

We focused our efforts on two main actions: working with our JVs to maximize the portion of our life-savings premiums invested under the ESG standards set by SAM; and working with our partners to adopt the UN's Principles for Sustainable Insurance (PSI) and to develop specific strategies in financial education and inclusion-related issues in the geographies where we operate.

Supporting communities

In addition to support through business solutions, we also drive inclusive and sustainable growth through education, social entrepreneurship, employability and wellbeing initiatives in the communities we serve.

Our commitment and progress

Support higher education

EUR110 million invested

156,748 scholarships and grants

Our 2019-2021 commitment

→ To finance 200,000 scholarships/internships and programmes for entrepreneurs.

Community investment

EUR94 million invested

2.4 million people helped

Our 2019-2021 commitment

→ To help four million people through various social action programmes.

Covid-19 response in communities

more than 105 mn invested to help tackle the pandemic[A]

As a bank, we commit to sustainable economic and social development to build more balanced and inclusive societies.

Grupo Santander provides more support to higher education than any other private company in the world. Through Santander Universities, we have created a unique network of more than 1,300 universities to help students, researchers and entrepreneurs.

We also promote and participate in numerous initiatives with the third sector (NGOs and other social organizations) and run the majority of them locally to adapt to the circumstances and reality of each region.

As part of this work, and through contributions from the group's senior managers, employees and customers, we mobilized EUR 105 million worldwide to support initiatives in the fight against covid-19.

A. This amount incorporates part of the bank's contribution to community investment and part of the bank's contribution to its commitment to higher education, plus contributions from third parties such as employees and customers.

Over EUR 105 million to solidarity initiatives to help combat the covid-19 pandemic

We mobilized over EUR 105 million worldwide to fund initiatives to combat covid-19. The funds are being used throughout our core markets to provide essential medical equipment and supplies, to support vulnerable communities and to support research into the virus through collaboration with universities and other bodies.

All Together Fund to support the health crisis

Santander raised **EUR 54 million** to provide **essential materials** to support the global effort to fight the pandemic. The funds came from senior managers' salary reductions and board compensation, direct donations from the bank and employee and customer donations.

Spain

Masks, non-invasive ventilators, blankets, protective clothing, etc. for various hospitals and government bodies.

Brazil

Five million rapid tests, CT scanners and 200 ventilators, with the support of two other banks.

Mexico

Alliance with five other companies and donation to the *Héroes con Bata* initiative (INER and Fundación Gigante).

Portugal

Joined the Portuguese Banking Association initiative to donate 100 ventilators and 100 monitors to the national health service.

Poland

Support to hospitals dedicated to treating covid-19 patients by purchasing equipment and material (ventilators, tests, masks, sanitizers, etc.).

Chile

Support to the Confederation of Production and Trade (CPC) through donations of medical supplies such as diagnosis tests, hospital equipment, etc.

Further efforts to support vulnerable communities

As part of their community support plans, our **local units redirected EUR 21 million to support communities** and vulnerable groups particularly affected by covid-19. For more details, see the 'Community investment' section.

Santander Universities

Through its agreements with more than 1,000 higher education institutions, Santander Universities allocated more than **EUR 30 million of its annual budget to support their response to covid-19** (health, education and social issues); to promote online education; and to mobilize entrepreneurs to identify solutions to the challenges posed by the pandemic. For more details, see the 'Supporting higher education' section.

Digital solutions

We developed various platforms, digital repositories and apps to support and keep society safe and informed during the pandemic.

Overcome Together

An open space for individuals and companies with information and resources to support the fight against covid-19, as well as country-specific websites circulating local authority advice.

Covid-19 platform

An app and dashboard developed to help governments and companies make informed decisions in managing covid-19 contagion with real-time data. Adapted for the Mexican Government, Spanish regional governments and the general public.

Supporting higher education

Banco Santander is one of the private companies that most supports higher education in the world. We harness our efforts through Santander Universities, a unique and pioneering global programme with educational, entrepreneurial and vocational opportunities for students.

110
million euros to universities

1,432
partner universities and institutes in 31 countries

156,748
beneficiaries of scholarships, internships and entrepreneurial programmes

We focus on three areas:

Education

We support university students and graduates in developing their skills.

48,804
Santander Scholarship beneficiaries

Entrepreneurship

We help university entrepreneurs share solutions, give visibility to new projects, find investors, etc.

32,707 university students supported and around **224** programmes and awards

Employability

We offer internships, training programmes and career guidance services to university students.

75,237
beneficiaries of internship grants

Target

We believe that education is the bedrock of a fair society and strong economy. Through our world leading Universities programme, we aim to fund 200,000 scholarships, internships and entrepreneurship programmes between 2019 and 2021.

Progress

Scholarships, internships
and entrepreneurship programmes

A. The sharp increase compared to 2019 is due to the impact of the covid-19 pandemic, which led to a change of focus in Santander Universities' 2020 roadmap. Traditional scholarships (face-to-face studies) and mobility grants were replaced by online scholarships, with much greater reach.

Covid-19 response

As covid-19 tested universities' ability to safely continue teaching and supporting students during the pandemic, we launched several initiatives to help them. So far, more than 100,000 people have benefited from the work carried out by Santander Universities, backed by EUR 30 million in funding.

Fondo Supera covid-19 allocated EUR 8.5 million to projects on virus research and prevention, social impact and enhancing ICT capacity to reduce the digital divide between students. We also awarded 30,435 scholarships to vulnerable young people and to boost the employability and development of students and professionals affected by the pandemic.

Santander Scholarships in response to covid-19

Some students' courses were suspended and their job prospects affected. To overcome those challenges, we ran several initiatives in collaboration with universities.

Boosting employability and development

In 2020, we launched Santander Scholarships for the online training initiatives #YoMeQuedoEnCasa and #InvierteEnTi, benefiting 23,725 students and graduates. The aim was to support the development of digital skills, women leadership, languages and soft skills to heighten their future employability. It also helped professors deliver virtual lectures through the #YoMeQuedoEnCasa programme.

Supporting students affected by the covid crisis

Over 2,000 people received assistance from Santander Universities in Portugal thanks to the e Bolsas Santander Digitalizaçao to help those affected by the covid-19 crisis.

Superamos Juntos supported more than 1,000 Brazilian students in financial difficulty.

Through the *Ponte la Verde ante la covid-19* initiative, we awarded 5,800 scholarships to 1,435 projects at 340 universities to tackle the health crisis and support the worst-hit communities.

IT and data reinforcement plans for universities

In Spain, *Fondo Supera* helped supply around 5,000 computers and 10,000 Internet connectivity solutions and webcams to university students.

In Argentina, around 30% of Santander Universities' funds were allocated to covid initiatives such as connectivity scholarships for students, programmes to provide teachers with remote tools and IT security, and research scholarships.

In Chile, more than 46,226 people were helped with connectivity scholarships to continue their studies online from home. Besides, 2,400 computers and tablets were provided to students in disadvantaged areas.

###

"We have supported not only teachers, so they can learn new educational approaches, but also students. Even if they're digital natives, they're unaware of how to enhance their technological knowledge to improve learning" Óscar Jerez, Director of the Centre for Teaching and Learning, School of Business and Economics, Universidad de Chile. Senior Advisor on Innovation in Higher Education, LASPAU affiliated to Harvard University.

Entrepreneurship: post covid-19 solutions

Santander X Tomorrow Challenge

We committed EUR 400,000 in awards and other benefits to 20 entrepreneurial projects from many countries. They came up with innovative solutions to soften the pandemic's blow to society and the economy. The four challenges involved developing new job skills, creating jobs, adapting business models, reopening businesses and finding real market opportunities, including:

- **Re-Skill category:** Edward Espinoza, CEO and co-founder of Arcux. E-learning in architecture, design and construction.
- **Re-Invent category:** Sascha Kaczmarek, CCO and co-founder of Motion Miners. Analysis of manual process automation through sensors and artificial intelligence.

For more information on the other two challenges, please see the 'Entrepreneurship' section below.

"It helped us position ourselves in our industry and in the entire entrepreneurial ecosystem, and we're confident this award will help us seize other opportunities to grow". Edward Espinoza, co-founder/CEO of Arcux, winner of the Re-Skill category.

"We're confident Santander will also be a great ally in the post-launch phase." Sascha Kaczmarek, co-founder/CEO of Motion Miners, winner of the Re-Invent category

Santander Scholarships

Although many scholarship programmes have been disrupted by the pandemic, Santander Universities continued to fulfil (and even raise) its commitment to training university students and young professionals, facilitating their access to higher education and promoting excellence, equal opportunities and employability.

The scholarships are divided into seven categories:

- **Santander Tech**, to promote new technology-based learning, programming and innovation to gain an understanding of digital languages and technology such as blockchain, machine learning, cloud & DevOps and product design strategies.
- **Santander Skills**, to promote the development of cross-cutting skills (soft and hard skills) that are essential to making headway in the job market.
- **Santander Women**, to promote the professional development, leadership and negotiation skills of the next generation of women leaders.
- **Santander Studies**, to help students complete their studies through grants to strike a balance between academic excellence and a lack of resources.
- **Santander Language**, to strengthen the command of foreign languages in working environments.
- **Santander Internship**, to drive students' employability through internships and offer recent graduates opportunities to find a good-quality first job.
- **Santander Research**, to give undergraduates, postgraduates and PhD students the means to start or continue their research plans.

Julia Prieto, Santander IE Digital DNA Scholarship, Spain

"Who doesn't need basic information on how to go digital? I would recommend this a thousand times to all students who have an ambition to be part of the digital and technological revolution we're set to witness in the coming years".

Scholarships platform

The scholarships we offer, in collaboration with universities and higher education institutions, can be found at www.becas-santander.com. In 2020, there were 323,591 applications and 43,704,351 visits registered on the platform. Our programmes included:

Bolsas Graduação

One of Brazil's benchmark programmes, it provides financial support to university students in vulnerable situations, so they can continue their studies (tuition fees, educational materials, food, transportation, etc.).

Santander Idiomas Scholarship | English Up

Thanks to collaboration between Banco Santander and the British Council, 11,100 Spanish university students can enjoy the online and in-person programmes on offer at British universities. The aim of this initiative is to acknowledge academic excellence and foster the employability of students through English learning.

Santander for MIT Leading Digital Transformation Scholarships

In 2020, 2,500 scholarships were handed out to provide specialized training and develop digital skills in collaboration with the Massachusetts Institute of Technology (MIT), which is considered one of the world's best universities.

Lisa Moutinho Teixeira, Bolsa Santander Ibero Americana, Portugal

"Soft skills, resilience and self-confidence are key to creating teachers with strong values and greater problem-solving and team-working capacities, as a way of meeting our professional and daily objectives".

Entrepreneurship

Global initiatives

Banco Santander upholds its commitment to high-impact student entrepreneurship through its international Santander X project. It sets out to guide and support young entrepreneurs on their journey. In 2020, it launched three global initiatives.

Santander X Global Award

The top award for student entrepreneurs received 500 submissions from five countries. Winners included high-impact projects that sought to accelerate growth and new solutions in the early stages of business development. The two winners were awarded USD 150,000 and USD 50,000, respectively, plus guidance from expert mentors.

- **Best ScaleUp category:** Miguel Ángel Torrero, COO and co-founder of Rated Power. pvDesign software for designing utility-scale photovoltaic plants.
- **Best StartUp category:** José Luis Ayala, CEO of BrainGuard. Digital solution for predicting migraine attacks

"Our idea was long-term development, but this award has given us a great push to become the go-to software in the international photovoltaic industry".
Miguel Ángel Torrero, co-founder/COO of Rated Power, winner of Best ScaleUp.

Young People with Solutions Explorer Lab

This training programme helps potential entrepreneurs create a sustainable, viable and robust solution to problems addressed by the United Nations' SDGs.

"We were very excited when we brought the team together, but we didn't know how to manage it. Everyone at Explorer helped us find our way with their support, closeness and care, making for an incredible experience".
Carlos Garces García, co-founder/CEO of Shellock. Monitors maritime containers, in real time, through reusable geolocation stamps.

Ecosystem Mapping workshops in collaboration with the MIT D-Lab

In collaboration with the MIT D-Lab department and the Global Ecosystem Dynamics Initiative, Santander Universities took part in mapping the most promising start-ups in the local innovation ecosystems of six different countries.

Local initiatives

To promote innovative startups with high growth potential, we held five local award events in Argentina, Mexico, the UK, Chile and Uruguay, which had received more than 1,500 projects submitted by student entrepreneurs from over 300 universities.

XVI Entrepreneur X Award

"Virtual reality was already here, but the pandemic caused us to move faster. My team and I now want to take it to the next level to help people improve their personal and working lives".

Tomás Malio, CEO and
co-founder of COVREL, a virtual reality training platform.

XV Santander X Award for Business Innovation

"This award is a huge step that will give us invaluable resources to press ahead with our research and achieve our aims".

Arian Marín, CEO of Bifrost Biotech, which develops an artificial cornea for use in transplants.

X Santander Universities Entrepreneurship Awards

Jamie Bankhead, CEO of Konglomerate Games, development of healthcare-related video games

"We are so pleased to have won the Santander Universities Entrepreneurship Award. It was such a fantastic competition, and the prize will enable us to focus on developing our project".

Lewis Loane, founder of Torann, which is developing a device that provides the highest sound quality for musicians who play amplified instruments.

"The support from the Santander Universities Emerging Entrepreneurs programme has allowed us to sharpen our business model and strengthen our business plan".

II Santander Ideas X award

David Jerez, founder and creator of X- Torch, technological solutions for individuals and companies

"The funds we received from Santander X enabled us to maximize our online presence and reduce costs by 60%, all while enhancing the technology we use."

Ricardo Flores ,CEO of Body Defense, an educational video game that integrates biological and pedagogical methodologies.

"Our Ideas X mentor was pivotal to the process. The footing, sales and partnerships we've gained are all down to this programme".

Universia

Founded 20 years ago, Universia is now the world's largest network of universities, involving 822 institutes from 21 countries.

Academic guidance

This online service gives students and professionals advice on their education and training. It's a one-stop shop for internships, job postings, specialist courses and information on universities and programmes the world over.

Employment

We strive to become the benchmark in managing young talent digitally by overseeing the relationship between universities and companies, opening up to international job options and providing support both online and through other means to smooth the transition into the world of work. We run several initiatives to achieve this:

- Universia Jobs: a job posting and internship platform available in seven countries.
- #jobstogether: a knowledge sharing movement to boost candidates' chances of landing a job through direct contact between students, universities and companies.

Digitalization at universities

It has taken just two years for MetaRed to become the largest network of university IT leads, involving over 1,500 professionals at more than 800 universities across Spain, Portugal and Latin America. The project has so far helped train over 500 middle-managers, held over 50 webinars and assessed the IT skills of more than 10,000 university lecturers.

Universia launches new website with Spain's most sophisticated search function

Banco Santander and the CRUE association's new university portal enables users to search for over 19,000 degrees, master's degrees, courses and internships. The site is Spain's biggest gateway to information on education and employment for undergraduates, graduates, lecturers and researchers.

For more details, visit www.universia.net.

Fundación Universia

Fundación Universia is a not-for-profit organization that works to forge inter-university and job networks with a special focus on educational advice, diversity, equality and developing IT skills.

It is a leading light in graduate employment and placing burgeoning, diverse talent in companies that champion inclusive and sustainable growth. It also promotes continuous, experiential, digital and global learning geared towards the transition to the job market.

Its strategy centres around these three Sustainable Development Goals: Quality Education (SDG 4), Decent Work and Economic Growth (SDG 8) and Partnerships for the Goals (SDG 17).

619 scholarships to students with disabilities

70 persons with disability placed in companies

82 grants to sole traders on disability grounds

For more details, visit www.universia.net.

Diana de Arias, overcoming the odds

At just 23, Diana de Arias suffered a stroke that resulted in an acquired brain injury. After gruelling rehabilitation, she created Decedario, a tool to help improve the lives of persons with disabilities. Thanks to Fundación Universia's aid programme for self-employed persons with disabilities, she's now boosting her company's digital footprint through an initiative featured in Forbes' list of alternative top 100 fortunes in Spain.

Despite the daily efforts of people like Diana, the covid-19 pandemic has left many SMEs in dire straits. Launched in May 2020, the aid programme promotes sustainability and inclusivity in Spain with equal opportunity and diversity.

So far, Fundacion Universia and Banco Santander have offered robust and innovative solutions to 80 self-employed men and women in Spain, aspiring to uplift one of the groups hit hardest by the pandemic.

Community investment

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

EUR 94 million
in community investment

2,366
partnerships with NGOs and social welfare institutions

2.4
million people helped

22,630
volunteers[A]

A. Refer to Challenge 1 for more details about volunteers and volunteering hours.

Main lines of action

Support for children's education

We support various projects to provide equal opportunities and access to quality education, especially in Latin America.

Support for social wellfare

We promote and collaborate with numerous programmes that aim to impove the lives of people at risk of exclusion, poverty and vulnerability.

Support for the arts and culture

We encourage culture and knowledge through programmes and initiatives that promote art, literature, education and talent.

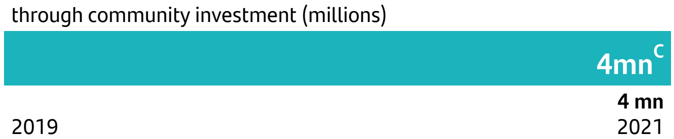
Target

We believe we can play a major role in improving lives in the communities where we operate, and aim to help four million people through our community programmes between 2019 and 2021.[B]

B. The bank devised a methodology tailored to its requirements and specific model to contribute to society. Reviewed by an external auditor, it identifies a series of principles, definitions and criteria to consistently track those who have benefitted from the community investment programmes we promote. The number of people helped though art and culture programmes is excluded.

Progress

People helped
through community investment (millions)



C. Cumulative figure since 2019. In 2020, the scope was expanded by incorporating information from Santander Consumer Finance Benelux, Santander Consumer Finance Nordic and Santander Consumer Finance Portugal.

Key initiatives by country

We maintained most of our programmes during the health crisis, while also allocating resources to new projects and adapting some initiatives to the new landscape.

Commitment to child and youth education

Education is at the core of our social investment strategy. In addition to supporting university and financial education, we run programmes that mainly focus on promoting equal opportunities and access to quality education for children and the youth.

470 thousand
children helped by education programmes

Fundación Belén Educa

In Chile, we collaborate with Fundación Belén Educa on various initiatives that foster educational excellence for children and young people.

Korky.tv

Korki.tv is an educational TV programme aimed at final-year high school students. It was created to help young people prepare for exams during the pandemic, using advanced teaching methods.

Amigo do Valor Special Edition

65 projects to support children and adolescents. Due to the pandemic, the programme coined a new version, *Amigo de Valor covid*, aimed at supporting five hospitals in São Paulo and Río de Janeiro.

Design the Future

We promote a digital guidance platform that cross-references young people's profiles with training and academic courses to help them choose the best options.

Social welfare support

We run initiatives to improve the quality of life of those facing hardship due to age, ill-health, disability, financial difficulty, etc.

1.8 million
people helped by social welfare programmes

Santander Ayuda

We launched a special edition to find 20 NGOs working with the most vulnerable groups during the crisis. Each NGO will receive EUR 5,000.

Alzheimer Society and Age UK

The Santander Foundation donated GBP 3m split equally between the Alzheimer's Society and Age UK, enabling them to continue providing support for those in need during the pandemic.

Fundación AMA - Familias vulnerables

This programme aimed to help more than 15,500 people who were affected by the pandemic, providing them with personal hygiene kits and food supplies throughout June.

Communities impacted by covid

Santander US is committed to supporting our communities impacted by the covid-19 pandemic, mobilizing USD 15 million in donations to support non-profit partners that provide essential services.

Promoting culture

Banco Santander recognizes art and culture as essential elements to support people's all-round development.

Fundación Banco Santander

Works to build a more equitable, inclusive and sustainable society. With this premise, it develops projects that cover three main lines of action: culture, environment and research and social action.

It launched Santander BEST Africa, a development cooperation programme to support African enterprises that promote the employment of women and contribute to community progression.

More details at www.fundacionbancosantander.com

Farol Santander

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

More details at www.farolsantander.com.br

Santander Argentina Foundation

The foundation works on the promotion and development of art and culture, and to bring them closer to the community. In the so-called Arts District, the foundation runs a multidisciplinary programme with exhibitions and seminars.

More details at www.santander.com.ar/banco/online/fundacion-santander

Tax contribution

We pay our fair share of tax in the markets we operate in.

Grupo Santander pays its fair share of taxes in the jurisdictions where we operate. Our board-approved tax strategy (available online) sets out the principles that apply to the entire organization.

All the group's entities must comply with its tax risk management and control system in accordance with the internal control model.

Since 2010, we've abided by the Code of Good Tax Practices in Spain and by the Code of Practice on Taxation for Banks in the United Kingdom. Furthermore, we've participated in cooperative compliance initiatives led by various tax authorities. Since 2015, we've voluntarily submitted the annual Tax Transparency Report to Spain's Tax Authority.

For more details on Grupo Santander's tax strategy, visit our Corporate Website.

Tax contribution

To contribute to the communities in our geographies, we pay all taxes borne directly by the group (taxes paid by the group[A]) and collect others' taxes originating from our business operations (taxes from third parties[B]).

In 2020, our tax contribution totalled EUR 14,496 million, including EUR 6,443 million in taxes directly paid by the group.

For every 100 euros in total income, EUR 33 are taxed, including:

- EUR 18 in taxes collected from third parties;
- EUR 15 in taxes paid directly by Santander.

Core principles of Grupo Santander's tax strategy

- Satisfy our tax obligations based on a reasonable interpretation of tax laws, grounded on their spirit and intention.
- Respect the rules on transfer pricing and pay taxes in each jurisdiction in accordance with our functions, assumed risks and profits.
- Not give customers tax advice or planning strategies when marketing and selling financial products and services.
- Communicate Santander's total tax contribution clearly, distinguishing between taxes borne by the group and by third parties for each jurisdiction.
- Not create or acquire entities registered in offshore jurisdictions without board of directors' approval; and adequately monitor and gradually reduce the group's operations in such territories.[C]
- Maintain a good working relationship with tax authorities based on the principles of transparency and mutual trust to avoid disputes and minimize litigation.

A. Including net corporation tax payments, VAT and other non-recoverable indirect taxes, employer's social security contributions and other withholding taxes, as well as other charges and tariffs.
B. Including net payments for salary withholdings and employees' social security contributions, recoverable VAT, tax deducted at source on capital, non-resident taxes and others.

C. By the end of 2020, we had two subsidiaries and three branches in offshore jurisdictions, having liquidated a subsidiary in Jersey and closed a branch in the Cayman Islands. See detailed information on offshore entities in note 3 c) of the notes to the consolidated financial statements.

The taxes recorded in our annual income statement mainly stem from corporation tax accrued during the accounting period (EUR 5,632 million in 2020 or, deducting the extraordinary results, EUR 3,516 million[D]). They also include non-recoverable VAT, employers' social security contributions and other charges. These taxes are recorded as they are generated, irrespective of when payment is made.

The taxes Grupo Santander pays directly (see the table below) are included in the cash flow statement. In addition to corporation tax, the total taxes the group pays include non-recoverable indirect taxes, contributions to social security services and taxes that are exclusively levied on banks and financial transactions (such as in Spain, the UK, Poland, Portugal, Brazil and Argentina, amongst others).

The taxes we accrue and the amounts we pay do not usually match because the laws in some countries dictate a different payment date than when income was generated or an operation was taxed.

We pay taxes in the jurisdictions where we earn a profit. Thus, the profits obtained, and the taxes accrued and paid, correspond to the countries where we operate.

D. See notes 27 and 51c of the consolidated annual accounts.

Tax disclosure by jurisdiction

EUR million

	2020				
Jurisdiction	Corporate income tax	Other taxes paid	Total taxes paid by the Group	Third-party taxes	Total contribution
Spain	342	1,210	1,552	1,483	**3,035**
UK	204	453	657	435	**1,092**
Portugal	175	184	359	251	**610**
Poland	267	207	474	149	**623**
Germany	161	54	215	117	**332**
Rest of Europe	333	250	583	55	**638**
Total Europe	**1,482**	**2,358**	**3,840**	**2,490**	**6,330**
Brazil	764	374	1,138	1,392	**2,530**
Mexico	189	239	428	795	**1,223**
Chile	365	64	429	231	**660**
Argentina	104	285	389	2,236	**2,625**
Uruguay	30	71	101	30	**131**
Rest of Latin America	22	5	27	8	**35**
Total Latin America	**1,474**	**1,038**	**2,512**	**4,692**	**7,204**
United States	(14)	99	85	866	**951**
Other	4	2	6	5	**11**
TOTAL	**2,946**	**3,497**	**6,443**	**8,053**	**14,496**

Key metrics[A]

A. Indicators' regional distribution was modified in 2020 to adapt to the Group's regional distribution. As a consequence, the break-down of data is now Europe/North America and South America, instead of Continental Europe, United Kingdom and Latin America and other regions

Employees

1. Employees by geographies and gender[A]

	N° employees		% men		% women		% graduates	
Geographies	2020	2019	2020	2019	2020	2019	2020	2019
Spain	29,504	29,078	52	52	48	48	69	70
Brazil	42,767	46,248	46	43	54	57	66	72
Chile	10,491	11,267	46	46	54	54	41	56
Poland	10,388	10,902	31	31	69	69	85	82
Argentina[B]	9,058	8,254	53	49	47	51	53	40
Mexico[C]	21,572	19,673	45	45	55	55	56	61
Portugal	6,015	6,255	54	54	46	46	57	55
UK	20,945	22,561	43	41	57	59	18	16
USA	15,677	17,005	42	43	58	57	11	15
SCF	13,359	12,406	47	47	53	53	31	34
Others	11,413	12,770	53	51	47	49	49	46
Total	**191,189**	**196,419**	**46**	**45**	**54**	**55**	**51**	**53**

A. Data at year end. 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.
B. The number of Santander Argentina employees increased between 2019 and 2020 because it added new companies into its reporting perimeter.
C.The number of Santander México employees increased between 2019 and 2020 because it added new companies into its reporting perimeter and included outsourcing among its own staff.

2.1 Functional distribution by gender 2019[A]

	Senior managers					Other managers					Other employees				
	Men		Women		Total	Men		Women		Total	Men		Women		Total
Europe	1,030	76.5%	316	23.5%	1,346	7,201	63.8%	4,078	36.2%	11,279	33,954	44.1%	43,095	55.9%	77,049
North America	246	82.0%	54	18.0%	300	983	69.1%	439	30.9%	1,422	15,467	42.9%	20,593	57.1%	36,060
South America	284	76.6%	87	23.5%	371	3,550	59.8%	2,389	40.2%	5,939	26,192	41.8%	36,461	58.2%	62,653
Group total	**1,560**	**77.3%**	**457**	**22.7%**	**2,017**	**11,734**	**63.0%**	**6,906**	**37.1%**	**18,640**	**75,613**	**43.0%**	**100,149**	**57.0%**	**175,762**

2.2 Functional distribution by gender 2020[A]

	Senior managers[B]					Other managers					Other employees				
	Men		Women		Total	Men		Women		Total	Men		Women		Total
Europe	1,115	75.3%	365	24.7%	1,480	7,350	63.1%	4,290	36.9%	11,640	32,937	44.0%	41,998	56.1%	74,935
North America	228	82.0%	50	18.0%	278	956	67.9%	453	32.2%	1,409	15,816	43.1%	20,875	56.9%	36,691
South America	319	76.0%	101	24.1%	420	3,247	59.0%	2,257	41.0%	5,504	26,614	45.2%	32,218	54.8%	58,832
Group total	**1,662**	**76.3%**	**516**	**23.7%**	**2,178**	**11,553**	**62.3%**	**7,000**	**37.7%**	**18,553**	**75,367**	**44.2%**	**95,091**	**55.8%**	**170,458**

A. Data at year end.
B. The higher number of women classified as Senior Managers is the result of the progress made on the public commitment of Responsible Banking on women in leadership roles, which aims for 30% of senior managers to be women by 2025.

3.1. Workforce distribution by age bracket 2019[A]

Number and % of total

	aged <= 25		aged 26 - 35		aged 36 - 45		aged 46 - 50		age over 50	
Europe	6,195	6.91%	18,696	20.85%	32,609	36.36%	13,492	15.05%	18,682	20.83%
North America	4,203	11.12%	15,714	41.59%	8,932	23.64%	3,290	8.71%	5,643	14.94%
South America	6,129	8.89%	32,324	46.87%	20,494	29.72%	4,756	6.90%	5,260	7.63%
Group total	**16,527**	**8.41%**	**66,734**	**33.98%**	**62,035**	**31.58%**	**21,538**	**10.97%**	**29,585**	**15.06%**

3.2. Workforce distribution by age bracket 2020[A]

Number and % of total

	aged <= 25		aged 26 - 35		aged 36 - 45		aged 46 - 50		age over 50	
Europe	4,871	5.53%	17,996	20.44%	31,827	36.14%	13,484	15.31%	19,877	22.57%
North America	4,704	12.26%	15,597	40.64%	9,317	24.28%	3,279	8.54%	5,481	14.28%
South America	4,141	6.39%	29,498	45.55%	20,796	32.11%	5,072	7.83%	5,249	8.11%
Group total	**13,716**	**7.17%**	**63,091**	**33,00%**	**61,940**	**32.40%**	**21,835**	**11.42%**	**30,607**	**16.01%**

A. Data at year end.The under-25 age group declined between 2019 and 2020 because of few new hires and the higher average age.

4.1. Distribution by type of contract 2019[A]

	Permanent / Full time					Permanent / Part-time				
	Men		Women		Total	Men		Women		Total
Europe	39,976	51.1%	38,329	49.0%	78,305	847	11.2%	6,747	88.9%	7,594
North America	16,479	44.6%	20,476	55.4%	36,955	158	22.4%	547	77.6%	705
South America	29,718	43.8%	38,140	56.2%	67,858	255	26.6%	704	73.4%	959
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
Europe	1,166	37.6%	1,936	62.4%	3,102	196	29.1%	477	70.8%	673
North America	57	46.7%	65	53.3%	122	0	0.0%	0	0.0%	0
South America	54	37.5%	90	62.5%	144	1	50.0%	1	50.0%	2
Group total	**1,277**	**37.9%**	**2,091**	**62.1%**	**3,368**	**197**	**29.2%**	**478**	**70.8%**	**675**

4.2. Distribution by type of contract 2020[A]

	Permanent / Full time					Permanent / Part-time				
	Men		Women		Total	Men		Women		Total
Europe	39,325	50.9%	37,957	49.1%	77,282	874	11.7%	6,576	88.3%	7,450
North America	16,681	44.9%	20,500	55.1%	37,181	135	24.9%	499	78.7%	634
South America	29,927	46.9%	33,861	53.1%	63,788	232	25.6%	676	74.4%	908
Group total	**85,933**	**48.2%**	**92,318**	**51.8%**	**178,251**	**1,241**	**13.8%**	**7,751**	**86.2%**	**8,992**

	Temporary / Full time					Temporary / Part-time				
	Men		Women		Total	Men		Women		Total
Europe	992	37.4%	1,658	62.6%	2,650	211	31.4%	462	69.0%	673
United Kingdom	184	32.7%	379	67.3%	563	0	0%	0	0%	0
South America	21	35.0%	39	65.0%	60	0	0%	0	0%	0
Group total	**1,197**	**36.6%**	**2,076**	**63.4%**	**3,273**	**211**	**31.4%**	**462**	**69.0%**	**673**

A. Data at year end. There were fewer temporary employment contracts in Latin America and elsewhere between 2019 and 2020 because of changes to hiring policies in Mexico requiring new contracts to be permanent, barring certain cases.

5. Annual rate of contracts by gender

	2020			2019		
	Men	Women	Total	Men	Women	Total
Employees with permanent /full time contract	85,796	94,435	180,231	87,111	97,701	184,813
Employees with permanent/part-time contracts	1,155	7,717	8,872	1,251	8,075	9,326
Employees with temporary/full-time contracts	1,441	2,291	3,732	1,813	2,761	4,574
Employees with temporary/part-time contracts	211	470	681	225	526	752
Group Total	**88,603**	**104,913**	**193,516**	**90,401**	**109,064**	**199,465**

6.1. 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**

6.2. Annual rate of contracts by age bracket 2020

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Employees with permanent /full time contract	10,668	58,474	59,343	20,825	30,922	180,231
Employees with permanent/part-time contracts	1,099	2,360	2,426	887	2,100	8,872
Employees with temporary/full-time contracts	1,001	1,621	652	159	298	3,732
Employees with temporary/part-time contracts	209	252	143	26	51	681
Group Total	**12,977**	**62,707**	**62,564**	**21,898**	**33,370**	**193,516**

7. Annual rate of contract by category

	2020				2019			
	Senior Managers	Other Managers	Other employees	Total	Senior Managers	Other Managers	Other Employees	Total
Employees with permanent /full time contract	2,150	18,911	159,169	180,231	2,022	18,418	164,373	184,813
Employees with permanent/part-time contracts	7	154	8,711	8,872	4	227	9,095	9,326
Employees with temporary/full-time contracts	13	83	3,636	3,732	12	88	4,474	4,574
Employees with temporary/part-time contracts	0	16	665	681	0	165	587	752
Total Grupo	**2,170**	**19,164**	**172,182**	**193,516**	**2,038**	**18,898**	**178,528**	**199,465**

8. Employees who work in their home country[A,B]

%

	Managers		Other employees		Total	
	2020	2019	2020	2019	2020	2019
Europe	88.45	88.24	95.38	96.13	95.27	96.02
North America	91.01	89.86	99.75	98.92	99.69	98.85
South America	91.19	90.96	98.25	98.03	98.21	98.00
Group total	**89.30**	**89.09**	**97.24**	**97.34**	**97.15**	**97.26**

A. Data at year end.
B. Data from US is not included as it is confidential information.

9.1 Differently-abled employees ratio by region[A,B]

%	2020	2019
Europe	1.64	1.63
North America	0.21	0.20
South America	3.27	3.19
Group total	**1.90**	**1.84**

9.2. Differently-abled employees[A,B]

Number of employees	2020	2019
Spain	386	361
Rest of the Group	3,191	3,223
Total Group	**3,577**	**3,584**

A. Data at year end.
B. Data from Mexico not included as it is confidential information.

10. Coverage of the workforce by collective agreement[A]

	2020		2019	
Countries	%	N⁰ Employees	%	N⁰ Employees
Spain	99.80	29,444	96.20	27,961
Brazil	99.19	42,422	98.80	45,674
Chile	100.00	10,491	100.00	11,267
Poland	0.00	0	0.00	0
Argentina[B]	72.64	6,580	99.20	8,188
Mexico[C]	30.34	6,544	22.50	4,429
Portugal	99.14	5,963	99.10	6,197
UK	100.00	20,945	94.40	21,294
US	0.00	0	0.00	0
SCF	98,63	13,176	94.00	11,663
Other business units	60.01	6,849	66.20	8,459
Total Group	**74.49**	**142,414**	**73.70**	**144,800**

A. Data at year end.
B.The decrease in the variation between 2019 and 2020 in the number of employees covered by collective bargaining agreements in Santander Argentina is due to the inclusion of new companies in the perimeter that do not have collective bargaining agreements.
C.The increase in the variation between 2019 and 2020 in the number of employees covered by collective bargaining agreements in Santander Mexico is due to the incorporation of new companies in the reporting perimeter, as well as the integration of outsourced personnel as part of the bank's own staff.

11.1. Distribution of new hires by age bracket 2019

% of total

	aged <= 25	aged 26-35	aged 36-45	aged over 45	aged > 50
Europe	41.43	35.42	14.30	4.40	4.46
North America	30.78	36.64	15.42	5.12	12.04
South America	22.95	54.73	18.71	2.19	1.42
Group total	**31.84**	**42.62**	**16.18**	**3.82**	**5.53**

11.2. Distribution of new hires by age bracket 2020[A]

% of total

	aged <= 25	aged 26-35	aged 36-45	aged over 45	aged > 50
Europe	25.93	39.57	23.55	6.13	4.82
North America	36.49	39.29	14.75	4.50	4.97
South America	19.67	50.67	22.18	3.97	3.51
Group total	**28.84**	**42.05**	**19.58**	**4.95**	**4.58**

A. New hires declined between 2019 and 2020 as a result of the covid-19 pandemic.

11.3. Distribution of new hires by gender

	2020			2019		
	Men	Women	Total	Men	Women	Total
Europe	7.79%	6.24%	6.97%	10.56%	9.50%	9.98%
North America	18.14%	19.55%	18.92%	18.62%	18.69%	18.66%
South America	9.03%	3.98%	6.34%	15.76%	10.48%	12.78%
Group total	**10.20%**	**8.25%**	**9.15%**	**13.67%**	**11.78%**	**12.63%**

12. Distribution of dismissals [A]

by gender	2020						2019					
	Men	% [B]	Women	% [B]	Total	% [B]	Men	% [B]	Women	% [B]	Total	% [B]
Senior managers	30	1.81%	4	0.78%	34	1.56%	45	2.88%	12	2.63%	57	2.82%
Other managers	470	4.07%	225	3.21%	695	3.75%	752	6.4%	342	4.95%	1,094	5.86%
Other employees	4,267	5.66%	5,466	5.75%	9,733	5.71%	6,945	9.19%	8,245	8.23%	15,190	8.64%
Total Group	**4,767**	**5.38%**	**5,695**	**5.55%**	**10,462**	**5.47%**	**7,742**	**8.71%**	**8,599**	**8%**	**16,341**	**8.32%**

by age	2020			2019		
	Men	Women	Total	Men	Women	Total
aged <=25	342	363	705	451	535	986
aged 26-35	1,502	1,878	3,380	1,963	2,603	4,566
aged 36-45	1,286	1,932	3,218	1,878	2,710	4,588
aged 46-50	499	553	1,052	696	866	1,562
aged >50	1,137	970	2,107	2,754	1,885	4,639
Total Group	**4,766**	**5,696**	**10.462** [C]	**7,742**	**8,599**	**16,341**

A. 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.
B. Percentage expressing the number of dismissals over the total number of employees in each group.
C. Dismissals declined between 2019 and 2020 because of Banco Santander's commitment to maintaining employment during the coronavirus outbreak, barring certain cases with due justification.

13. External turnover rate by gender [A]

% of total	2020			2019		
	Men	Women	Total	Men	Women	Total
Europe	8.71	9.46	9.11	16.61	16.23	16.40
North America	19.92	16.88	18.22	23.27	21.76	22.43
South America	14.54	14.11	14.31	18.16	15.38	16.62
Group total	**12.77**	**12.51**	**12.63** [B]	**18.38**	**16.99**	**17.61**

A. Excludes temporary leaves of absence and transfers to other Group companies.
B. The rate of rotation was smaller between 2019 and 2020 because the covid-19 pandemic caused voluntary and involuntary rotation to decline in Banco Santander.

14.1 External turnover rate by age bracket [A] 2019

% of total	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Europe	39.37	18.55	10.43	7.77	22.84	16.40
North America	38.64	24.60	15.73	18.43	18.01	22.43
South America	16.30	15.09	14.91	17.02	31.43	16.62
Group total	**30.39**	**18.31**	**12.75**	**11.56**	**23.52**	**17.61**

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

14.2. External turnover rate by age bracket[A] 2020

% of total

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Europe	26.36	10.58	6.17	5.48	10.58	9.11
North America	32.53	17.52	14.91	13.45	16.38	18.22
South America	15.50	14.15	12.96	12.91	20.88	14.31
Group total	**25.20**	**13.83**	**9.76**	**8.40**	**13.38**	**12.63**

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

15. By function, gender and region[A]

	Senior managers[B]			Other managers[C]		
	Men	Women	GPG ratio (Median)[D]	Men	Women	GPG Ratio (Median)[D]
Europe	432,989	323,492	19.00%	118,418	89,361	16.2%
North America	580,190	460,619	9.70%	184,548	149,855	15.6%
South America	404,829	221,953	29.00%	70,366	52,097	26.5%
Group total	**446,707**	**318,957**	**24.60%**	**117,441**	**90,286**	**17.2%**
Total remuneration (average)[A]		415,975			107,477	
Group Total 2019		408,598			101,520	
Variation 2020 vs 2019		1.8%			5.9%	

	Other employees[C]						
	Men	Women	Ratio GPG (Median)[D]	Men	Women	GPG Ratio (Median)[D]	Total employees
Europe	50,980	38,524	20.7%	69,701	44,070	23.6%	56,050
North America	45,344	33,125	17.6%	63,805	38,437	21.6%	49,626
South America	24,032	19,153	15.2%	31,064	20,628	18.9%	25,269
Group total	**40,145**	**30,295**	**26.3%**	**55,151**	**34,476**	**31.7%**	**43,867**
Total remuneration (average)[A]		34,602		55,151	34,476	31.7 %	43,867
Group Total 2019		34,372		54,123	34,273	30.8 %	43,262
Variation 2020 vs 2019		0.7 %		1.9 %	0.6 %		1.4%

By Age Brackets

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Total remuneration (average)[A]	16,140	26,943	47,253	64,868	69,482	43,867
Group Total 2019	17,597	27,563	47,221	62,574	66,216	43,262
Variation 2020 vs 2019	(8.30)	(2.20)	0.10	3.70	4.90	1.40

A. Data at 2020 year-end. Employees' average total remuneration includes their annual base salary, pensions and variable remuneration paid in the year.
B. Includes group sr. executive vp, executive vp and vice-president.
C. The variation includes the effect of internal reclassification between employee categories in different geographies.
D. GPG Ratio (median) includes annual base salary and variable remuneration paid in the year.

16. Average remuneration Senior officers

Thousands euros	2020			2019		
	Men	Women	Total	Men	Women	Total
Executive officers	6,247	7,239	6,743	6,571	9,952	7,698
Non-executive officers	239	207	227	354	251	292
Senior officers	3,610	2,288	3,362	3,693	3,902	3,740

16.1 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%	338.00%
Brazil	182.00%	182.00%	182.00%
Chile	175.00%	136.00%	155.43%
US	207.00%	207.00%	206.00%
Spain	176.00%	176.00%	176.00%
Mexico	128.00%	128.00%	128.00%
Poland	100.00%	100.00%	100.00%
Portugal	200.00%	200.00%	200.00%
UK	130.00%	130.00%	130.00%

16.2 Ratio between the Bank's minimum annual salary and the legal minimum annual salary by country and gender 2020

	% Legal Minimum Wage		
	Men	Women	% legal minimum wage
Germany	100.32%	100.32%	100.32%
Argentina	380.69%	380.69%	380.69%
Brazil	178.62%	178.62%	178.62%
Chile	179.14%	144.15%	161.64%
US	236.45%	236.45%	236.45%
Spain	175.29%	175.29%	175.29%
Mexico	160.09%	160.09%	160.09%
Poland	101.54%	100.00%	100.77%
Portugal	188.98%	188.98%	188.98%
UK	176.26%	176.26%	176.26%

17. Training[A]

	2020	2019
Total hours of training	5,913,435.04	8,002,784
% employees trained	100.00	100.0
Total attendees	5,939,158	6,024,981
Hours of training per employee	30.93	40.70
Total investment in training	61,304,729	102,586,146
Investment per employee	320.65	522.28
Cost per hour	10.37	12.82
% female participants	53.66	54.2
% of e-learning training attendees	91.97	84.6
% of e-learning hours	48.06	48.1
Employee satisfaction (up to 10)	8.18	9.3

A. There were fewer hours of training in 2020 than in 2019 because the covid-19 pandemic forced in-person courses (which accounted for most training hours until 2019) to be cancelled.

18. Hours of training by category

	2020		2019	
	Hours	Average	Hours	Average
Senior officers	65,274	29.97	77,861	38.6
Managers	940,619	50.7	678,335	36.39
Other employees	4,907,542	28.79	7,246,558	41.23
Group total	**5,913,435**	**30.93**	**8,002,784**	**40.74**

19. Hours of training by gender

	2020	2019
	Average	Average
Men	31.76	41.49
Women	30.21	40.13
Group total	**30.93**	**40.74**

20. Absenteeism by gender and region[A,B ,C,D]

	2020			2019		
	Men	Women	Total	Men	Women	Total
Europe	2.60	5.00	3.89	2.55	5.44	4.14
North America	0.81	1.56	1.23	0.71	1.88	1.36
South America	2.07	3.99	3.12	1.62	3.26	2.53
Group total	**2.08**	**3.97**	**3.11**	**1.90**	**4.00**	**3.06**

A.Days missed due to occupational accidents. non-work related illness and non-work related accident for every 100 days worked.
B. Santander UK oes not count hours not worked due to covid-19 as absences so they will not affect the remuneration objectives set prior to the health crisis.
C. The sick leave employees took because of covid-19 led to a higher rate of absences in 2020 than in 2019.
D. Banco Santander Brazil only considers the accidents that after an internal specialist investigation were recognized as work-related and had a Communication of work-related accident ("CAT") registered in the Brazilian Social Security in 2020. Likewise, this indicator only considers the cases that had 15 or more days of absence due to non-work-related accidents or common illness.

21. Accident rate[A,B]

%	2020			2019		
	Men	Women	Total	Men	Women	Total
Europa	0.04	0.12	0.08	0.08	0.20	0.14
Norteamérica	0.01	0.02	0.01	0.01	0.02	0.02
Sudamérica	0.02	0.05	0.04	0.27	0.48	0.39
Group total	**0.03**	**0.07**	**0.05**	**0.14**	**0.27**	**0.21**

A. Hours missed due to occupational accident involving leave between the number of total hours worked. The hours worked are theoretical hours. This includes accidents *in Itinere*.
B. Banco Santander Brazil only considers the accidents that after an internal specialist investigation were recognized as work-related and had a Communication of work-related accident ("CAT") registered in the Brazilian Social Security in 2020Banco Santander Brazil only considers the accidents that after an internal specialist investigation were recognized as work-related and had a Communication of work-related accident ("CAT") registered in the Brazilian Social Security in 2020

22. Occupational health and safety[A,B,C]

	2020			2019		
	Men	Women	Total	Men	Women	Total
Frequency rate[D]	1	2	2	1.61	2.41	1.77
Severity rate[E]	0.03	0.1	0.07	0.14	0.27	0.21
No. of fatal occupational accidents	1	0	1	0	1	1
Work related illness[F]	0	0	0	0	0	0

A.The 2019 figure is an estimation. The number of accidents and working hours will be reported in the next accounting period.
B.Recordable work-related injuries are reported without distinguishing cases with major consequences.
C. Banco Santander Brazil only considers the accidents that after an internal specialist investigation were recognized as work-related and had a Communication of work-related accident ("CAT") registered in the Brazilian Social Security in 2020.
D. Days not worked due to accidents at work with and without leave for every 1,000 hours worked. The hours worked are theoretical hours. In itinere accidents are included.
E. Days not worked due to work accident with leave for every 1,000 hours worked. The hours worked are theoretical hours. In itinere accidents are included.
F. 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[A]

	2020	2019	var.
Europa	**65,080,571**	**66,278,825**	**(2)%**
España	13,970,512	13,711,173	2%
Portugal	3,047,020	3,062,608	(1)%
Reino Unido[B]	25,156,638	25,078,945	—%
Polonia	5,213,476	5,047,909	3%
SCF[C,D]	17,598,056	19,286,148	(9)%
Resto Europa	94,869	92,042	3%
Norte América	**24,034,601**	**23,395,482**	**3%**
México	18,898,106	18,134,468	4%
Estados Unidos	5,136,495	5,261,014	(2)%
Sudamérica	**56,929,320**	**53,933,059**	**6%**
Brasil	48,347,665	46,089,431	5%
Chile	3,605,104	3,415,807	6%
Argentina	3,913,086	3,548,366	10%
Resto Sudamérica	1,063,465	879,455	21%
SGP[E]	**2,211,543**	**1,187,935**	**86%**
Total	**148,256,035**	**144,795,301**	**2%**

A. 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".
B. Includes SCF.
C. SCF includes all European countries, except UK.
D.The decrease in SCF customers is mainly due to three countries:
-SC Spain reported that the decline in customers is due to the COVID-19 effect and the termination of Orange's direct product.
-SC Poland: the decrease is mainly due to a change in methodology (terminated contracts not taken into account in 2020 onwards) and decrease in PLN portfolio causing a decrease in the number of active contracts.
-SC Germany: the decrease is due to a reduction in auto and durables.
E. The annual variation in SGP is due to the incorporation of Superdigital, which was previously in Brazil.

24. Dialogue by channel

	2020	2019	Var .2020/2019 %.
Branches			
Number of branches	11,236	11,952	(6.0)%
ATMs			
Nº ATMs	40,451	39,593	2.2 %
Digital banking[A]			
Users[B]	42.36	36.8	15.1 %
Visits	9,860	7,907	24.7 %
Monetary transactions[C]	2,803	2,251	24.5 %

A. Santander Consumer Finance not included.
B. Counts once for users of both Internet and mobile banking.
C. Millions.

25. Total complaints received

	2020	2019	2018
Spain[A]	150,298	91,046	85,519
Portugal[B]	4,036	4,655	4,298
United Kindom[C]	22,625	30,298	33,797
Poland	6,057	6,193	4,480
Brazil	146,067	133,841	111,829
Mexico	80,031	75,459	60,740
Chile[D]	8,328	6,474	6,171
ArgentinaE	3,512	4,106	5,464
US	4,292	4,097	4,160
SCF	39,064	30,535	29,067

Compliance metrics according to group-wide criteria, which may not match local criteria such as that of the UK's Financial Conduct Authority (FCA) or in Brazil.

A. In December 2020, the number of claims increased significantly, affecting the total number of claims received throughout the year. This was due to a public notice that made reference to the publication by the Ministry of consumption that the deadline to claim the mortgage expenses ended on 21 January 2021.

B. The fall was due to improvements to systems, customer reporting and controls that enable the close monitoring of customer issues.

C. The decline was the result of initiatives to improve complaints handling (resolution at touch points, enhanced root cause analysis, etc.) as well as fewer transactions due to the pandemic. Personal protection insurance (SPP) claims are not included.

D. In Chile, the rise in complaints was due to the effects of covid-19, particularly in loan restructuring and customers' understanding of certain campaigns and relief measures.

E. In Argentina, the drop owed mainly to root-cause action plans, including improvements to self-service complaints handling and resolution, and preventive system maintenance.

F. The increase stemmed from finance industry issues in Italy and Poland relating to the refund of interest on early loan repayments.

Environment and climate change

26. Environmental footprint 2019-2020[A]

	2020	2019	Var. 2019-2020 (%)
Consumption			
Water (m^3)[B]	2,064,113	2,938,024	-29.7
Water (m^3/employee)	11.07	15.20	-27.1
Normal electricity (millions of kwh)	395	548	-27.9
Green electricity (millions of kwh)	526	517	1.8
Total electricity (millions of kwh)	920	1,064	-13.5
Total internal energy consumption (GJ)[C]	3,758,225	4,322,838	-13.1
Total internal energy consumption (GJ/employee)	20.16	22.37	-9.9
Total paper (t)	8,902	16,497	-46.0
Recycled or certified paper (t)	7,348	13,784	-46.7
Total paper (t/employee)	0.05	0.09	-44.1
Waste			—
Paper and cardboard waste (kg)[4]	5,926,139	9,705,579	-2.1
Paper and cardboard waste (kg/employee)	31.79	50.22	-1.7
Greenhouse gas emissions			—
Direct emissions (CO_2 teq)[E,F]	24,818	27,673	-10.3
Indirect electricity emissions (CO_2 teq)-MARKET BASED[G]	128,633	183,745	-30.0
Indirect electricity emissions (CO_2 teq)-LOCATION BASED	282,216	322,414	-12.5
Indirect emissions from displacement of employees (CO_2 teq)[H, I]	40,708	120,969	-66.3
Total emissions (CO_2 teq)- MARKET BASED	194,159	332,387	-41.6
Total emissions (CO_2 teq/employee)	1.04	1.72	-39.4
Average number of employees	186,429	193,261	-3.5

A. 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 decreases in consumption, waste generation and emissions data have been mainly caused by the pandemic covid-19 situation.
B. Information is provided exclusively on water withdrawal from the public network.
C. It is also reported that the external energy consumption resulting from employee travel and business trips has been: 579,155 GJ in 2020 and 1,721,139 GJ in 2019.
D. The data for 2019 and 2020 do not include waste from the commercial network in Brazil. Also, the data for 2019 do not include waste for Argentina.
E. These emissions include those derived from the direct consumption of energy (natural gas and diesel, and additionally, in the particular case of Mexico, gasoline and diesel for automobiles and LPG) and correspond to scope 1, defined by the GHG Protocol standard. To calculate these emissions, the emission factors DEFRA 2020 for 2020 and DEFRA 2019 for 2019 were applied
F. These emissions include those derived from electricity consumption and correspond to the scope 2 defined by the GHG Protocol standard. In both 2020 and 2019 the IEA (International Energy Agency) emission factors for 2017 have been used.
- Indirect Electricity Emissions - Market-based: zero emissions have been considered for green electricity consumed in Germany, Spain, Portugal and UK; also, it has been considered that in Argentina, Brazil, Chile, Poland and USA, part of electricity consumption is green energy. This altogether has meant a reduction of 153,582 tons of CO2 equivalent in 2020 and 138,660 in 2019. 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 IEA corresponding to each country has been applied to the total electricity consumed, regardless of its source (renewable or non-renewable).
G. The reduction in indirect electricity emissions has been mainly due to the increase in the purchase of green energy in 2020 in the countries that make up the G10
H. 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 2020 for 2020 and DEFRA 2019 for 2019 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) and Luca de Tena - Data on business trips by car from 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.
I. Indirect emissions from displacement of employees have suffered a significant decrease. The main factors for this decrease are the reduction in mobility because of the covid-19 pandemic, as well as the development of teleworking among employees at the most critical moments of the pandemic.

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) and the Financial Services sector disclosures of the GRI G4 guidelines. Furthermore, we also applied the 2018-10 industry standards of the Sustainabilty Accounting Standards Board (SASB) for the first time.

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 eighteenth annual document that Santander Group has published, giving account of its sustainability commitments, and refers to the period from 1 January to 31 December 2020. 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 2019 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.

In addition, as part of our commitment to transparency, we have committed to begin reporting under the International Business Council of the World Economic Forum's (IBC-WEF) Stakeholder Capitalism metrics for the 2021 annual report.

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
	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):	Governance and priorities. Environmental and social risk analysis	GRI 103-2 GRI 103-3
0. General Information	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.	GRI 103-2 GRI 103-3
		A talented and motivated team.	
		Governance and priorities. Responsible business practices.	
	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.	Supporting the green transition, Acting responsibly towards customers, Environmental and social risk analysis. Risk management and compliance 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.	Supporting the green transition	GRI 102-29 GRI 102-31 GRI 201-2 GRI 103-2 (GRI of environmental dimension)
		Environmental footprint.	GRI 102-11 GRI 102-29
		Environmental and social risks analysis	GRI 102-11
		At the end of the 2020 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

	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
1. Environmental Information	**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. Key metrics	GRI 303-5
	Consumption of raw materials and measures taken to improve the efficiency of its use.	Environmental footprint. Key metrics	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. Key metrics	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. Key metrics	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	Supporting the green transition., 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		

	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, Diversity and Inclusion section.	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.	GRI 102-35 GRI 102-36 GRI 103-2 (GRI 405)
	Implementation of work disconnection policies	A talented and motivated team, 3. The way we work section.	GRI 103-2 (GRI 401)
	Employees with disabilities	Key metrics. A talented and motivated team, section 5: Our wellbeing.	GRI 405-1
	Organisation of work:		
	Organisation of work time	A talented and motivated team, 3. The way we work section.	GRI 103-2 (GRI 401)
	Number of absent hours	Key Metrics. A talented and motivated team, section 5: Our wellbeing.	GRI 403-9
	Measures designed to facilitate work-life balance and encourage a jointly responsible use of said measures by parents	A talented and motivated team, 3. The way we work section.	GRI 103-2 (GRI 401)
	Health and safety:		
2. Social	Conditions of health and safety in the workplace	A talented and motivated team, section 5: Our wellbeing.	GRI 102-41
	Occupational accidents, in particular their frequency and severity, as well as occupational illnesses. Broken down by gender.	Key Metrics. A talented and motivated team, section 5: Our wellbeing.	GRI 403-9 GRI 403-10
	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, Social dialogue and restructuring section. Acting responsibly towards customers	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, section 5: Our wellbeing.	GRI 403-6 GRI 403-9
	Training:		
	The policies implemented in the field of training	A talented and motivated team, Talent management section.	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, People with disabilities section. Acting responsibly towards customers. 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, Diversity and Inclusion section. 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	Governance and priorities. Environmental and social risk analysis. Responsible Procurement.	GRI 102-16 GRI 102-17 GRI 103-2 (GRI 412)
	Prevention of the risks of Human Rights violations and, where appropriate, measures to mitigate, manage and repair any possible abuses committed	Governance and priorities. Environmental and social risk analysis. Responsible Procurement.	GRI 410-1 GRI 412-1 GRI 412-3
	Complaints about cases of human rights violations	A talented and motivated team, , 1. Speaking up, active listening and taking action.	GRI 406-1
	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, Social dialogue and restructuring section	GRI 103-2 (GRI 406)
4. Fight against corruption	Measures taken to prevent corruption and bribery	Governance and priorities. Risk management and compliance chapter, section 7.2 Compliance and conduct risk management	GRI 102-16 GRI 102-17
	Measures to combat money laundering	Governance and priorities. Risk management and compliance chapter, section 7.2 Compliance and conduct risk management	GRI 103-2 (GRI 205) GRI 205-1 GRI 205-2 GRI 205-3
	Contributions to non-profit foundations and entities	Community investment.	GRI 413-1

	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
5.Information on the company	**Commitments of the company to sustainable development:**		
	The impact of the company's activity on employment and local development	Higher education. Community investment. Financial inclusion and empowerment.	GRI 103-2 (GRI 203) GRI 203-1 GRI 203-2 GRI 413-1
	The impact of the company's activity on local towns and villages and in the country.	Higher education. Community investment. Financial inclusion and empowerment.	GRI 103-2 (GRI 203) GRI 203-1 GRI 203-2 GRI 413-1
	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
	Association or sponsorship actions	Higher education. Community investment.	GRI 102-12 GRI 102-13
	Outsourcing and suppliers:		
	Inclusion of social, gender equality and environmental issues in the procurement policy	Responsible procurement.	GRI 103-2 (GRI 204, 308 and 414)
	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
	Supervision and audit systems and resolution thereof	Responsible procurement.	GRI 103-2 (GRI 204)
	Consumers:		
	Measures for the health and safety of consumers	Acting responsibly towards customers. Risk management and compliance chapter, section 7.2 Compliance and conduct risk management	GRI 103-2 (GRI 416, 417 and 418) GRI 416-1 GRI 417-1 G4-FS15
	Systems for complaints received and resolution thereof	Acting responsibly towards customers. Key metrics. Risk management and complince chapter, section 7.2 Compliance and conduct risk management. GRI content index.	GRI 102-17 GRI 103-2 (GRI 416, 417 and 418) GRI 416-2 GRI 417-2 GRI 418-1
	Tax information:		
	The profits obtained country by country	Auditor's report and annual consolidate accounts.	GRI 103-2 (GRI 201)
	Taxes earned on benefits paid	Tax contribution.	
	Public grants received	GRI content index.	GRI 201-4
	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, 207-1, 207-2, 207-3, 207-4, 302-1, 302-3, 303-1, 307-1, 308-2, 401-2, 402-1, 403-1, 403-2, 403-3, 403-4, 403-5, 403-8, 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.	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. To this end, we integrate environmental, social and corporate governance (ESG) criteria into our business model. 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. Building on our technology to further strengthen our customers' loyalty and access new fee-based revenue pools. Our value proposition includes a broad variety of solutions. Products and services are tailored to meet the needs of our customers, taking advantage of global best practices, but adapted to local singularities. We strive to exceed our stakeholders´ expectations and carry out our activity in a responsible way.	**Corporate website:** www.santander.com • About us • Our approach **2020 Annual Report:** • Our approach • Business model and strategy **Other references:** Corporate website: • Financial report 2020 • 2020 Earnings Presentation
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.	Our activity allow us to contribute to several of the UN Sustainable Development Goals and support the Paris Agreement to fight climate change. In order to contribute effectively to their achievement, we have carried out an analysis to identify and align our strategy with the SDGs on which Banco Santander has the greatest impact. This analysis has highlighted the most relevant goals for Grupo Santander, both in terms of its activity, commitments and strategic focus, as well as the different external factors considered. We have identified six SDGs in which the Group has the greatest impact (7, 8, 10, 11, 13 and 16) and four more to which we also make a very significant contribution through our activity and our social programmes (1, 4, 5, 17)	

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.

Grupo 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 2020, 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 2020 we have focused on: incorporating responsible business practices; tackling climate change and supporting the ecological transition; enhancing financial empowerment and inclusion proposal and fostering a diverse and skilled team of professionals.

In particular with regard to climate change, we have developed a climate risk heatmap including both transitional and physical risks on a five-point scale in order to measure the materiality of the sectors on the Group's balance sheet.

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.

2020 Annual Report- Responsible banking chapter

- What our stakeholders tell us
- Challenges and opportunities
- Supporting green transition
- Environmental and social risk analysis

2019 Annual Report Risk management and compliance chapter

- 1.2 Santander Top and emerging risks

Other references:

- Stakeholder engagement & material concerns report[A]
- Culture report[A]
- Financial empowerment report[A]
- Climate finance report[B]

A. (These reports are from 2019 and are available in our Corporate Website)

B. (This report is produced after the Annual Report and will be available throughout the month of June 2021)

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.

Additionally we updated our climate strategy, committing to: i) aligning our power generation portfolio with the Paris Agreement by 2030; ii) stop providing financial services to power generation customers with a revenue dependency on coal of over 10% in 2030; iii) reduce our worldwide exposure to coal mining production to zero by 2030; iv) and the ambition to be net zero carbon emissions by 2050.

2020 Annual Report- Responsible Banking chapter

-2020 highlights
-Supporting the green transition
-Environmental and social risk analysis

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 these plans.

Commitments are embedded and part of the Group financial planning, which a three year plan with yearly forecast.

2020 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.

Grupo 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)

Grupo Santander reports, annually, the achievements and scopes of its responsible banking strategy and targets.

In 2020, we made significant progress, achieving carbon neutrality and fulfilling four of our 2021 commitments one year early. Here is a summary of the 2020 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 2020: Top 10 in 6 geographies.
- To have between 40-60% women on our board by 2021. In 2020: 40%
- To have 30% women in our senior leadership positions by 2025. In 2020: 23.7%
- To eliminate the equal pay gap by 2025. In 2020: 1.5%
- To financially empower 10 million people between 2019 and 2025. Since 2019: 4.9 million
- To finance or facilitate mobilization of €120 billion between 2019 and 2025 to tackle climate change. Since 2019: 33,800 billion
- To use 100% of our electricity from renewable sources in our buildings by 2025. In 2020: 57%
- To eliminate unnecessary single use plastic in our branches and corporate buildings by 2021. In 2020: 98% of reduction.
- Carbon neutral in our own operations in 2020
- To fund 200,000 scholarships, internships and entrepreneur programmes between 2019 and 2021. Since 2019: 225,000 scholarships
- To help four million people through our community programmes between 2019 and 2021. Since 2019: 4 million

2020 Annual Report- Responsible Banking chapter - 2020 highlights

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets

In 2020 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.

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.

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.

Corporate website
www.santander.com
- Policies

Annual report 2020 - Responsible banking chapter
- What our stakeholders tell us
- Governance and priorities
- Acting responsible towards customers
- Supporting the green transition
- ESG investment in Wealth Management and Insurance
- Financial inclusion and empowerment

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.

We increasingly incorporate ESG criteria within our SCIB and commercial customer conversations and product offering. We develop various environmental and social value-added products and services. We are a leader in renewable energy financing, and have various microfinance and financial empowerment programmes.

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 environmental, social and 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 2020 - Responsible banking chapter

- Governance and priorities
- What our stakeholders tell us

Other references:
- Stakeholder engagement & material concerns report[A]

A. (These report is from 2019 and is available in our Corporate Website.)

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

2020 Annual Report- Responsible Banking chapter
-What our stakeholders tell us
-Challenges and Opportunities
-Governance and priorities
-A strong and inclusive culture

2020Annual Report- Corporate Governance chapter
-Responsible Banking, sustainability and culture, Committee activities

Other references:
-2019 Stakeholder engagement & material concerns report[A]
-2019 Culture thematic report[A]

A. (These reports are from 2019 and are available in our corporate website: www.santander.com)

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 2020 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 2020.

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) and Sustainability Accounting Standards Board (SASB) 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.

2020 Annual Report-Responsible Banking chapter
-Governance and priorities

-Further information

Other references:
-2019 Stakeholder engagement & material concerns report[A]

A. (These report is from 2019 and is available at our Corporate Website.)

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			
ORGANISATIONAL PROFILE	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	1
	102-9 Supply chain	Responsible procurement	-
	102-10 Significant changes to the organization and its supply chain	Responsible procurement	-
	102-11 Precautionary Principle or approach	Environmental and social risk analysis, Environmental and social risk management policy section	-
	102-12 External initiatives	Governance and priorities, Joint initiatives to promote our agenda section. Shareholder value, ESG indices and analysts section.	-
	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	A strong and inclusive culture: The Santander Way. What our stakeholders tell us. Supporting the green transition. Risk management and compliance chapter.	-
ETHICS AND INTEGRITY	102-16 Values, principles, standards, and norms of behaviour	Governance and priorities. A strong and inclusive culture: The Santander Way. Acting responsibly towards customers.	-
	102-17 Mechanisms for advice and concerns about ethics	A talented and engaged team, section 1. Speaking up, active listening and taking action. Acting responsibly towards customers. Risk management and compliance.	-

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 consolidated annual 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 consolidated annual accounts.	-
	102-25 Conflicts of interest	What our stakeholders tell us. Corporate Governance chapter of the annual report. Auditor's report and consolidated annual 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 consolidated annual accounts.	-
	102-27 Collective knowledge of highest governance body	Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and consolidated annual accounts.	-
	102-28 Evaluating the highest governance body's performance	Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and consolidated annual accounts.	-
	102-29 Identifying and managing economic, environmental, and social impacts	Auditor's report and consolidated annual accounts. Risk management and compliance. Supporting the green transition	-
	102-30 Effectiveness of risk management processes	Challenge2: Inclusive and sustainable growth. Risk management and compliance chapter.	-
	102-31 Omission of economic, environmental, and social topics	Risk management and compliance chapter. Auditor's report and consolidated annual accounts.	-
	102-32 Highest governance body's role in sustainability reporting	Santander´s Board approved this report on February, 23th 2021 related to the 2020 period, and the Corporate Governance Chapter of the Annual Report published in 2021.	-
	102-33 Communicating critical concerns	Auditor's report and consolidated annual accounts.	-
	102-34 Nature and total number of critical concerns	Principles and governance. Acting responsibly towards customers.	-
	102-35 Remuneration policies	A talented and engaged team, Diversity and inclusion section, equal pay subsection. 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 supervisory, risk and regulations 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 supervisory, risk and regulations committee.	-
	102-38 Annual total compensation ratio	A talented and engaged team.	2
	102-39 Percentage increase in annual total compensation ratio	A talented and engaged team.	2
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 consolidated 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 Restatements 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

<table>
<tr><th>Identified material aspect</th><th>Material aspect boundary</th><th>GRI Standard</th><th>Disclosure</th><th>Page</th><th>Scope</th><th>Omission</th></tr>
<tr><td colspan="7">ECONOMIC STANDARDS</td></tr>
<tr><td colspan="7">ECONOMIC PERFORMANCE</td></tr>
<tr><td rowspan="4">Ethical behaviour and risk management / Compliance and adapting to regulatory changes</td><td rowspan="4">Internal and external</td><td rowspan="3">GRI 103: MANAGEMENT APPROACH</td><td>103-1 Explanation of the material topic and its boundary</td><td>What our stakeholders tell us. "Material aspect boundary" of GRI Content Index</td><td>-</td><td>-</td></tr>
<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>
<tr><td>103-3 Evaluation of the management approach</td><td>Principles and governance "Page" of the GRI 201: Economic Performance"</td><td>-</td><td>-</td></tr>
<tr><td>GRI 201: ECONOMIC PERFORMANCE</td><td>201-1 Direct economic value generated and distributed</td><td>
<table>
<tr><th>€ million</th><th>2020</th></tr>
<tr><td>Economic value generated[1]</td><td>44,543</td></tr>
<tr><td>Gross income</td><td>44,600</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>114</td></tr>
<tr><td>Gains/(losses) on disposal of assets not classified as discontinued operations</td><td>-171</td></tr>
<tr><td>Economic value distributed</td><td>24,156</td></tr>
<tr><td>Dividends</td><td>0</td></tr>
<tr><td>Other administrative expenses (except taxes)</td><td>7,537</td></tr>
<tr><td>Personnel expenses</td><td>10,783</td></tr>
<tr><td>Income tax and other taxes[2]</td><td>5,632</td></tr>
<tr><td>CSR investment</td><td>204</td></tr>
<tr><td>Economic value retained (economic value generated less economic value distributed)</td><td>20,387</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	Supporting the green transition. Key metrics	Group	-
			201-3 Defined benefit plan obligations and other retirement plans	The liability for provisions for pensions and similar obligations at 2020 year-end amounted to EUR 3,976 million. Endowments and contributions to the pension funds in the 2020 financial year have amounted to EUR 359 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 2020. 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	A strong and inclusive culture: The Santander Way Column "Page" of the GRI 201: Economic Performance.	-	-
			103-3 Evaluation of the management approach	A strong and inclusive culture: The Santander Way. 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 excluding 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 inclusion and empowerment Community investment.	-	-
			103-3 Evaluation of the management approach	Financial inclusion and empowerment Community investment.	-	-
		GRI 203: INDIRECT ECONOMIC IMPACT	203-1 Infrastructure investments and services supported	Higher education. Community investment.	Group	-
			203-2 Significant indirect economic impacts	Higher education. Community investment.	Group	-

GRI Standards: Topic-specific diclosures

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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 procurement.	-	-
Ethical behaviour and risk management	External	GRI 204: PROCUREMENT PRACTICES	103-3 Evaluation of the management approach	Responsible procurement.	-	-
			204-1 Proportion of spending on local suppliers	Responsible procurement.	Group	3
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	2020 highlights. A strong and inclusive culture: The Santander Way	-	-
			103-3 Evaluation of the management approach	2020 highlights. A strong and inclusive culture: The Santander Way	-	-
		GRI 205: ANTI-CORRUPTION	205-1 Operations assessed for risks related to corruption	Risk management and compliance chapter	Group	-
			205-2 Communication and training about anti-corruption policies and procedures	Risk management and compliance chapter	Group	-
			205-3 Confirmed incidents of corruption and actions taken	Risk management and compliance chapter	Group	4

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	2020 highlights. A strong and inclusive culture: The Santander Way, and column "Page" of the GRI 206: Anti-competitive Behaviour.	-	-
			103-3 Evaluation of the management approach	2020 highlights. A strong and inclusive culture: The Santander Way, 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	• The Italian Competition Authority ("ICA") 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. On 21 October 2020, the administrative court of Lazio has annulled in its entirety the ICA´s decision about the car financing cartel. As a result of this judgement, the decision is annulled in its entirety, and all charges against PSA and against SCF Italy are no longer valid. ICA has appealed before the Consiglio di Stato. The possible appeal decision would be issued by Q4 2021. • On 23rd September 2020 the UOKiK (office of competition and consumer protection in Poland) published its decision in which a clause used by Santander Bank Poland in annexes to agreements on residential mortgage loans indexed to foreign currencies, was declared abusive. The clause relates to FX exchange rate (method of its determination). Fine: EUR 5,2 million. The bank has appealed decision. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	5

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Compliance and risk management / Ethical behaviour	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	2020 highlights. A strong and inclusive culture: The Santander Way,and column "Page" of the GRI 207: Tax.	-	-
			103-3 Evaluation of the management approach	2020 highlights. A strong and inclusive culture: The Santander Way,and column "Page" of the GRI 207: Tax.	-	-
		GRI 207: TAX	207-1 Approach to tax	Tax contribution	Group	-
			207-2 Tax governance, control, and risk management	Tax contribution	Group	-
			207-3 Stakeholder engagement and management of concerns related to tax	Tax contribution	Group	-
			207-4 Country-by-country reporting	Information breakdown is not available, work is under way to present this information.	-	-
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	Supporting the green transition. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Supporting the green transition. Environmental footprint.	-	-
Internal environmental footprint	Internal and external	GRI 301: MATERIALS	301-1 Materials used by weight or volume	Environmental footprint. Key metrics.	Group	6
			301-2 Recycled input materials used	The percentage of the environmentally-friendly paper consumption with respect to the total consumption is 83%. This percentage includes both recycled and certified paper.	Group	6
			301-3 Reclaimed products and their packaging materials	Not applicable due to the type of Group financial activity.	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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	Supporting the green transition. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Supporting the green transition. Environmental footprint.	-	-
		GRI 302: ENERGY	302-1 Energy consumption within the organization	Environmental footprint. Key metrics.	Group	6
			302-2 Energy consumption outside of the organization	Key metrics.	Group	6
			302-3 Energy intensity	Key metrics.	Group	6
			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	-
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	Supporting the green transition. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Supporting the green transition. Environmental footprint.	-	-
		GRI 303: WATER AND EFFLUENTS	303-1 Interactions with water as a shared resource	Environmental footprint.	Group	-
			303-2 Management of water discharge-related impacts	Not applicable due to the type of Group financial activity.	Group	-
			303-3 Water withdrawal	Environmental footprint. Key metrics.	Group	6
			303-4 Water discharge	Not applicable due to the type of Group financial activity.	Group	-
			303-5 Water consumption	Environmental footprint.	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
BIODIVERSITY						
			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	-	-
			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	-
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	Supporting the green transition. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Supporting the green transition. Environmental footprint.	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Internal environmental footprint	Internal and external	GRI 305: EMISSIONS	305-1 Direct (Scope 1) GHG emissions	Environmental footprint. Key metrics.	Group	6
			305-2 Energy indirect (Scope 2) GHG emissions	Environmental footprint. Key metrics.	Group	6
			305-3 Other indirect (Scope 3) GHG emissions	Environmental footprint. Key metrics.	Group	6
			305-4 GHG emissions intensity	Key metrics.	Group	6
			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	Supporting the green transition. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Supporting the green transition. 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	6
			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	-
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	A strong and inclusive culture: The Santander Way	-	-
			103-3 Evaluation of the management approach	A strong and inclusive culture: The Santander Way	-	-
		GRI 307: ENVIRONMENTAL COMPLIANCE	307-1 Non-compliance with environmental laws and regulations	The Bank has not received final sanctionsfor this concept. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	5

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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 procurement.	-	-
			103-3 Evaluation of the management approach	Responsible procurement.	-	-
		GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT	308-1 New suppliers that were screened using environmental criteria	Responsible procurement.	Group	3, 7
			308-2 Negative environmental impacts in the supply chain and actions taken	Responsible procurement.	Group	3, 7

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 engaged team, talent management section.	-	-
			103-3 Evaluation of the management approach	A talented and engaged team, talent management section.	-	-
		GRI 401: EMPLOYMENT	401-1 New employee hires and employee turnover	A talented and engaged team, talent management section. 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 engaged team", section "Corporate benefits" are regarding only full-time employees.	Group	-
			401-3 Parental leave	Information breakdown is not available, work is under way to present this information.	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 engaged team. Column "Page" of the GRI 403: Occupational Safe and Safety.	-	-
			103-3 Evaluation of the management approach	A talented and engaged 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 Occupational health and safety management system	Banco Santander has occupational health and safety management systems in place in all the geographies in which it operates, complying with the legal requirements of each country regarding occupational risk prevention.	Group	-
			403-2 Hazard identification, risk assessment, and incident investigation	A talented and engaged team, section 5: Our wellbeing.	Group	-
			403-3 Occupational health services	A talented and engaged team, section 5: Our wellbeing.	Group	-
			403-4 Worker participation, consultation, and communication on occupational health and safety	At Banco Santander SA, the percentage of Representation in the Security Committee is 100%.	Banco Santander S.A. and SCF	-
			403-5 Worker training on occupational health and safety	A talented and engaged team, section 5: Our wellbeing.	Group	-
			403-6 Promotion of worker health	A talented and engaged team, section 5: Our wellbeing.	Group	-
			403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Not applicable due to the type of Group financial activity.	Group	
			403-8 Workers covered by an occupational health and safety management system	100% of Banco Santander employees are covered by health and safety management systems at work.	Group	1
			403-9 Work-related injuries	A talented and engaged team, section 5: Our wellbeing. Key metrics.	Group	1
			403-10 Work-related ill health	Key metrics.	Group	1

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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 engaged team. “Page” of the GRI 404: Training and education.	-	-
			103-3 Evaluation of the management approach	A talented and engaged 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 engaged team, "Talent management" section. Key metrics.	Group	-
			404-2 Programs for upgrading employee skills and transition assistance programs	Banco Santander offers management programmes and continuous training skills that foster the employees´ employability and that, sometimes, help them manage the end of their professional careers. A talented and engaged team. Key metrics.	Group	-
			404-3 Percentage of employees receiving regular performance and career development omissions.	A talented and engaged team, "Talent management" section. Regular performance and career development 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 engaged team. "Diversity and Inclusion" section.	-	-
			103-3 Evaluation of the management approach	A talented and engaged team. "Diversity and Inclusion" section.	-	-
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 engaged team. "Diversity and Inclusion" section. Key metrics. Corporate governance chapter of the Annual Report.	Group	-
			405-2 Ratio of basic salary and remuneration of women to men	A talented and engaged team. "Diversity and Inclusion" section. Key metrics.	Group	8
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 engaged team. "Diversity and Inclusion" section	-	-
			103-3 Evaluation of the management approach	A talented and engaged team. "Diversity and Inclusion" section.	-	-
		GRI 406: NON-DISCRMINATION	406-1 Incidents of discrimination and corrective actions taken	A talented and engaged team, section 1: "Speaking up, active listening and taking action". Risk management and compliance chapter.	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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: SECURITY 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 2020, a total of 68 operations were evaluated in this respect.	Group	9
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	-	-
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 2020, a total of 68 operations were evaluated in this respect.	Group	9
			412-2 Employee training on human rights policies or procedures	A talented and engaged team, Learning and development section.	Group	10
			412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	The Third-party Certification policy was Last year, the third-party approval policy was updated. This policy includes an appendix with the "principles of responsible conduct for suppliers". These principles are mandatory for all Banco Santander suppliers and include human rights aspects, amongst others.	Group	10

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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.	Group	-
			103-2 The management approach and its components	Financial inclusion and empowerment, Supporting higher education, Community investment and Supporting the green transition.	Group	-
			103-3 Evaluation of the management approach	Financial inclusion and empowerment, Supporting higher education, Community investment and Supporting the green transition.	Group	-
		GRI 413: LOCAL COMMUNITIES	413-1 Operations with local community engagement, impact assessments, and development programs	Financial inclusion and 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	Environmental and social risk analysis	Group	-
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 procurement.	-	-
			103-3 Evaluation of the management approach	Responsible procurement.	-	-
		GRI 414: SUPPLIER SOCIAL ASSESSMENT	414-1 New suppliers that were screened using social criteria	Responsible procurement.	Group	3, 7
			414-2 Negative social impacts in the supply chain and actions taken	Responsible procurement.	Group	3, 7

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
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	2020 highlights,A strong and inclusive culture: The Santander Way. A talented and engaged team. Government and priorities "Page" of the GRI 415: Public Policy.	-	-
			103-3 Evaluation of the management approach	2020 highlights,A strong and inclusive culture: The Santander Way. A talented and engaged team. Government and priorities "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	Acting responsibly towards our customers, protecting consumers and helping vulnerable customers section	-	-
			103-3 Evaluation of the management approach	Acting responsibly towards our customers, protecting consumers and helping vulnerable customers section.	-	-
		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	5
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	Acting responsibly towards our customers, protecting consumers and helping vulnerable customers section.	-	-
			103-3 Evaluation of the management approach	Acting responsibly towards our customers, protecting consumers and helping vulnerable customers section.	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Products and services that are transparent and fair	Internal and external	GRI 417: MARKETING AND LABELING	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	-
			417-2 Incidents of non-compliance concerning product and service information and labeling	• Sanction procedure of the National Securities Market Commission for violation of the provisions foreseen in art 214 Law Securities Market, in relation to the information collected from retail clients for the evaluation of convenience. • 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 has been dismissed. Fine: 900.000 euro • Sanctioning file of the Basque Consumer Institute (Kontsumobide) for the alleged abusiveness of the expense clause of the mortgage loan contracts. Firm sanction. Fine: 120.00 euros.	Group	5
			417-3 Incidents of non-compliance concerning marketing communications	• In December 2020, Santander Consumer Finance Oy ("SCF Finland", a subsidiary of Santander Consumer Bank AS) received a request for information from the Finnish Competition and Consumer Authority ("FCCA") related to a marketing campaign published by a distributor automobile / automobile partner of SCF Finland in a Finnish national newspaper. The FCCA considers that the advertisement does not comply with the regulatory requirements for transparency and protection, prior to the publication of the advertisement. SCF Finland is required to provide information in Q1 2021. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	5

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	Acting responsibly towards our customers,	-	-
			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	5
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	2020 highlights,A strong and inclusive culture: The Santander Way. A talented and motivated team. Acting responsibly towards customers and column "Page" of the GRI 419: Socioeconomic Compliance.	-	-
			103-3 Evaluation of the management approach	2020 highlights,A strong and inclusive culture: The Santander Way. A talented and engaged team. Acting responsibly towards customers 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	5

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	Governance and priorities, Supporting the green transition and Environmental and social risks analysis.	Group	-
		FS2	Procedures for assessing and screening environmental and social risks in business lines	Governance and priorities, Supporting the green transition and Environmental and social risks analysis	Group	-
		FS3	Processes for monitoring clients´ implementation of and compliance with environmental and social requirements included in agreements of transactions	Governance and priorities, Supporting the green transition and Environmental and social risks analysis.	Group	-
		FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	Supporting the green transition, Management and staff training section.	Group	-
		FS5	Interactions with clients/ investees/ business partners regarding environmental and social risks and opportunities	2020 highlights. Governance and priorities, Joint initiatives to promote our agenda section. Shareholder value. Risk management and compliance chapter.	Group	-
		FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/ SME/ large) and by sector	Acting responsibly towards customers. Meeting the needs of everyone in society.	Group	-
		FS7	Moneraty value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Supporting the green transition. ESG investment in Wealth Management and Insurance.	Group	-
		FS8	Monetary value of products and servicies designed to deliver a specific environmental benefit foir each business line broken down by purpose	Supporting the green transition. ESG investment in Wealth Management and Insurance.	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 assesment 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, during the previous year 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 services 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	Environmental and social risks analysis	Group	9
		FS11	Percentage of assets subject to positive and negative environmental or social screening	Environmental and social risks analysis	Group	9
		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	Acting responsibly towards customers	Group	-
		FS16	Initiatives to enhance financial literacy by type of beneficiary	Acting responsibly towards customers	Group	-

1.Only information regarding owned employees is disclosed. 2. The indicator is not reported because it is confidential information. 3. Data refers exclusively to centralised purchases data in Aquanima. 4. Information is provided on the total number of complaints conflicts of interest and corruption 5. 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. 6. The scope and limitations of this indicator are described on Key Metrics. 7. Only total amount of approved suppliers is included. 8. Only the ratio for total compensation is reported. 9. 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. 10. Only qualitative information is disclosed. 11. Information is provided on programmes and their direct impacts of the ten main countries of the Group, instead on centres.

Sustainability Accounting Standards Board (SASB) content index

This is the first year in which Santander has decided to report in accordance with the Sustainability Accounting Standards Board (SASB), following its Industry Standards Version 2018-10 issue.

The relevant standards disclosed in this section have been selected according to a materiality-driven analysis, focusing on the industries that are most closely aligned with our businesses within the "Financials sector": Asset Management & Custody Activities (FN-AC), Commercial Banks (FN-CB), Consumer Finance (FN-CF), Investment Banking & Brokerage (FN-IB).

Acknowledging that SASB has a US-based approach, we have done our best efforts for translating it to our European standards.

Currently, we do not disclose all metrics included in the aforementioned industry standards, but we will continue to evaluate additional metrics in the future, enhancing our reporting under SASB framework for meeting the needs of our growing base of stakeholders and investors.

Unless otherwise is noted, all data and descriptions are reported for the Santander Group, if applicable, on a consolidated basis, and not just the segments relevant to the particular industry. The information will refer to the 2020 fiscal year, unless otherwise is specified.

Sustainability Accounting Metrics

Topic	Industry	Accounting Metric	Code	Response
Data Security	Commercial Banks Consumer Finance	(1) Number of data breaches, (2) percentage involving personally identifiable information (PII), (3) number of account holders affected.	FN-CB-230a.1 FN-CF-230a.1	Refer to 'Litigation and other matters' in the note 25 of the Consolidated accounts in the Auditor's report and consolidated financial statements.
	Commercial Banks Consumer Finance	Description of approach to identifying and addressing data security risks.	FN-CB-230a.2 FN-CF-230a.3	Refer to 'Risk Pro' in section 'A strong and inclusive culture' of this chapter; and to 'Relevant mitigation actions' in section 6.2 of 'Risk management and compliance chapter'.

Financial Inclusion & Capacity Building	Commercial Banks	(1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development.	FN-CB-240a.1	Refer to 'Meeting the needs of everyone in society' section of this chapter. For more detail see note 10. 'Loans and advances to customers´ in the Auditor's report and consolidated financial statements. Additionally, all the information related to microfinance programmes are available on the 'Financial inclusion and empowerment' section of this report.
	Commercial Banks	(1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development.	FN-CB-240a.2	Refer to 'Amounts past due' and 'Impairment of financial assets' in 3.4 'Key metrics' section of the Risk management and compliance chapter. Also refer to notes 2.g and 10.d of the consolidated accounts in the Auditor's report and consolidated financial statements.
	Commercial Banks	Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers.	FN-CB-240a.3	Refer to 'Financial inclusion and empowerment' section of this chapter.
	Commercial Banks	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers.	FN-CB-240a.4	In 2020, Grupo Santander has financially empowered 3.6 million people. For further information refer to 'Financial inclusion and empowerment' section of this chapter.
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Commercial Banks	Commercial and industrial credit exposure, by industry.	FN-CB-410a.1	Refer to 'Concentration risk' in section 3.6 'Other credit risk details' of the Risk Management and compliance chapter.
	Commercial Banks	Description of approach to incorporation of environmental, social,and governance (ESG) factors in credit analysis.	FN-CB-410a.2	Refer to the 'Environmental and social risk analysis' section of this chapter, and the 'Environmental and social risk' section of the Risk management and compliance chapter. For further information see our 'General Sustainability Policyc and our 'Environmental, social & climate change risk management Policy', available both on our corporate website.
Incorporation of Environmental, Social, and Governance Factors in investment Banking & Brokerage Activities	Investment Banking & Brokerage	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social, and governance (ESG) factors, by industry.	FN-IB-410a.2	Refer to 'Supporting the green transition' section of this chapter.
	Investment Banking & Brokerage	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment banking and brokerage activities.	FN-IB-410a.3	Refer to 'Supporting the green transition' section of this chapter. For further information see our 'General Sustainability Policy', and our 'Environmental, social & climate change risk management policy', both available on our corporate website.

Business Ethics	Asset Management & Custody Activities Commercial Banks Investment Banking & Brokerage	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior,market manipulation, malpractice, or other related financial industry laws or regulations.	FN-AC-510a.1 FN-CB-510a.1 FN-IB-510a.1	Refer to GRI 206-1 discloses legal actions for anticompetitive behavior, anti-trust, and monopoly practices. For further information, refer to 'Litigation and other matters' section on the Auditor's report and consolidated financial statements.
	Asset Management & Custody Activities Commercial Banks Investment Banking & Brokerage	Description of whistleblower policies and procedures.	FN-AC-510a.2 FN-CB-510a.2 FN-IB-510a.2	Refer to 'Ethical Channels' in the section 'A talented and engaged team' of this chapter. For further information, see our 'General Code of Conduct', available on our website.
Systemic Risk Management	Commercial Banks Investment Banking & Brokerage	Global Systemically Important Bank (G-SIB) score, by category	FN-CB-550a.1. FN-IB-550a.1.	According to the '2020 list of global systemically important banks (G-SIBs)' released by the Financial Stability Board, Santander's G-SIB buffer is 1.0 %. (G-SIBs as of November 2020) According to the G-SIB Scores Dashboard from the Basel Committee on Banking Supervision (BCBS), Santander Group´s scores are (end-2019 data): • Score: 199 • Complexity: 92 • Cross-jurisdictional: 480 • Interconnectedness: 169 • Size: 194 • Substitutability: 61
	Commercial Banks Investment Banking & Brokerage	Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities	FN-CB-550a.2. FN-IB-550a.2.	Refer to 'Capital planning and stress tests' in the section 3.5 'Capital management and adequacy. Solvency ratios' of the Economic and Financial Review.

Employee Diversity & Inclusion	Commercial Banks, Investment Banking & Brokerage	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees	FN-AC-330a.1 FN-IB-330a.1	Refer to 'Key metrics' section of this chapter. For further information, refer to 'Diversity & Inclusion' section of 'A talented and engaged team' this chapter. For further information about our diversity and inclusion principles, see our 'Corporate Culture Policy', available on our corporate website.
Activity metrics	Commercial Banks	(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business.	FN-CB-000.A	Refer to 'Consolidated annual accounts' in Auditor's report and consolidated financial statements.
	Commercial Banks	(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate.	FN-CB-000.B	Refer to 'Consolidated annual accounts' in Auditor's report and consolidated financial statements.

Independent verification report

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 accompanying "Responsible banking" chapter, which corresponds to the attached 2020 Consolidated non-financial information statement (hereinafter "CNFIS") for the year ended 31 December 2020 of Banco Santander, S.A. (the Parent company) and subsidiaries (hereinafter "Banco Santander") which forms part of Banco Santander's Consolidated Management's Report.

The content of the CNFIS includes additional information to that required by current commercial legislation on non-financial information 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" of the accompanying CNFIS.

Responsibility of the directors of the Parent company

The preparation of the CNFIS included in Banco Santander's Consolidated Management's Report and the content thereof are the responsibility of the 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 (hereinafter "GRI Standards") in accordance with the Comprehensive option and the Financial Services Sector Disclosures of the GRI G4 Guidelines, 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" of the aforementioned 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 for 2020 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 2020.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the CNFIS for 2020.
- Verification, through sample testing, of the information relating to the content of the CNFIS for 2020 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.

pwc

Conclusions

Based on the procedures performed in our verification 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 2020 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 of the GRI G4 Guidelines, 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 Ilundáin

23 February 2021

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A NEW PURPOSE FOR PEREDA

Our iconic headquarters in the city of Santander, Cantabria will become a modern space for culture and innovation, epitomizing the new Santander. On 22 December, the board held its last meeting at the Pereda building.

Pereda building, Banco Santander's headquarters in the city of Santander, Cantabria (Spain).

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Structure of our corporate governance report

On 12 June 2018, the CNMV (Spanish stock market authority) approved new models for annual reports on corporate governance and remuneration, allowing companies to draft them in an open format.

Thus, our corporate governance report (comprising this chapter) follows since then an open format. This includes:

- Legally-required content for the corporate governance report.
- Reports on the activities of board committees. See sections 4.4 to 4.10.
- Annual report on directors' remuneration, which we are required to prepare and submit to a non-binding vote at our 2021 annual general meeting. See section 6 'Remuneration'.
- Directors' remuneration policy. See section 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
- Cross references to find the information for each section of the corporate governance and remuneration reports in the CNMV's required format in this and other chapters of the annual report. See sections 9.1 'Reconciliation with the CNMV's corporate governance report model' and 9.4 'Reconciliation with the CNMV's remuneration report model'.
- Cross references to find the information supporting each response to all recommendations in the CNMV'S Good Governance Code for Listed Companies (Spanish Corporate Governance Code) in the 2020 corporate governance and other chapters of this annual report. See section 9.3 'Table on compliance with and explanations of recommendations on corporate governance'.

1. 2020 Overview

'Maintaining high standards of governance is critical to enabling our strategy and long-term success. The covid-19 global health crisis has resulted in economic and social distress on a scale that we have not seen in generations. The board acted swiftly and decisively from the outset of the pandemic in support our customers, maintain the strength of capital and liquidity position and ensure the effectiveness of the risk management and compliance processes. The response of the Group provided positive affirmation of its business and governance model in the face of extraordinary challenges

Despite the crisis, we continued to progress our governance goals and preserve strong governance disciplines demonstrating effective oversight and control across the Group. Board refreshment continued during the year, strengthening our skills and diversity with the appointment of Luis Isasi, Sergio Rial, R. Martín Chávez and Gina Díez. On behalf of the board, I would like to thank Ignacio Benjumea, Esther Giménez-Salinas, Rodrigo Echenique and Guillermo de la Dehesa for their invaluable service to the board and the Group.

As part of our commitments of maintaining high governance standards, this year we engaged an external independent expert to conduct the assessment of the board and its committees which has provided a fresh perspective on areas for improvement.

Effective succession planning of our board directors and members of senior management remains a priority. This year we refreshed our senior managers succession policy and commissioned a review of our succession plans methodology from an external independent advisor who confirmed that our processes are aligned with best industry practice.

We introduced new governance models for the One Santander in Europe initiative and for PagoNxt to promote key strategic goals and support our growth plans.

We will remain committed to working together effectively to improve our governance, providing robust oversight of the Group to achieve our purpose'.

Bruce Carnegie-Brown, Lead independent director

1.1 Board skills and diversity

Appointments in 2020

In 2020 a number of changes were made to the board's composition to further enhance its diversity and strengthen its skills, specifically those identified as desirable in prior board evaluations. As at December 2020, the board comprised 40% of women, meeting its target of 40-60% minimum and maximum representation of either gender, ahead of the 2021 timeline. The main board changes in 2020 were as follows:

- Luis Isasi was appointed external director at our annual general meeting held on 3 April 2020 (April 2020 AGM) to fill the vacancy left by Guillermo de la Dehesa. See section 3.4 'April 2020 AGM'. Mr Isasi has a strong track record in finance, retail and investment banking, and capital markets.

  He held executive roles at JP Morgan in New York and 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 for Spain. He has vast experience in many sectors and international markets, as well as a wide institutional network within Spain. See section 4.1 'Our directors'.

- Sergio Rial was appointed executive director at the April 2020 AGM to fill the vacancy left by Ignacio Benjumea. See section 3.4 'April 2020 AGM'.

  Mr Rial joined Santander in 2015 as chairman of the board of directors of Banco Santander (Brasil), S.A. He is currently the regional head for South America as well as chief executive officer (CEO) and vice-chairman of Banco Santander (Brasil), S.A. He brings extensive executive experience in banking and finance, and has a deep understanding of Latin American markets, especially Brazil. His nationality and background in multinational groups across geographical areas and sectors, such as Cargill Inc., Seara Foods and Marfrig Global Foods, increase the board's international diversity and experience and give it a valuable perspective on environmental and social issues. See section 4.1 'Our directors'.

- R. Martín Chávez was appointed independent director at the annual general meeting held on 27 October 2020 (October 2020 AGM) to fill the vacancy left by Esther Giménez-Salinas. See section 3.5 'October 2020 AGM'.

  Mr Chávez was Chief technology officer (CTO) and co-founder of Quorum Software Systems, global head of energy derivatives at Credit Suisse Financial Products and CEO and co-founder of Kiodex. In 2005, he joined Goldman Sachs, where he was a partner from 2006 to 2019 and held various executive positions during his tenure. He brings extensive knowledge of the global financial and information technology (IT) sectors to enhance the board's digital capabilities. He also enhances the geographical and international diversity. See section 4.1 'Our directors'.

- Gina Díez was co-opted as an independent director on 22 December 2020 to fill the vacancy left by external director Rodrigo Echenique. The board submitted her nomination to our annual general meeting called for 25 or 26 March 2021, at first or second call respectively (2021 AGM) for ratification. See section 3.6 'Our coming 2021 AGM'.

  Ms Díez is the founder and president of Grupo Diarq and Universidad Centro and served as an independent director of Banco Santander México. She contributes to the board's gender and geographic diversity, and brings broad international experience. She has substantial knowledge of one of the group's key strategic markets, Mexico. Her expertise spans numerous sectors (real estate, education, banking), and responsible business and sustainability. See section 4.1 'Our directors'.

The above changes have enhanced the board's financial, technological and digital capabilities and international diversity, bolstering experience in very significant markets for the group (such as Brazil, the US and Mexico) and ensuring the board is well placed to deliver on our current and future strategies.

With the addition of Gina Díez, 40% of the board members are women, in line with the gender equality target set by the board for 2021, which was first achieved in 2019. The proportion of independent board members has risen to 66.67%.

Renewal of the board

Stepping down	Taking up role
Guillermo de la Dehesa (external)	Luis Isasi (external)
Ignacio Benjumea (external)	Sergio Rial (executive)
Esther Giménez-Salinas (independent)	R.Martín Chávez (independent)
Rodrigo Echenique (external)	Gina Díez (independent)

The board's renewal is underpinned by a structured induction programme tailored for each newly appointed director to support them in assuming their new role in Banco Santander, whilst addressing any development needs identified, where applicable, during the recruitment process. See 'Training of directors and induction programmes for new directors' in section 4.3.

Strong succession planning

Succession planning is a key element of our good governance as it ensures orderly leadership transitions, as well as board continuity and stability. It is a yearly cycle with a well-defined methodology and timelines, and a clear allocation of responsibilities. We also use specific performance indicators and review them each year. The nomination committee and board provide input to the plans and review performance as part of regular updates. The strength of the pipeline for each position is based on the number of candidates and how immediately qualified they are, with development and training plans in place where required.

We refreshed our succession policy for managerial roles throughout the group and our policy for the selection, suitability assessment and succession of directors. The changes aim to boost talent pipelines across functions, with diversity a priority. We also assessed succession plans for key geographies and implemented a new selection process for top executives.

Given the importance that the Group places in succession planning, an external opinion was sought in relation to our succession policy and associated succession processes. The review concluded that succession arrangements and framework for the board and critical roles throughout the Group meet regulatory requirements and align with industry best practice. See section 1.5 'Achievement of our 2020 goals'.

1.2 Board effectiveness

Covid-19

In 2020, the pandemic's unprecedented effect on health and the global economy required a rapid, coordinated and sustained response from Grupo Santander to safeguard the interests of our business and broader stakeholders.

The board and its committees, which continued their oversight of planned business initiatives, held extraordinary meetings to check on immediate, tactical crisis management efforts:

- The board approved the voluntary 50% reduction of the chairman and CEO maximum remuneration (salary and bonus) for 2020 in relation to their remuneration in 2019 and the 20% reduction in board of directors' annual allotment and attendance fees for the balance of 2020, with effect from 1 April 2020, with the amounts saved being allocated to finance relief efforts to address the impact of covid-19. See section 1.3 'Alignment of executive compensation with the Group objectives and the covid-19 crisis'.

- The board cancelled the final dividend for 2019 and the dividend policy for 2020 on 2 April, on the European Central Bank (ECB)'s recommendation to financial institutions amid unparalleled uncertainty.

- Shareholders gave their approval to resume dividend payments at the October 2020 AGM with a dividend for the equivalent of EUR 0.10 per share in newly issued shares against the 2019 results, as well as a payment in 2021 of up to EUR 0.10 per share as remuneration against 2020. The latter is contingent on the ECB's approval and recommendations, a common equity tier 1 (CET1) ratio maintained within or above our target range of 11-12%, and the total payment not exceeding 50% of our consolidated ordinary (underlying) profit. On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of €2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the ECB recommendations. This dividend will be paid under the resolution of the October 2020 AGM mentioned above. See section 3.3 'Dividends'.

- In June, the audit committee approved the internal audit covid-19 edition plan. It adds flexibility and rigour to oversight whilst recognizing the impact of covid-19 on group-wide internal audit.

Digital transformation

Given the impact of the new disruptive platforms on the transformation of many industries, Grupo Santander aims to become the best open financial services platform, acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities in a way that is Simple, Personal and Fair.

During 2020, we ramped up our digital strategy through the approval of One Santander, which provides a common, group-wide business and operational platform with an initial focus on Europe; and with PagoNxt, which combines our most disruptive payment businesses into a single, autonomous company.

Group and subsidiary board connectivity

Strengthening the links between the group board of directors and the subsidiaries is key to effective governance oversight and common values, ethics, controls and key business matters. In 2020, the global pandemic heightened the need for effective cross-border collaboration, which our proven Group Subsidiary Governance Model (GSGM) supports. This governance model is strengthened by the fact that a number of Group non-executive directors also sit on the boards of our principal units: Luis Isasi at Santander España, Álvaro Cardoso at Banco Santander (Brasil), S.A. Homaira Akbari at Santander Consumer USA Holdings Inc. and Bruce Carnegie-Brown at Santander UK plc and Santander UK Group Holdings plc. See section 7. 'Group structure and internal governance'.

Furthermore, and as in the previous year, the audit committee chairman held two virtual conventions with fellow committee members and subsidiary audit committee chairs:

- On 15 July, the session covered group internal audit challenges, financial information process and internal Sarbanes-Oxley control, independent external audit challenges and reflections on 2021 priorities.

- On 19 November, the session covered the membership and profile of group audit committees, risk provisioning and emerging trends for group audit committees.

Similar meetings followed in previous years with subsidiary risk committee chairs in September 2018 and audit committee chairs in May 2019.

Feedback from participants has reinforced the value of the meetings, confirming that they foster the group's coordinated approach and cross-border collaboration on key issues. More meetings are planned for 2021 onwards.

Action plan 2020 following the board's assessment

The board undergoes a yearly performance review. Its 2019 assessment covered its composition and organization, dynamics and internal culture, and committees' performance, as well as each director's performance and contribution. The resulting action plan enhanced the board's performance in 2020 with:

- More expertise in finance, auditing, technology and coverage of Latin American markets in its composition.

- Balanced focus on regulatory compliance and strategy in an increasingly demanding and uncertain economic and geopolitical environment.

- The timeliness of circulating relevant documents submitted to the board for analysis on the board and the committees, facilitating effective challenge and debate.

- Training and upskilling programmes for directors to ensure the proper performance of their duties and give opportunities to interact with executives.

- Optimal contribution from each board committee.

The action plan which was completed in 2020 was supervised by the nomination committee. The board was regularly informed about its progress.

1.3 Alignment of executive compensation with the Group objectives and the covid-19 crisis

In 2020, the board of directors worked to ensure that the Group's financial position was secure, complying with the regulatory requirements for capital and risk, and at the same time directly supported the communities in which the Group is present. As regards compensation, the quantitative and qualitative metrics in our variable remuneration scorecard have allowed the Board of directors and the remuneration committee to fix variable remuneration that is aligned with the risks, capital, clients' base and ordinary results situation of the Group.

In addition, the Group has aligned its governance and practices in 2020 to ensure that compensation is managed in a conservative way. The board, upon recommendation from the remunerations committee, approved the voluntary 50% reduction of the chairman and CEO maximum remuneration (salary and bonus) for 2020 in relation to their remuneration in 2019 and the 20% reduction in board of directors' annual allotment and attendance fees for the balance of 2020, with effect from 1 April 2020, with the amounts saved being allocated to finance relief efforts to address the impact of covid-19. In addition, to ensure that remuneration aligns with the results delivered, budget targets and metrics were not adjusted for covid-19 conditions. This resulted in a 74% reduction of the executive chairman's variable remuneration and in a 79% reduction of the chief executive officer's variable remuneration, after the exceptional adjustment agreed by the board to comply with the reduction commitment mentioned above, and 32.6% reduction of bonus pools for the top two executive segments in the Group (c.250 employees).

1.4 Active shareholder engagement during the pandemic

Since the beginning of the health crisis we have put in place mechanisms to enable the full exercise by shareholders of their rights while at the same time protecting their health and maintaining engagement with them.

The pandemic struck hard in March, when we had already called our April 2020 AGM, forcing us to make exceptional decisions to adapt to the restrictions imposed by the authorities.

Our board's monitoring of the pandemic, and its speed in making the right call as restrictions on movement and meetings were imposed, was key to providing our shareholders with all necessary April 2020 AGM-related information.

The strength and flexibility of our corporate governance, which has allowed remote attendance at the annual general meetings since 2005 through our software application, made it possible to hold the April 2020 AGM exclusively remotely, avoiding the damage that would have been caused by cancelling it, as well as complying with all our corporate obligations without detriment to the rights of our shareholders. Thanks to this, shareholders were able to request clarifications, take the floor and put forward proposals for items not included on the agenda at the April 2020 AGM. See section 3.4 'April 2020 AGM'.

In October 2020, we held another general meeting to approve the application of the 2019 results. This item was removed from the April 2020 AGM agenda and deferred to a later general meeting on the recommendation of the ECB due to the health and economic crisis. See sections 3.3 'Dividends' and 3.5 'October 2020 AGM'.

The October 2020 AGM was held in a context of restrictions on capacity, movement and non-essential activities in which authorities advised against moving around. Although some shareholders decided to attend in person, the option to do so remotely allowed them to participate remotely on this occasion as well with a real-time connection to the meeting location, as well as to exercise their rights as they saw fit. The protocol followed at the October 2020 AGM to deal with the covid-19 restrictions was certified by AENOR.

In addition, shareholders were also able to participate in the April 2020 AGM and October 2020 AGM (2020 AGMs) through our channels of proxy-granting and distance voting by electronic means, which include our digital platform, mobile application and telephone line, as well as a live broadcast on our website.

Our digital transformation and advances in IT over recent years in our remote assistance application and distance participation channels for the general meetings allowed us to react to the covid-19 crisis with maximum efficiency.

In addition, during the pandemic we increased our communication to shareholders through all our information disclosure channels. The Shareholder and Investor Relations team organized meetings, virtual events and specific campaigns with our shareholders to maintain direct communication with them and encourage their informed participation in the 2020 AGMs, but at the same time mitigating their exposure to the health risks of the pandemic. This allowed us to retain shareholder confidence, as reflected in the voting on the proposals submitted to the 2020 AGMs. See sections 3.4 'April 2020 AGM' and 3.5 'October 2020 AGM'.

1.5 Achievement of our 2020 goals

The 2019 annual report disclosed our corporate governance goals and priorities for 2020. The following chart describes how we delivered on each priority.

2020 goals	How we have delivered
Santander share	
With a view to creating long-term value for shareholders, the board will supervise and support the managers in applying our strategy to make sure total shareholder returns properly reflect the Group's solvency, results, corporate culture and sustainable growth.	The uncertainty caused by covid-19 had a short-term impact on our share price. But we delivered solid results thanks to our scale, our focus on customers and our diversification, highlighting our good credit quality, strong capital generation capacity and our work to help customers and communities cope with the crisis. Amid the pandemic, Banco Santander's share price fell 29.0%, while the Stoxx Europe 600 Banks index fell 24.5%. Several vaccines announced since November brought a wave of optimism, causing investment capital to rotate towards more cyclical industries, particularly banking. In Q4, the Stoxx Europe 600 Banks index rose 30.9%, with Santander's share price rising 65.6%.
Strong succession plans	
In 2020, succession planning will continue to be a key priority in order to ensure a reliable pipeline of candidates at all times. We will proactively identify successors, implement any training plans needed to handle any succession event effectively. Performance indicators in our succession plans will continue to help us deliver intended outcomes and supervise risks implied in the succession of directors and other key roles constantly. Regular reporting to the board keeps it informed about the process, its risks and its results at all times.	Succession planning remained a priority in 2020. We reinforced the strength of the pipeline of candidates to ensure effective and robust succession planning through the assessment of them in core geographies, refreshing succession plans for senior managers. In 2020, key governance bodies held functional succession meetings, building a strong pipeline of candidates with 24% more women identified as successors than in 2019. Succession plans were set for 340 roles across the group, up from 335 in 2019. 89% of the positions covered have a strong succession pipeline (an increase from 84% in 2019). We have at least two successors who could be immediately ready, or one successor who could be immediately ready and two successors who could be ready in one to two years. A review conducted on board and executive succession planning by an independent third party confirmed their alignment with regulatory requirements and industry best practice.
Remuneration policies adapted to the new business environment	
The remuneration structures and schemes for our executives must consider environmental, social and governance-related performance indicators that are simple, transparent, measurable and aligned with our public responsible banking commitments. Remuneration policies that are effective and adapted to our culture and values as well as the expectations of investors and other stakeholders, are essential to our strategy for sustainable growth.	During 2020 we have maintained a strong governance of remuneration in light of covid-19 conditions (see section 1.3 'Alignment of executive compensation with the Group objectives and the covid-19 crisis'). In addition, the remuneration committee and the board of directors have taken into account responsible banking factors for setting the 2020 remuneration through the qualitative adjustments provided for in the remuneration policy. Likewise, we have simplified the executive compensation framework that will apply from 2021, by reducing the number of metrics used in the pool calculation from 7 to 4, combining simplicity with the acknowledgment of the most relevant aspects for clients, results, financial strength and the appropriate management of the risk of the entity.

2020 goals	How we have delivered
Communication with shareholders and investors as part of their engagement with the Group	
Closer engagement and dialogue through the channels and engagement activities mentioned in our policy on communication and engagement with shareholders and investors will both encourage them to exercise their rights and give them the information they expect and provide them with new opportunities to be involved in our corporate governance in an effective and sustainable manner in the long term, in accordance with the laws transposing the EU directive on shareholders' rights and related implementing regulations. If we maximise the disclosure and quality of the economic-financial information we publish in a transparent and effective manner, we can retain the long-term trust of our investors and society.	The pandemic stood out in our communication and engagement with shareholders and investors in 2020. In application of our internal policy (updated in February 2020), we implemented specific actions to meet our retail and institutional shareholders' expectations, facilitating their involvement in our corporate governance despite the circumstances. See section 1.4 'Active shareholder engagement during the pandemic'. The nomination committee oversaw communication with shareholders and proxy advisors, as well as the results of votes at the 2020 AGMs, to further improve our corporate governance system. Our corporate communication framework, which establishes the key processes on communication of economic-financial, non-financial and corporate information throughout Group, helps maximize the disclosure and quality of the information we make available to the market. See section 3.1 'Shareholder engagement'.
Strategy to address climate-change risks and opportunities	
We will supervise the fulfilment of our public climate change commitments, add environmental criteria to the group's governance and risk management, and report on our progress transparently. Transition towards a green economy by financing sustainable projects, namely renewable energy projects, that promote a low-carbon economy and by supporting the development of sustainable and smart infrastructures will be very important in the board's agenda.	The responsible banking, sustainability and culture committee discussed climate change throughout 2020 to ensure we were upholding our climate commitments (see section 'Sustainable finance' in the 'Responsible banking' chapter). This includes embedding climate change considerations in our risk management policies and processes, as well as in developing products and engaging with our customers to support their journey towards a low-carbon economy. In particular, the responsible banking, sustainability and culture committee closely monitored how we were addressing our commitments regarding our own environmental footprint and green finance, and developing and implementing a strategy to fulfil the Collective Commitment to Climate Action to align our portfolios to the Paris Agreement on climate change. The responsible banking, sustainability and culture committee also oversaw the definition and implementation of a road map to act on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and supervisors and regulators' expectations and requirements. See section 4.9 'Responsible banking, sustainability and culture committee activities in 2020' and the 'Responsible banking' chapter for more details.
At the forefront of the best national and international practices	
In 2020, we will continue to heed recommendations from supervisors and guidelines of national and international organizations so that the operations and internal regulations of our governing bodies always follow best practice. In particular, we will review any amendments to the Spanish Corporate Governance Code that may be approved. Its initial proposal is in line with our corporate governance framework in regard to communication and engagement with shareholders and investors, director diversity and suitability assessments, executive committee composition, board organization and sustainability.	We closely followed the recommendations from supervisors and guidelines of national and international organizations. In particular, we complied with all ECB recommendations on dividend distribution. See section 3.3 'Dividends'. Likewise, we adapted our corporate governance framework to the revision of the Spanish Corporate Governance Code, made in June 2020. Among the salient actions we carried out were the revision of the Rules and regulations of the board, and modification of the composition of the responsible banking, sustainability and culture committee, now formed entirely by non-executive directors. See 'Rules and regulations of the board' in section 4.3. We also adapted our whistleblowing channel, now accessible from our website and to anyone related to Banco Santander. These actions allowed us to fully comply with 60 of the 61 recommendations of the Spanish Corporate Governance Code that apply to us, and partial compliance with the remaining recommendation. See section 9.3 'Table on compliance with or explanations of recommendations on corporate governance'.

1.6 Priorities for 2021

Our board’s priorities for 2021 are:

- **Long-term shareholder value**

Focusing on long-term shareholder value as well as supervising and supporting the management team in implementing our strategy, so that shareholder returns appropriately reflect the group's solvency, results, corporate culture and sustainable growth.

- **Covid-19**

Overseeing our response to the pandemic and our risk management of the economic crisis. It will prioritize the wellbeing of our employees, customers and shareholders by supporting our communities and continuing to build trust, underpinned by the strength of our business model, our strategy and the robust leadership of our teams.

- **Strategic growth initiatives**

Working on the group’s strategic growth priorities, which are critical to becoming the world’s best open financial services platform. Our initiatives include: One Santander, which is a common operational and business model created to transform the way we serve our customers, providing a simpler and enhanced customer experience; PagoNxt, which is an autonomous global payment platform to combine our payments businesses and banks around the world, accelerating the deployment of payment solutions to our customers globally, and is critical to building One Santander; and the digital consumer bank, integrating our fast-growing consumer lending business, Santander Consumer Finance (SCF), with Openbank to transform our digital proposition.

- **Responsible Banking – embedding ESG in all we do**

Driving Santander’s efforts to deliver profit with a clear purpose, to help people and businesses prosper in the years ahead, and to build a more responsible bank. It will also oversee the implementation of its decisions to support the Paris Agreement targets and focus on delivering the targets we set for ourselves; to raise and facilitate EUR 120 billion in green finance, and to financially empower 10 million people, by 2025.

- **High governance standards**

Maintaining high standards of governance to fulfil our strategy and ensure long-term success. This will help ensure our ongoing effectiveness and alignment with best practice. In particular, it will continue to instil strong governance disciplines as a key enabler to effective oversight and control across the group, making sure our corporate governance framework takes into account supervisory body recommendations as well as national and international guidelines.

2. Ownership structure

→ Broad and 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, each with a par value of 0.50 euros. All shares belong to the same class and carry the same rights, including voting and dividends.

There are no bonds or securities that can be converted into shares other than contingent convertible preferred securities (CCPS), which are mentioned in section 2.2 'Authority to increase capital'.

At 31 December 2020, Banco Santander had a share capital of EUR 8,670,320,651 represented by 17,340,641,302 shares.

The share capital was amended only once in 2020, through a capital increase on 3 December to allow for remuneration of EUR 0.10 per share in newly issued shares. This was announced by the board on 29 July after it had postponed in March the decision on the application of results for the 2019 financial year on the ECB's 27 March recommendation in light of the covid-19 pandemic. With this increase, which had been approved at the October 2020 AGM, Banco Santander issued a total of 722,526,720 new shares representing 4.35% of the share capital. These new shares began trading on 11 December. See section 3.5 'October 2020 AGM'.

We have a broad and balanced shareholder structure. At 31 December 2020, Banco Santander's had 4,018,817 shareholders, distributed by type of investor, geographic region and number of shares as follows:

Type of investor

	% of share capital
Board[A]	1.05 %
Institutional	58.10 %
Retail	40.85 %
Total	**100 %**

A. Shares owned or represented by directors. For further details on shares owned and represented by directors, see 'Tenure and equity ownership' in section 4.2 and subsection A.3 in section 9.2 'Statistical information on corporate governance required by the CNMV'.

Continent

	% of share capital
Europe	76.03 %
Americas	22,32%
Rest of the world	1.65 %
Total	**100 %**

Number of shares

	% of share capital
1-3,000	8.76 %
3,001-30,000	17.71 %
30,001-400,000	12.55 %
Over 400,000	60.98 %
Total	**100 %**

2.2 Authority to increase capital

Under Spanish law, only shareholders at the general meeting have the authority to increase share capital. However, they may delegate the authority to approve or execute capital increases to the board of directors. Our Bylaws are fully aligned with Spanish law and do not establish any different conditions for share capital increases.

As of 31 December 2020, our board of directors had received authorisation from shareholders to approve or carry out the following capital increases:

- **Authorised capital to 2023:** at our April 2020 AGM, the board was authorised to increase share capital on one or more occasions by up to EUR 4,154,528,645.50 (50% of capital at the time of the April 2020 AGM or approximately 8.3 billion shares representing 47.92% of the share capital at 31 December 2020). The board was granted this authorisation for three years (until 3 April 2023).

  Consequently, the board can issue shares for cash consideration with or without pre-emptive rights for shareholders, and for capital increases to back any convertible bonds or securities issued under its authority granted by the April 2020 AGM.

  Shares without pre-emptive rights under this authority can be issued up to EUR 830,905,729 (10% of capital at the time of the April 2020 AGM or approximately 1,661 million shares representing 9.58% of the share capital at 31

December 2020). However, this limit on issuing shares without pre-emptive rights do not apply to capital increases to convert CCPS (which can only be converted into newly-issued shares when the CET1 ratio falls below a predetermined threshold). Thus far, the board has not used this authority up to date.

- **Capital increases approved for contingent conversion of CCPSs:** we issued contingent convertible preferred securities that qualify as regulatory Additional Tier 1 (AT1) instruments and would be converted into newly-issued shares if the CET1 ratio fell below a predetermined threshold. Each issue is therefore backed by a capital increase approved under the authorisation granted to the board by shareholders. The chart below shows the outstanding CCPSs at the time of this report, with details about the capital increase resolutions that back them. These capital increases are therefore contingent and have been delegated to the board of directors. The board of directors is authorised to issue additional CCPSs and other convertible securities and instruments in accordance with the annual general meeting held on 12 April 2019 (2019 AGM) resolution that allows convertible instruments and securities to be issued for up to EUR 10 billion or an equivalent amount in another currency (of which EUR 1.5 bn were issued on 14 January 2020 as shown in the table below). Any capital increase to allow any such CCPS or other convertible instruments or securities to be converted would be approved under the authority mentioned in this section under 'Authorised capital to 2023' or under a future renewal of such authority.
- **Scrip dividend authority:** at our April 2020 AGM, shareholders approved a capital increase against reserves for a potential scrip issue (under the *Santander Dividendo Elección* scheme) as part of the shareholder remuneration against 2020 earnings, delegating the power to execute this increase to the board of directors within one year. As explained in section 3.3 'Dividends' the remuneration against 2020 earnings will be in cash. Thus, the board of directors intention is not to use this authorization and let it expire on 3 April 2021.

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]
11/09/2014	EUR 1,500 million	6.25% for the first seven years	If, at any time, the CET1 ratio of Banco Santander or the Group is less than 5.125%	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 these 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 antidilution adjustments and the resulting conversion ratio).

2.3 Significant shareholders

At 31 December 2020, no shareholder held more than 3% of Banco Santander's total share capital (which is the threshold generally provided under Spanish regulations for a significant holding in a listed company to be disclosed). Even though at 31 December 2020, certain custodians appeared in our shareholder registry 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 whom exceeded that threshold individually. These custodians were State Street Bank (13.54%),The Bank of New York Mellon Corporation (8.25%), Chase Nominees Limited (7.74%), EC Nominees Limited (3.55%), BNP Paribas (3.07%) and Caceis Bank (3.01%).

On 24 October 2019 BlackRock Inc., asset manager, reported to the CNMV its significant holding of voting rights in Banco Santander (5.426%). It also specified that it was holding shares on behalf of a number of funds or other investment entities, none of which exceeded 3% individually. No changes have been communicated since then. There may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2020, neither our shareholder registry nor the CNMV's registry showed any shareholder residing in a tax haven with a shareholding equal to, or greater than, 1% of our share capital (which is the other threshold applicable under Spanish regulations).

Our Bylaws and the Rules and regulations of the board of directors lay down 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, various persons linked to the Botín-Sanz de Sautuola y O'Shea family entered into a shareholders' agreement that set up a syndicate for their shares in Banco Santander. CNMV was informed of this agreement and the subsequent amendments the parties made. This information can be found on the CNMV website.

The main provisions of the agreement are:

- **Transfer restrictions:** except when the transferee is also a party to the agreement or the Fundación Botín, any transfer of Banco Santander shares expressly included in the agreement requires prior authorisation from the syndicate meeting, which can freely authorise or reject it. These transfer restrictions apply to the shares they expressly cover under the agreement and to shares subscribed for, or acquired by, syndicate members in exercising any subscription, bonus share, grouping or division, replacement, exchange or conversion rights that pertain or are attributed to, or derive from, those syndicated shares.

- **Syndicated voting:** under the agreement, the parties will syndicate and pool the voting rights attached to all their shares in Banco Santander, so that syndicate members may exercise them and, in general, act towards Banco Santander in a concerted manner, in accordance with the instructions and indications and the voting criteria and orientation established by the syndicate. This covers the shares subject to the transfer restrictions mentioned above as well as any voting rights attached to any other Banco Santander shares held either directly or indirectly by the parties to the agreement, and any other voting rights assigned to them 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 will be the chairman of the Fundación Botín (currently, Javier Botín, one of our directors and our Group executive chairman's brother).

The agreement initially terminates on 1 January 2056, but will be automatically extended for additional 10-year periods unless one of the parties notifies of their intention not to extend six months before the initial term or extension period ends. The agreement may only be terminated early if all the syndicated shareholders agree unanimously.

At 31 December 2020, the parties to the shareholders' agreement held 100,025,942 shares in Banco Santander (0.58% of its capital), which were therefore subject to the voting syndicate. They include 80.355.819 shares (0.46% of its capital) that are also subject to the 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 relevant information filed with CNMV.

2.5 Treasury shares

Shareholder approval

The acquisition of treasury shares was last authorized at our April 2020 AGM, for five years and subject to the following provisions:

- Treasury shares held at any time cannot exceed 10% of Banco Santander's share capital, which is the legal limit set under the *Ley de Sociedades de Capital* (Spanish Companies Act).
- The purchase price cannot be lower than the nominal value of the shares nor exceed 3% of the last trading price in the Spanish market for any trades in which Banco Santander does not act on its own behalf.
- The board may establish the purposes for and the procedures through which the authorization may apply.

Treasury shares policy

On 27 October 2020, the board approved the current treasury shares policy, which dictates that treasury share transactions may be carried out for these **purposes**:

- Provide liquidity or supply of securities in the market for Banco Santander shares, which gives this market depth and minimizes any temporary imbalances in supply and demand.
- Take advantage for the benefit of all shareholders of weakness in the share price in relation to its medium-term outlook.
- Meet our obligations to deliver shares to our employees and directors.
- Serve any other purpose authorized by the board within the limits set at the general meeting.

Among other things, the policy also provides for:

- The **principles** to uphold in treasury share trades, which include protecting financial markets' integrity and prohibiting market manipulation and insider trading.
- The **operating rules** on how treasury share trades must be carried out, unless in exceptional circumstances as per the policy. These rules include:
  - **Responsibility for execution** of these trades, which falls on the Investments and Holdings department, kept separate from the rest of Santander.
  - **Venues and types of trades**. Trades must generally be carried out in the orders market of the *mercado continuo* (continuous market) of Spanish stock exchanges.
  - **Volume limits**, which in general must not exceed 15% of the average daily trading volume for Banco Santander shares in the previous 30 sessions in the *mercado continuo*.
  - **Price limits.** In general, (a) buy orders should not exceed the greater of the price of the last trade in the market between independent parties or the highest price in a buy order in the order book and (b) sell orders should not be lower than the lesser of the price of the last trade in the market by independent parties and the lowest price in a sell order in the order book.
  - **Time limits**, including a 15-day black-out period that applies before each quarterly results presentation.
- **Disclosure to the markets** of treasury shares trading.

The policy applies to the discretionary trading of treasury shares. It does not apply to transactions in Banco Santander shares carried out to hedge market risks or provide brokerage or hedging for customers.

The full treasury shares policy is at Banco Santander's corporate website.

Activity in 2020

As of 31 December 2020, Banco Santander and its subsidiaries held 28,439,022 shares, which represented 0.164% of share capital (compared to 8,430,425 at 31 December 2019, then representing 0.051% of share capital).

The chart below summarizes the monthly average proportion of treasury shares to share capital throughout 2020 and 2019.

Monthly average of daily positions in treasury shares

% of Banco Santander's share capital at month end

	2020	2019
January	0.09%	0.07%
February	0.06%	0.02%
March	0.11%	0.01%
April	0.17%	0.01%
May	0.17%	0.02%
June	0.15%	0.02%
July	0.15%	0.02%
August	0.17%	0.03%
September	0.17%	0.04%
October	0.18%	0.04%
November	0.17%	0.05%
December	0.16%	0.05%

In 2020, the Group's treasury share trades consisted of the following values:

Acquisitions and transfers of treasury shares in 2020

	Acquisitions				Transfers				
EUR (except number of shares)	Number of shares	Total par value	Total cash amount	Average purchase price	Number of shares	Total par value	Total cash amount	Average purchase price	Profit (loss) net of taxes
Discretionary trading	51,678,265	25,839,133	143,415,000	2.83	31,669,373	15,834,687	104,550,000	3.30	1,193,000
Client induced trading [A]	250,301,349	125,150,675	614,843,000	2.46	250,301,349	125,150,675	614,843,000	2.46	0
Total	**301,979,614**	**150,989,807**	**758,258,000**	**2.51**	**281,970,722**	**140,985,361**	**719,393,000**	**2.56**	**1,193,000**

A. Transactions in Banco Santander shares carried out to hedge market risks or provide brokerage or hedging for customers.

The chart below shows significant changes in treasury shares that required disclosure to the CNMV in the year. Companies must report to the CNMV when purchases of treasury shares exceed 1% of the total voting rights (without discounting sales or transfers) or there is a change in the number of total voting rights.

Significant changes in treasury shares in 2020[A]

	% of voting rights represented by shares		
Reported on	acquired since last notice	transferred since last notice	held at reference date of notice
25/03/2020[B]	1.032%	0.89%	0.23%
11/11/2020	1.002%	1.048%	0.185%
21/12/2020	0.162%	0.184%	0.157%

A. Percentages calculated with share capital at the date of disclosure.
B. This notice was corrected by disclosures dated 26 March 2020 and 11 November 2020. Data shown as corrected.

2.6 Stock market information

Markets

Banco Santander shares are listed on Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, under the trading symbol 'SAN'), the New York Stock Exchange (NYSE) as American Depositary Shares (ADS) under the trading symbol 'SAN' (each ADS represents one Banco Santander share), the London Stock Exchange as Crest Depositary Interests (CDI) under trading symbol 'BNC' (each CDI represents one Banco Santander share), the Mexican Stock Exchange under the trading symbol 'SAN', and the Warsaw Stock Exchange under the trading symbol 'SAN'.

Share price performance

Government measures to contain the health crisis ensuing from the rapid spread of covid-19 had a very severe economic effect that caused GDP to plummet in the first half of the year like never before. Monetary policies quickly adopted by central banks and the fiscal stimulus packages governments put in place countered the economic slowdown and reduced financial tensions.

Relaxation of lockdowns helped market confidence and economic activity recover in the third quarter. Still, activity was slower than expected owing to new outbreaks and fears of new lockdown measures, which dragged the stock markets down.

During the year, the main indices performed better than the banking sector, which was under the influence of recommendations the ECB, the Bank of England, the Federal Reserve and other central banks had issued at the start of the pandemic to limit dividend payouts and share buybacks.

In this context, the Ibex 35 in Spain declined 15.5%; the DJ Stoxx 50 in Europe, 8.7%; DJ Banks, 24.5% and the MSCI World Banks,14.2%.

Market capitalisation and trading

By 31 December 2020, Santander's market capitalization of EUR 44,011 million was the second largest in the eurozone and 32nd largest in the world among the financial institutions.

19,080 million shares traded in the year for an effective value of EUR 45,034 million and a liquidity ratio of 115%.

The Banco Santander share

	2020	2019
Shares (million)	17,340.6	16,618.1
Price (EUR)		
Closing price[A]	2.538	3.575
Change in the price	-29.0%	-6.1%
Maximum for the period[A]	3.799	4.487
Date of maximum for the period	17/2/2020	17/4/2019
Minimum for the period[A]	1.439	3.244
Date of minimum for the period	24/9/2020	9/3/2019
Average for the period[A]	2.288	3.798
End-of-period market capitalisation (EUR million)	44,011	61,986
Trading		
Total volume of shares traded (million)	19,334	19,334
Average daily volume of shares traded (million)	74.2	75.8
Total cash traded (EUR million)	45,034	77,789
Average daily cash traded (EUR million)	175,2	305,1

A. Data adjusted to the December 2020 capital increase.

3. Shareholders. Engagement and general meeting

→ One share, one vote, one dividend

→ No takeover defences in our Bylaws

→ High participation and engagement of shareholders in our general meetings

3.1 Shareholder engagement

Policy on communication and engagement with shareholders and investors

Banco Santander aims to ensure its interests are in line with shareholders', long-term share value and the long-term confidence of investors and society. We provide information to shareholders and investors that satisfies their expectations and upholds our culture and values. We also communicate and engage with them regularly so that their views will be considered by senior managers and governance bodies.

On 27 February 2020, the board of directors approved a review of the policy on communication and engagement with shareholders and investors. The policy also applies to relations with the agents shareholders and investors seek for advice, recommendations or orientation, such as financial, environmental, social and governance analysts, proxy advisors and rating agencies, because they are essential to engaging with shareholders and investors.

Banco Santander's policy dictates the following principles for engagement and communication with shareholders and investors:

- **Protection of rights and lawful interests of all shareholders.** We facilitate their rights to be exercised, provide them with information and give them opportunities to be involved in our corporate governance effectively.
- **Equal treatment and non-discrimination.** We treat investors equally in accordance with status.
- **Fair disclosure.** We make sure our disclosure of information in interactions with investors is transparent, truthful and symmetrical. Any inside or relevant information given to investors will have been previously disclosed except when applicable regulation provides otherwise.
- **Appropriate disclosure of information.** We report the right information to meet our investor's needs and expectations. We make sure to give investors clear, concise and reliable information in a way that is tailored to shareholders.
- **Compliance with our Bylaws and corporate governance rules**, as well as the principles of cooperation and transparency with the competent regulators and supervisors, in accordance with internal guidelines. We adhere closely to the laws and regulations on insider and price-sensitive information in addition to our own 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 Banco Santander's main bodies and functions involved in communication and engagement with shareholders and investors.
- The **channels for disclosing information** and communicating with shareholders and investors.
- The **ways Banco Santander engages** with shareholders and investors, which are covered below.

Our policy on communication and engagement with shareholders and investors can be found in our corporate website.

In addition, Banco Santander has board-approved frameworks on brand, sustainability and communications, and accounting and financial information and management. They set out the general principles, roles and key processes on the communication of economic-financial, non-financial and corporate information at group level, helping ensure that all our shareholders and other stakeholders are properly informed about our strategy, goals and results, as well as about our culture and values, maximizing the disclosure and quality of the information available to the market.

Engagement with shareholders in 2020

In keeping with our policy, we engaged with our shareholders as follows:

- **The annual general meeting**. Our annual general meeting is our most important annual event for our shareholders. We strive to encourage all our shareholders to be informed, attend and participate. See 'Participation of shareholders at general meetings' and 'Right to receive information' in section 3.2.

  At the annual general meeting, the chairman reports on the year's most significant changes to the group's corporate governance, supplementing the corporate governance report. She also addresses any questions raised by shareholders about the matters included in the agenda.

The chairmen of the audit, nomination and remuneration committees also report to the annual general meeting on their operations and elaborate on the related information provided in this chapter.

Shareholders have the right to attend the annual general meeting in person or remotely. We broadcast our annual general meeting live on our corporate website. This allows shareholders not in attendance, investors and all stakeholders to be fully informed of debates and results.

The outsanding quorum and voting results in our April 2020 AGM show the importance we put on shareholder engagement through the annual general meetings. See section 3.4 'April 2020 AGM'.

In 2020 we held another annual general meeting. It also had a very high quorum and broad support for the proposed resolutions submitted for approval. See section 3.5 'October 2020 AGM'.

Banco Santander's management system for the 2020 AGMs received AENOR certification for sustainable events in compliance with the UNE-ISO 20121:2013.

- **Quarterly results presentations.** Every quarter we present our results on the same day we make them public. Our presentation can be followed live, via conference call or webcast. We release the related financial report and presentation material before market open. During the presentation, questions can be asked or emailed to: investor@gruposantander.com.

  Our most recent event was our 2020 Results Presentation on 3 January 2021. In 2020, we gave our first, second and third quarter results presentations on 28 April, 29 July and 27 October, respectively.

- **Investor and strategy days.** We also organise investor and strategy days, where senior managers explain our strategy for investors and stakeholders in a broader context than in results presentations. Investors can also directly interact with senior managers and some directors, which is increasingly important and attests to our strong governance. As recommended by the CNMV, we publish announcements about meetings with analysts and investors and related documentation in advance. We held our last Investor Day on 3 April 2019 in London. The information made available during the investor day is not incorporated by reference in this annual report nor considered part of it.

- **Meetings and conferences.** Our Shareholders and Investors Relations team discusses financial and other issues at meetings with investors at conferences organised by third parties.

  Notwithstanding the principle of equal treatment and non-discrimination, we have learned that one size does not fit all when engaging with investors. Therefore, we tailor the following engagements to meet the needs and expectations of especially our institutional investors, but also fixed-income investors, analysts and rating agencies, as well as retail shareholders:

- **Lead independent director engagement with key investors.** Our lead independent director, Bruce Carnegie-Brown, is regularly in contact with investors in Europe and North America, particularly in the months prior to our annual general meeting. We gather their insights and form an opinion about their concerns, especially regarding our corporate governance. In 2020 and early 2021, he met with 43 investors, who accounted for 44.58% of share capital, in eight cities. In our annual board assessment, board members highly value Mr Carnegie-Brown's role in integrating new international best practices in corporate governance, fostering tailored relations with our institutional investors. The nomination committee considers the feedback received from investors.

- **Investor roadshows.** Our Shareholders and Investors Relations department is constantly in direct contact with institutional investors and analysts to promote all-round discussion on shareholder value, better governance and remuneration structures, and sustainability matters.

  In 2020 Shareholder and Investor Relations had 1,137 interactions with 473 institutional investors in 139 locations, and 19 meetings focus in environmental, social and governance aspects. It engaged with 36.96% of share capital, which is over 65% of the capital held by institutional investors.

  We issued over 1,300 communications in 2020 to increase dialogue and transparency with shareholders and investors about the group's performance, results and the Banco Santander share.

- **Interaction with retail shareholders.** We also offer other special means of communication for retail shareholders regardless of the size of their stake. In 2020 the Shareholders and Investors Relations team organized 210 events with retail shareholders.

  The team also responded to 132,857 queries received via our shareholder and investor helplines, mailboxes, WhatsApp and bilateral meetings on the Virtual Customer Channel. Satisfaction surveys revealed 95% would recommend the attention service.

  Lastly, we received 27,446 shareholder and investor opinions through quality surveys and studies.

Communication with proxy advisors and other analyst and influencers

Lastly, we have always recognised the value our investors place on open and proactive dialogue with proxy advisors, ESG analysts, and other influential entities. We make sure they understand our corporate governance, responsible banking and sustainability priorities and messages in order to convey them properly to the investors.

In particular, the dialogue with proxy advisors is significantly more important because they are increasingly setting corporate governance standards. Therefore, we ensure they have an in-depth understanding of our corporate governance and remuneration practices and our markets.

In 2020, we had an appropriate communication and engagement with the main proxy advisors and took into account their opinions about corporate governance. We duly reported on and explained proposed resolutions submitted for the 2020 AGMs so they could make voting recommendations.

Corporate website

Our corporate website enables an effective communication with shareholders and all our global stakeholders. Its design enables us to be transparent and improves the experience of users in obtaining quality information about Santander.

Our corporate website includes information on corporate governance as required by law. In particular, (i) the key internal regulations of Banco Santander (Bylaws, Rules and regulations of the board, Rules and regulations for the general meeting, etc.); (ii) information on the board of directors and its committees as well as directors' professional biographies and (iii) information on general meetings.

The address of our information on corporate governance is: https://www.santander.com/en/shareholders-and- investors/corporate-governance. (It is included for reference purposes only. The content of our corporate website is not incorporated by reference in this annual report or otherwise considered part of it).

3.2 Shareholder rights

Our Bylaws provide for only one class of share (ordinary shares) and grants all shareholders the same rights. Each Banco Santander share entitles holders to one vote.

Banco Santander's Bylaws do not have any defensive mechanisms and fully conform to the notion of one share, one vote, and one dividend.

This section highlights certain key rights our shareholders have.

No restrictions on voting rights or the free transfer of shares in our Bylaws

The law and the Bylaws only place restrictions on voting rights as a result of violation of regulations, as indicated below.

There are no non-voting or multiple-voting shares, shares giving preferential treatment in dividend pay-outs, shares limiting the number of votes a single shareholder can cast, or quorum requirements or qualified majorities other than those the law dictates.

There are no restrictions on the free transfer of shares other than those the law dictates, as indicated further in this section.

Neither our Bylaws nor any laws or regulations restrict the transferability of shares. Our Bylaws also do not restrict voting rights (except if they were acquired in violation the law or regulations).

Furthermore, our Bylaws do not include any neutralisation provisions as defined in the *Ley del Mercado de Valores* (Spanish Securities Market Act), which would apply in tender offers or takeover bids.

Please note that the shareholders' agreement mentioned in section 2.4 'Shareholders' agreements' contains transfer and voting restrictions on shares that are subject to it.

Legal and regulatory restrictions on the acquisition of significant holdings

There are legal and regulatory provisions applicable to the Banco Santander 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. As Banco Santander is a listed company, a tender offer or a takeover bid for its shares must be launched to acquire control and for 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 Market Act.
- Act 10/2014, of 26 June, on the organization, 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 Banco Santander may also require approval by (i) other domestic and foreign regulators with supervisory powers over Banco Santander or its subsidiaries' operations, shares listings or other actions concerning such regulators or subsidiaries and (ii) other authorities pursuant to foreign investment regulations (including those imposed due to covid-19) in Spain or other countries where we operate.

Shareholder participation at general meetings

All registered holders of shares found on record at least five days prior to the day of general meetings are entitled to attend. Banco Santander allows shareholders to exercise their rights to attend, delegate, vote and participate in general meetings using remote communications systems.

The electronic shareholders' forum is another communications channel available on Banco Santander's website at the time of the meeting. Shareholders can post items they propose to add to the agenda in the meeting notice, requests for support for their proposals, initiatives to reach the percentage required to exercise minority shareholder rights legally, as well as offers or requests to act as a voluntary proxy.

Supplement to the annual general meeting notice

Shareholders representing at least 3% of share capital may request the publication of a supplement to the annual general meeting notice stating the names of shareholders exercising this right, the number of shares they hold, as well as any items to be added to the agenda with an explanation or substantiated proposal for resolutions and any other relevant documentation.

Shareholders representing at least 3% of share capital may also propose reasoned resolutions about any matters that have been, or should be, added to the agenda of a called annual general meeting.

To exercise these rights, shareholders must send a certified notice to Banco Santander's registered office within five days after the annual general meeting announcement notice is posted.

Right to receive information

From the time the general meeting notice is posted until the fifth day before the general meeting date on first call, shareholders can submit written requests for information or clarification, or any written questions they deem relevant to the items on the meeting agenda. In addition, within the same period, shareholders can submit written requests for clarification about price-sensitive information Banco Santander has furnished for the CNMV since the last general meeting or about auditor's reports. Banco Santander posts any information or answers it provides on its corporate website.

Shareholders may also exercise their right to receive information at the meeting. Even if it cannot be asserted in the course of the meeting, or requests are made by shareholders attending remotely, they will be given the appropriate information in writing within seven days after the general meeting.

Quorum and majorities for passing resolutions at general meeting

The quorum and majorities set out in our Bylaws and Rules and regulations for general meeting in order to hold a valid meeting and adopt corporate resolutions is according to Spanish law.

On first call, shareholders representing at least 25% of subscribed share capital with voting rights must be in attendance (except for certain matters mentioned subsequently). If a sufficient quorum cannot be constituted,general meetings will be held on second call, which does not require a quorum.

In accordance with our Rules and regulations for general meeting, shareholders voting by mail or electronically before the meeting are counted as present in order to determine the general meeting quorum.

With the exception of certain matters mentioned below, general meeting resolutions pass when shareholders in attendance or by proxy cast more votes in favour than against.

The quorum and majorities required to amend the Bylaws, issue shares and bonds, make structural changes and vote on other significant resolutions permitted by law are set out below. Furthermore, laws applying to credit institutions dictate that, if over 50% of the share capital is present at general meetings, a qualified two-thirds majority is required to raise the proportion of variable remuneration components to fixed components for executive directors and other top executives above 100% (up to 200%); otherwise, a three-quarters majority will be necessary.

Our Bylaws do not require shareholder approval at general meetings for any decisions about acquiring core assets, selling them off or transferring them to another company or similar corporate transactions, unless it is required by law.

Rules for amending our Bylaws

The general meeting is the competent body to approve any amendment to the Bylaws. However, only the board can decide to change the registered office within Spain.

The board or, where appropriate, the shareholders who have drafted a proposed amendment to the Bylaws must write it out completely, in addition to a report justifying it; and provide them to shareholders at the time the meeting to debate proposed amendment is announced.

The general meeting notice must clearly state the items to be amended as well as the rights of all shareholders to examine the full text of a proposed amendment and the related report at Banco Santander's registered office, and order these documents delivered or sent to them free of charge.

If shareholders are convened to debate amendments to the Bylaws, the quorum on first call will be constituted if 50% of subscribed share capital with voting rights is present. If a sufficient quorum cannot be constituted, the general meeting will be held on second call, where 25% of subscribed share capital with voting rights must be present.

When less than 50% of subscribed share capital with voting rights are present, resolutions on amendments to the Bylaws can only be validly adopted if two-thirds of shareholders attending the meeting in person or by proxy vote for them. However, when 50% or more of subscribed share capital with voting rights is present, resolutions may validly pass with an absolute majority.

Resolutions to amend the Bylaws that involve new obligations for shareholders must be accepted by those affected.

The Single Supervisory Mechanism (SSM) must authorise us to amend our Bylaws. However, amendments that are exempt from authorisation but must still be reported to the SSM include any to change the registered office within Spain, raise share capital, add imperative or prohibitive laws or regulations to the wording of the Bylaws, or change the wording in order to comply with court or administrative rulings and any others the SSM has declared exempt due to a lack of materiality in response to prior consultations.

3.3 Dividends

Remuneration against the 2019 results

- **Precovid**. In February 2019, the board of directors announced its plans for a mid-term payout ratio of 40-50% of underlying profit (up from 30-40%); an in-cash dividend rate not lower than in 2018; and two payments against the 2019 results (as announced at the 2018 annual general meeting).

  Consequently, the board in September 2019 approved an interim cash dividend of EUR 0.10 per share against the 2019 results, paid on 1 November 2019. Furthermore, in February 2020, it decided to put to a vote at the April 2020 AGM a second payment against the 2019 results of 0.13 euros per share, with a final cash dividend of 0.10 euros per share (Final Cash Dividend) and a scrip dividend (under the *Santander Dividendo Elección* (SDE) scheme) that would pay

0.03 euros per share in cash to opting-in shareholders (see 'Scrip dividend authority' in section 2.2 and section 3.4 'April 2020 AGM').

If that proposal had been carried out, 46.3% of the 2019 underlying attributable ordinary profit would have been paid out to shareholders, and the cash dividend rate would have been 89.6%, assuming 20% of cash options in the SDE scheme, in line with the objectives announced at the start of 2019. The cash dividend would have increased by 3% year-on-year, in contrast to the one paid against the 2018 results (EUR 0.195 per share in 2018 versus EUR 0.20 per share in 2019), even without considering the cash payout under the SDE scheme.

- **Covid-19 and the first ECB recommendation**. On 27 March 2020 the ECB issued a recommendation for all European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results until at least 1 October 2020 to preserve capital (ECB Recommendation I).

  Considering the ECB Recommendation I and in view of Santander's mission to help people and businesses prosper, on 2 April 2020 the board of directors cancelled the payment of the 2019 final dividend and the dividend policy for 2020, removed the Final Cash Dividend and the SDE scheme proposals from the agenda for the already announced April 2020 AGM and deferred the decision on the application of the 2019 results to a meeting to be held no later than 31 October 2020.

- **Second ECB recommendation and October 2020 AGM**. On 27 July 2020, the ECB issued a second recommendation extending the term of ECB Recommendation I. It asked the European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results or from making irrevocable commitments to pay them until 1 January 2021 (ECB Recommendation II).

  In September 2020, the board of directors called the October 2020 AGM, proposing to the shareholders to (a) in accordance with ECB Recommendation II, allocate the entirety of Banco Santander's 2019 results to increasing the voluntary reserve, except for the portion already applied to pay the interim dividend (which had been paid out before ECB Recommendation I) and (b) increase capital with a charge to reserves to permit a final remuneration for 2019, in addition to the interim dividend, for the equivalent of 0.10 euro per share in the form of newly-issued shares and without a cash alternative.

  Shareholders approved both proposals at the October 2020 AGM as indicated in section 3.5 'October 2020 AGM'. Thus, 50.6% of our underlying attributable profit in 2019 was paid out to shareholders, and the proportion of cash over the total dividend was 49.4%.

Remuneration against the 2020 results

- **Precovid**. The board of directors' originally set about for remuneration against the 2020 results to maintain the announced mid-term pay-out ratio target of 40-50% of underlying profit; make sure the in-cash dividend rate was no lower than in 2019; and to make two payments against the 2020 results. The board proposed to shareholders to, at our April 2020 AGM, set shareholder remuneration with the same flexibility as 2019 by (a) retaining the option of using the SDE scheme (scrip dividend) (in view of its wide acceptance, especially among our retail shareholders) to take advantage of profitable growth opportunities in our markets and (b) renewing the authorization to acquire treasury shares with the option of running share buy-backs to reduce outstanding shares under favourable market conditions. See section 3.4 'April 2020 AGM'.

- **Covid-19 and ECB Recommendation I**. As mentioned above, ECB Recommendation I led the board of directors to cancel the dividend policy for 2020 on 2 April 2020.

- **ECB Recommendation II and October 2020 AGM**. Following ECB Recommendation II which extended the term of ECB Recommendation I to 1 January 2021, the board of directors proposed to shareholders at the October 2020 AGM a payment in 2021 of up to 0.10 euros per share against share premium as remuneration against 2020 results, contingent on the ECB's approval and recommendations, a CET1 ratio maintained within or above our target range of 11-12%, and the total distribution not exceeding 50% of our consolidated ordinary (underlying) profit.

  The proposal aimed to apply a 100% cash dividend policy and to make a payment to shareholders with respect to 2020 in line with the one announced in early 2020 (40-50% of the group's consolidated ordinary (underlying) profit) as soon as market conditions normalized and subject to regulatory recommendations and approvals.

  Shareholders approved the proposal at the October 2020 AGM, as indicated in section 3.5 'October 2020 AGM'.

- **Third ECB recommendation**. On 15 December 2020, the ECB recommended that all credit institutions under its supervision limit shareholder remuneration until 30 September 2021 to the lowest between 15% of the adjusted profit for 2020 (and 2019 but only for those entities that, as opposed to Banco Santander, did not make any dividend payments against the 2019 results) and the equivalent of 20 basis points of the CET1 ratio.

  On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of €2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation. This dividend will be paid under the resolution of the October 2020 AGM for the distribution of share premium mentioned above.

Remuneration against the 2021 results

The board aims to restore a payout ratio of 40-50% of underlying profit, in cash, in the medium term. With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the ECB recommendations so allow. The ECB has said it intends to repeal the recommendation in September 2021 in the absence of materially adverse developments. In the meantime, and in line with the announcement of April 2020, the dividend policy will remain suspended.

3.4 April 2020 AGM

On 3 April 2020 we held our customary ordinary general shareholders' meeting which, due to covid-19, was the first shareholders' meeting of Banco Santander held exclusively by remote means (see section 1.4 'Active shareholder engagement during the pandemic'). The pandemic and the recommendations issued by the ECB as a consequence also meant that the board of directors had to withdraw, once the meeting had been called, points 2 (application of results) and 7A (share capital increase to implement a *Santander Dividendo Elección* scheme) from the agenda (see section 3.3 'Dividends'). The application of results for year 2019 was later submitted to the October 2020 AGM (see next section 3.5 'October 2020 AGM')

Quorum and attendance

The quorum (among shareholders present and represented) was 65.0% broken down as follows:

Quorum breakdown

In person and virtual attendance	0.091 %
By proxy	
Cast by post or direct delivery	49.410 %
By electronic means	13.193 %
Remote voting	
Cast by post or direct delivery	0.600 %
By electronic means	1.711 %
Total	**65.005 %**

Voting results and resolutions

All items on the agenda (as amended as indicated above) were approved. Votes in favour of the board's proposals averaged 98.2%. 99.68% of votes approved corporate management for 2019 and 93.77% of votes approved the 2019 annual report on directors' remuneration. None of the agenda items listed in the notice convening the meeting received more than 6.93% of votes against.

The following chart summarizes the resolutions approved and voting results:

	VOTES [A]				
	For [B]	Against [B]	Blank [C]	Abstention [C]	Quorum [D]
1. Annual accounts and corporate management					
1A. Annual accounts and directors' reports for 2019	99.74	0.26	0.03	3.08	65.00
1B. Consolidated statement of non-financial information for 2019	99.75	0.25	0.04	2.86	65.00
1C. Corporate management 2019	99.68	0.32	0.04	3.14	65.00
2. Application of results [E]	–	–	–	–	–
3. Appointment, re-election or ratification of directors					
3A. Setting of the number of directors	99.64	0.36	0.03	2.89	65.00
3B. Appointment of Luis Isasi Fernández de Bobadilla	99.38	0.62	0.04	2.92	65.00
3C. Appointment of Sergio Agapito Lires Rial	98.65	1.35	0.04	2.90	65.00
3D. Ratification of the appointment and re-election of Pamela Ann Walkden	99.63	0.37	0.04	2.89	65.00
3E. Re-election of Ana Patricia Botín-Sanz de Sautuola y O'Shea	98.31	1.69	0.03	2.86	65.00
3F. Re-election of Rodrigo Echenique Gordillo	96.38	3.62	0.04	2.90	65.00
3G. Re-election of Esther Giménez-Salinas i Colomer	99.40	0.60	0.03	2.89	65.00
3F. Re-election of Sol Daurella Comadrán	99.21	0.79	0.04	2.88	65.00
4. Re-election of the external auditor for Financial Year 2020	99.73	0.27	0.03	2.85	65.00
5. Authorization to acquire treasury shares	98.03	1.97	0.03	2.87	65.00
6. Authorization granted to the board to increase share capital	93.07	6.93	0.03	2.85	65.00
7A. Increase in share capital. Offer to acquire bonus share rights at a guaranteed price [E]	–	–	–	–	–
7B. Increase in share capital. Offer to acquire bonus share rights at a guaranteed price	99.41	0.59	0.03	2.84	65.00
8. Delegation to the board of the power to increase share capital to issue all kinds of fixed-income securities, preferred interests or similar, non-convertible similar debt instruments (including warrants)	99.49	0.51	0.03	2.85	65.00
9. Directors' remuneration policy	94.40	5.60	0.03	3.28	65.00
10. Maximum total annual remuneration of directors in their capacity as directors	95.87	4.13	0.03	3.31	65.00
11. Maximum ratio of fixed and variable components in executive directors' total remuneration	98.78	1.22	0.03	3.28	64.65
12. Remuneration plans that include that inclthe delivery of shares or share options:					
12A. Deferred multiyear objectives variable remuneration plan	96.13	3.87	0.03	3.28	65.00
12B. Deferred conditional variable remuneration plan	97.49	2.51	0.03	3.29	65.00
12C. Digital Transformation Award	99.40	0.60	0.03	3.29	65.00
12D. Group buy-out policy	98.89	1.11	0.04	3.32	65.00

	VOTES [A]				
	For [B]	Against [B]	Blank [C]	Abstention [C]	Quorum [D]
12E. Plan for employees of Santander UK Group Holdings and other companies of the Group in the UK	99.26	0.74	0.03	3.28	65.00
13. Authorisation to implement the resolutions approved	99.70	0.30	0.03	2.85	65.00
14. Annual directors' remuneration report	93.77	6.23	0.03	3.45	65.00
15. Corporate action to demand director liability [F]	0.00	100.00	0.00	0.13	62.69
16 to 30. Dismissal and removal of directors [G]	0.00	100.00	0.00	0.13	62.69

A. Each Banco Santander share grants one vote.
B. Percentage of votes for and against.
C. Percentage of share capital present and attending by proxy at the April 2020 AGM.
D. Percentage of Banco Santander's share capital on the date of the April 2020 AGM.
E. Item withdrawn from the agenda as indicated above.
F. Item not included on the agenda.
G. Items 16 to 30 (not included on the agenda) were put to a separate vote. Each item refers to the proposal to dismiss and remove each acting director at the April 2020 AGM.

The full texts of the resolutions passed at the April 2020 AGM can be found on our corporate website and on the CNMV's website, as they were filed as other relevant information on 3 April 2020.

3.5 October 2020 AGM

Banco Santander held another ordinary general shareholders' meeting on 27 October 2020 to decide, among other matters, on the application of results obtained during financial year 2019 which had been deferred after the ECB Recommendation I (see section 3.3 'Dividends'). This meeting was hybrid, i.e. allowing attendance in person and by remote means (see section 1.4 'Active shareholder engagement during the pandemic').

Quorum and attendance

The quorum (among shareholders present and represented) was 60.34% broken down as follows:

Quorum breakdown

In person and virtual attendance	0.167 %
By proxy	
Cast by post or direct delivery	7.441 %
By electronic means	35.845 %
Remote voting	
Cast by post or direct delivery	0.589 %
By electronic means	16.300 %
Total	**60.342 %**

Voting results and resolutions

All items on the agenda were approved. Votes in favour of the board's proposals averaged 99.15%. The following chart summarizes the resolutions approved and voting results:

	VOTES [A]				
	For [B]	Against [B]	Blank [C]	Abstention [C]	Quorum [D]
1. Application of results	99.52	0.48	0.06	3.26	60.34
2. Appointment, re-election or ratification of directors					
2A. Setting of the number of directors	98.96	1.04	0.09	3.42	60.34
2B. Appointment of R. Martín Chávez Márquez	98.58	1.42	0.10	3.42	60.34
3A. Examination and approval of the balance sheet as at 30 June 2020	99.57	0.43	0.08	3.37	60.34
3B. Increase in share capital with a charge to reserves	98.43	1.57	0.06	3.26	60.34
4. Conditional distribution of share premium reserve	99.41	0.59	0.03	3.18	60.34
5. Authorisation to implement the resolutions approved	99.58	0.42	0.08	3.29	60.34
6 to 20. Dismissal and removal of directors [E]	0.00	100.00	0.00	0.30	43.45

A Each Banco Santander share affords one vote.
B. Percentage of votes for and against.
C. Percentage of share capital present and attending by proxy at the October 2020 AGM.
D. Percentage of Banco Santander's share capital on the date of the October 2020 AGM.
E. Items 6 to 20 (not included on the agenda) were put to a separate vote. Each item refers to the proposal to dismiss and remove each acting director at the October 2020 AGM.

The full text of the resolutions passed at the October 2020 AGM can be found on our corporate website and on the CNMV's website, as they were filed as other relevant information on 27 October 2020.

3.6 Our coming 2021 AGM

The board of directors agreed to call the 2021 AGM for 25 or 26 March on first and second call respectively, with the following proposed resolutions.

- **Annual accounts and corporate management.** For approval of:
  - The annual accounts and the directors' reports of Banco Santander and its consolidated Group for the financial year ended on 31 December 2020. For further information, see 'Consolidated Annual Accounts'.
  - The consolidated non-financial statement for the financial year ended on 31 December 2020 is part of this consolidated directors' report. See the 'Responsible banking' chapter.
  - The corporate management for the financial year 2020.
  - The application of results obtained during financial year 2020. See section 3.3 'Dividends'.
- **Appointment of directors**.
  - Setting the number of directors at 15, within the maximum and minimum limits set in the Bylaws.
  - Ratification of the appointment of Gina Díez as an independent director (see section 1.1 'Board skills and diversity') and re-electing Homaira Akbari, Álvaro Cardoso, Javier Botín, Ramiro Mato and Bruce Carnegie-Brown for a three-year period. See section 4.1 'Our directors'.
- **External auditor**. Re-electing the firm PricewaterhouseCoopers Auditores, S.L. as external auditor for financial year 2021. See 'External auditor' in section 4.5.
- **Bylaws**. Approve these main amendments:
  - To make the board of directors the competent body to issue non-convertible debt.
  - To make the board of directors the competent body to approve equity remuneration plans for employees, as permitted by the Spanish Companies Act since 2015.
  - To hold fully-virtual general meetings where permitted by law.
- **Rules and regulations of the general meeting**. Approve the amendment of certain articles to coordinate them with the proposed Bylaw amendments and to incorporate technical improvements.
- **Authority to issue non-convertible securities**. Delegating to the board of directors the authority to issue debentures, bonds, preferred interests and other similar debt instruments that cannot be converted into shares of Banco Santander.
- **Remuneration policy**. Approving the director remuneration policy for 2021, 2022 and 2023. For further information, see section 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
- **Director remuneration**. Approving director's fixed annual remuneration. For further information, see section 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
- **Variable remuneration**. Approving a maximum ratio of 200% of variable components to fixed components of 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 2021, 2022 and 2023 submitted to a binding shareholder vote'.
- **Remuneration plans**. Approving remuneration plans that involve the delivery of shares or share options or are share-value based. For further information, see section 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
- **Annual directors' remuneration report**. Holding a non-binding vote on the annual directors' remuneration report. For further information, see section 6. 'Remuneration'.

The related documents and information will be available for consultation on our corporate website on the date the meeting notice is published. We will also broadcast our 2021 AGM live, as was done for the 2020 AGMs.

Since attendance at the 2021 AGM is not paid, a general policy in this regard is not necessary. However, Banco Santander offers attendees a commemorative courtesy gift, as has been tradition for decades.

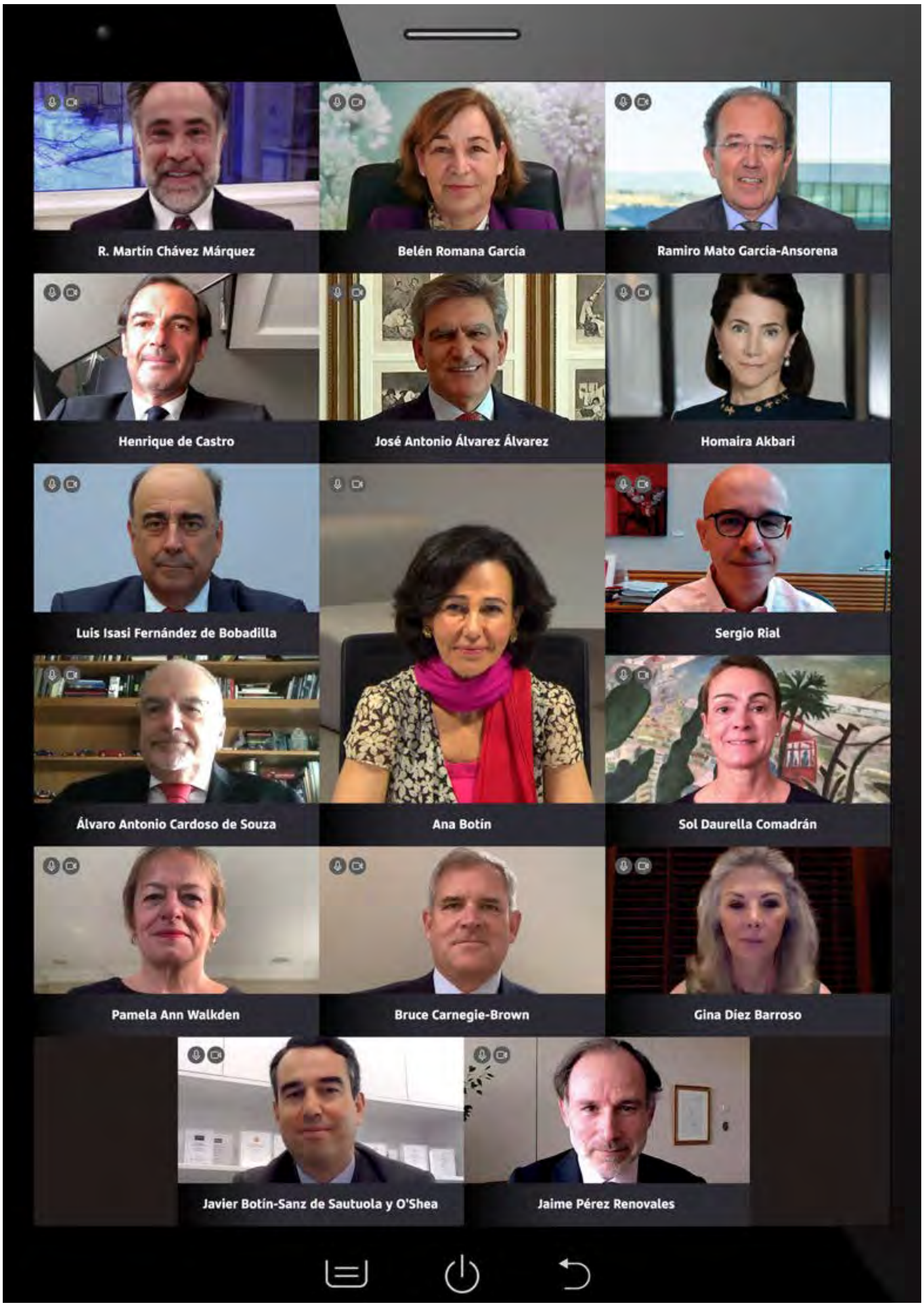
4. Board of directors

A balanced and diverse board

- 15 directors, including 12 non-executive and 3 executive
- Majority of independent directors (66.67%)
- Balanced presence of men and women (40%-60%)

Effective governance

- Specialised committees advising the board
- The responsible banking, sustainability and culture committee shows the board's commitment to this matter
- Complementary functions and power balance: executive chairman, CEO and lead independent director



● Executive committee
● Audit committee
■ Nomination committee
■ Remuneration committee
▲ Risk supervision, regulation and compliance comittee
▲ Innovation and technology committee
✱ Responsible banking, sustainability and culture committee
P Chairman of the committee

R. Martín Chávez
Member
Non-executive director (independent)
■ ■ ▲ ▲ P

Belén Romana
Member
Non-executive director (independent)
● ● ▲ ▲ ✱

Ramiro Mato
Member
Non-executive director (independent)
● ● ▲ ✱ P

Henrique de Castro
Member
Non-executive director (independent)
● ■ ▲

José Antonio Álvarez
Vice chairman and CEO
Executive director
● ▲

Homaira Akbari
Member
Non-executive director (independent)
● ▲ ✱

Luis Isasi
Member
Non-executive director
● ■ ▲

Ana Botín
Executive chairman
Executive director
● P ▲

Sergio Rial
Member
Executive director

Álvaro Cardoso
Member
Non-executive director (independent)
▲ P ✱

Sol Daurella
Member
Non-executive director (independent)
■ ■ ✱

Pamela Walkden
Member
Non-executive director (independent)
● P

Bruce Carnegie-Brown
Vice chairman and lead independent director
Non-executive director (independent)
● ■ P ■ P ▲

Gina Díez
Member
Non-executive director (independent)

Javier Botín
Member
Non-executive director

Jaime Pérez Renovales
General secretary and secretary of the board

4.1 Our directors

Information is presented as at 31 December 2020.

Ana Botín-Sanz de Sautuola y O'Shea
GROUP EXECUTIVE CHAIRMAN
Executive director

Ms Botín 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: Ms Botín 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 Santander's expansion into 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: Ms Botín is a 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 the Empieza por Educar Foundation (the Spanish subsidiary of the international NGO, Teach for All), and sits on the advisory board of the Massachusetts Institute of Technology (MIT). In February 2021, she was appointed president of the European Banking Federation.

Positions in other Group companies: Ms Botín is a non-executive director of Santander UK plc and Santander UK Group Holdings plc; a non-executive chairman of Universia España Red de Universidades, S.A. and Universia Holding, S.L; and a non-executive director of Santander Holding USA, Inc., Santander Bank, N.A. and PagoNxt, S.L.

Membership of board committees: Executive committee (chairman), and innovation and technology committee.

Skills and competencies: Extensive international experience in banking, having held the highest executive roles. She has also led the transformational, strategic and cultural change of Grupo Santander. Moreover, she has shown an ongoing commitment to sustainable and inclusive growth, as demonstrated by her philanthropic activities.

José Antonio Álvarez Álvarez
VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER
Executive director

Mr Álvarez joined the board in 2015.

Nationality: Spanish. Born in 1960 in León, Spain.

Education: Degree in Economics and Business Administration. MBA from the University of Chicago.

Experience: José Antonio Álvarez 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 a board member of Bolsas y Mercados Españoles, S.A.

Other positions of note: None.

Positions in other Group companies: Mr Álvarez is non-executive director of Banco Santander (Brasil), S.A. and PagoNxt, S.L.

Membership of board committees: Executive committee, and innovation and technology committee.

Skills and competencies: Mr Álvarez is a highly qualified and talented leader with a distinguished career in banking. He brings significant strategic and international management expertise, in particular financial planning, asset management and consumer finance. He has vast experience with, and a strong reputation among, key stakeholders such as regulators and investors.

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: Mr Carnegie-Brown was non-executive chairman of Moneysupermarket.com Group plc (2014-2019), non-executive director of Jardine Lloyd Thompson Group plc (2016-2017) and non-executive chair of AON UK Ltd (2012-2015). He was 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 Catlin Group Ltd (2010-2014). He previously worked at JP Morgan Chase for 18 years and Bank of America for four years.

Other positions of note: Mr Carnegie-Brown is the non-executive chairman of Lloyd's of London and Cuvva Limited.

Positions in other Group companies: Mr Carnegie-Brown is non-executive director of Santander UK plc and Santander UK Group Holdings plc.

Membership of board committees: Executive committee, nomination committee (chairman), remuneration committee (chairman), and innovation and technology committee.

Skills and competencies: Mr Carnegie-Brown has a lengthy background in banking (particularly investment banking) and considerable expertise in insurance. He also possesses significant international experience in Europe (UK), the Middle East and Asia. His top-management insight provides the board with know-how in regard to remuneration, appointments and risk. As lead independent director, he has also gained an excellent understanding of investors' expectations, as well as managing relations with them and financial entities.

Homaira Akbari

Non-executive director (independent)

Ms Akbari joined the board in 2016.

Nationality: American and French. Born in 1961 in Tehran, Iran.

Education: PhD in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.

Experience: Homaira Akbari was non-executive director of Gemalto NV and 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. She has also held various posts at Microsoft Corporation and Thales Group.

Other positions of note: Ms Akbari is chief executive officer of AKnowledge Partners, LLC and an independent director of Landstar System, Inc. and Temenos, AG.

Positions in other Group companies: Ms Akbari is non-executive director of Santander Consumer USA Holdings Inc. and PagoNxt, S.L.

Membership of board committees: Audit committee, innovation and technology committee, and responsible banking, sustainability and culture committee.

Skills and competencies: Ms Akbari brings significant executive experience from technology companies. Her knowledge about digital transformation challenges is an asset to the board. She also has extensive experience in various geographies and knowledge about water, energy and waste management and treatment, which are of particular value to the group.

Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director

Mr Botín joined the board in 2004.

Nationality: Spanish. Born in 1973 in Santander, Spain.

Education: Degree in Law from the Complutense University of Madrid.

Experience: Javier Botín founded JB Capital Markets, Sociedad de Valores, S.A.U in 2008 and has been its executive chairman ever since. He was co-founder and executive director of the equities division of M&B Capital Advisers, S.V., S.A. (2000-2008). Previously, he had been a legal adviser within the International Legal Department of Banco Santander, S.A. (1998-1999).

Other positions of note: In addition to the financial sector, Mr Botín works with several not-for-profit organisations. He has been chairman of the Botín Foundation since 2014 and is also a trustee of the Princess of Girona Foundation.

Positions in other Group companies: None.

Membership of board committees: None.

Skills and competencies: Mr Botín brings international and managerial expertise to the board, particularly in finance and banking. He also brings a deep understanding of Grupo Santander, its operations and its strategy from his tenure as a non-executive director.

Álvaro Cardoso de Souza

Non-executive director (independent)

Mr de Souza 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 São Paulo, MBA-Management Program for Executives from the University of Pittsburgh, and a graduate of the Investment Banking Marketing Program at Wharton Business School.

Experience: Álvaro Cardoso de Souza has held various roles in Citibank Group, including CEO of Citibank Brazil, as well as senior roles in the US relating to consumer finance, private banking and Latin America. He was a board member at AMBEV. S.A., Gol Linhas Aéreas, S.A. and Duratex, S.A. He was chairman of WorldWildlife Group (WWF) Brazil, a board member at 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: Mr de Souza is the 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: Mr de Souza possesses broad international experience in banking, particularly in Brazil. He has a solid understanding of strategy and risk management, which is key to his role as chairman of our risk supervision, regulation and compliance committee. In addition, his active involvement with several environmental foundations and NGOs brings with him very useful knowledge about sustainability.

Sol Daurella Comadrán

Non-executive director (independent)

Ms Daurella joined the board in 2015.

Nationality: Spanish. Born in 1966 in Barcelona, Spain.

Education: Degree in Business and MBA from ESADE.

Experience: Sol Daurella Comadrán served on the board of the Círculo de Economía and was 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: Ms Daurella is chairman of Coca-Cola European Partners plc and executive chairman of Olive Partners S.A. She also holds several roles at Cobega Group companies and is chairman of the board of trustees of the FERO Oncology Research Foundation.

Positions in other Group companies: None.

Membership of board committees: Nomination committee, remuneration committee, and responsible banking, sustainability and culture committee.

Skills and competencies: Ms Daurella brings to the board excellent strategy and high-level management skills from her international top-executive experience at listed and large privately-held entities, particularly distributors. She has vast knowledge of corporate governance as the former chair of several boards. She also possesses audit experience, having served on several audit committees. In addition, as a trustee at various health, education and environmental foundations, Ms Daurella contributes responsible business and sustainability insight to the board.

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 & Management (Portugal) and MBA from the University of Lausanne (Switzerland).

Experience: Henrique de Castro was an independent director at First Data Corporation and chief operating officer at Yahoo. Previously, he had been the manager of worldwide devices, media and platforms at Google, European sales and business development manager at Dell Inc. and a consultant at McKinsey & Company.

Other positions of note: Mr de Castro is an independent director of Fiserv Inc.

Positions in other Group companies: Mr de Castro is a non-executive director of PagoNxt, S.L.

Membership of board committees: Audit committee, remuneration committee, and innovation and technology committee.

Skills and competencies: Due to his executive roles in the world's top technology companies, Mr de Castro brings valuable experience in technological and digital strategy from a wide range of geographies.

Gina Díez Barroso

Non-executive director (independent)

Ms Díez joined the board in 2020.

Nationality: Mexican. Born in 1955 in Mexico City, Mexico.

Education: Degree in Design from Centro de Diseño, Mexico City.

Experience: She has over 20 years' experience in the real estate and education sectors. Until April 2020, she was an independent director of Banco Santander México, S.A. and several Grupo Santander companies in Mexico. She has been member of the board of directors of Americas Society/Council of the Americas, Laurel Strategies and Qualitas of Life Foundation.

Other positions of note: She is the founder and president of Grupo Diarq, S.A. de C.V. and Centro de Diseño y Comunicación, S.C. (Universidad Centro). In addition, she is a member of the board of Dalia Women, S.A.P.I de C.V. (Dalia Empower), member of Comité de 200 (C200) and represents Mexico at the W20, the G20 womens' initiative. She founded and is a trustee of the Pro-Educación Centro and Diarq foundations.

Positions in other Group companies: None.

Membership of board committees: None.

Skills and competencies: Ms Díez possesses vast experience in the real estate and education sectors, and has extensive knowledge of responsible business and sustainability as a result of having been a charter member and trustee of foundations focusing on education, gender diversity and social support.

Luis Isasi Fernández de Bobadilla

Non-executive director

Mr Isasi joined the board in 2020.

Nationality: Spanish. Born in 1956 in Jerez de la Frontera, Spain.

Education: Degree in Economics and Business Administration and MBA from Columbia Business School.

Experience: With broad experience in the financial and securities market sectors, Mr Isasi began his career at Abengoa, before holding various executive positions at JP Morgan in New York and First National Bank of Chicago in London. In 1987, he joined Morgan Stanley as managing director of investment banking for Europe and, from 1997 to February 2020, held the role of chairman and country head for Spain. He is now a senior adviser there. He has also been director of Madrileña Red de Gas, S.A. and Sociedad Rectora de la Bolsa de Madrid, S.A., as well as an independent director of Grifols, S.A.

Other positions of note: Mr Isasi is a non-executive chair of Santander España and an independent director of Compañía de Distribución Integral Logista Holdings, S.A. (Logista).

Positions in other Group companies: None.

Membership of board committees: Executive committee, remuneration committee, and risk supervision, regulation and compliance committee.

Skills and competencies: Mr Isasi has vast experience in a wide range of sectors and international markets, as well as a strong institutional network within Spain.

Ramiro Mato García-Ansorena

Non-executive director (independent)

Mr Mato joined the board in 2017.

Nationality: Spanish. Born in 1952 in Madrid, Spain.

Education: Degree in Economics from the Complutense University of Madrid and graduate of Harvard Business School's Management Development Programme.

Experience: Ramiro Mato held several roles in Banque BNP Paribas, including chairman of BNP Paribas Group in Spain. Previously, he had held several top roles in Argentaria. He was a member of the Spanish Banking Association (AEB), Bolsas y Mercados Españoles, S.A. (BME) and the board of trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).

Other positions of note: Mr Mato is chairman of Ansorena, S.A. and vice-chairman of the board of trustees of Fundación Esperanza y Alegría.

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: Mr Mato has had an extensive career in banking and capital markets. He has held senior executive and non-executive roles and brings considerable expertise in top management, audit, risk and strategy, mainly within the financial sector. He has also been active on the boards of trustees of several education foundations.

Ramón Martín Chávez Márquez

Non-executive director (independent)

Mr Chávez joined the board in 2020.

Nationality: American. Born in 1964 in Alburquerque, New Mexico (US).

Education: A.B. magna cum laude in Biochemical Sciences and Master of Computer Science from Harvard University. PhD in Medical Information Sciences from Stanford University.

Experience: Mr Chávez was Chief technology officer (CTO) and co-founder of Quorum Software Systems (1989-1993), global head of energy derivatives at Credit Suisse Financial Products (1997-2000) and CEO and co-founder of Kiodex (2000-2004). In 2005, he joined Goldman Sachs, where he was a partner from 2006 to 2019 and where he held various executive positions, including global co-head of the securities division, Chief information officer (CIO) and CFO. He was also member of the management committee from 2012 until 2019, when he left the firm.

Furthermore, he has been director of PNM Resources, Inc., the International Swaps and Derivatives Association (ISDA) and the Santa Fe Opera, and a member of the board of trustees of amfAR (the Foundation for AIDS Research).

Other positions of note: Mr Chávez is an independent director of Recursion Pharmaceuticals, Inc., Paige.AI, Inc. and Mount Sinai Genomics, Inc. DBA Sema4. He is also member of the Harvard University Board of Overseers, member of the board of trustees of the Institute for Advanced Study of Princeton (New Jersey) and of the Los Angeles Philharmonic, as well as a member of the Stanford University School of Medicine Board of Fellows.

Positions in other Group companies: Mr Chávez is a non-executive director of PagoNxt, S.L.

Membership of board committees: Nomination committee, remuneration committee, risk supervision, regulation and compliance committee and innovation and technology committee (chairman).

Skills and competencies: Mr Chávez brings extensive experience in the global financial and IT sectors, which will enhance the board's digital capabilities.

Sergio Rial

Executive director

Mr Rial joined the board in 2020.

Nationality: Spanish and brazilian. Born in 1960 in Rio de Janeiro, Brazil.

Education: Degree in Law and Economics and postgraduate studies from the Instituto Brasileiro do Mercado de Capitais, Insead, Harvard Business School and Wharton Business School.

Experience: Mr Rial joined the Group as chairman of the board of Banco Santander (Brasil), S.A. in 2015, becoming its CEO and vice-chairman in 2016. He has been a director of Banco Santander International since 2018 and, since April 2019, regional head for South America. He held various executive positions at ABN Amro group between 1982 and 2004, including CEO for Asia and member of the global ExCo.

He also held various executive positions at Cargill Inc. between 2004 and 2012, including executive vice-chairman, member of the board of directors and global CFO. He has also been CEO at Seara Foods and Marfrig Global Foods and a director of Mosaic Fertilizers.

Other positions of note: Mr Rial is an independent director of Delta Airlines Inc. and non-executive chairman of Ebury Partners Limited.

Positions in other Group companies: Mr Rial is a non-executive director of Banco Santander International (USA), SAM Investment Holding Limited, PagoNxt, S.L. and Santander Global Trade Platforms Solutions, S.L., and non-executive chairman of Universia Brasil, S.A.

Membership of board committees: None.

Skills and competencies: Mr Rial brings extensive executive experience in banking and finance. He also has a deep understanding of Latin American markets, especially Brazil. His previous experience in multinational groups across geographical areas and sectors increases the board's diversity and gives it a valuable perspective on environmental and social issues.

Belén Romana García

Non-executive director (independent)

Belén Romana joined the board in 2015.

Nationality: Spanish. Born in 1965 in Madrid, Spain.

Education: Degree in Economics and Business Administration from Universidad Autónoma de Madrid and State Economist.

Experience: Belén Romana was formerly senior executive vice-president of Economic Policy, director-general of the Treasury of the Spanish Ministry of Economy, and director at Banco de España and the CNMV. She was also a director at the Instituto de Crédito Oficial and other entities on behalf of the Spanish Ministry of Economy. She served as a non-executive director at Banco Español de Crédito, S.A. and as 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 independent director of SIX Group AG and Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.U. Furthermore, she is a member of the board of trustees of the Rafael del Pino Foundation and co-chair of the Global Board of Trustees of the Digital Future Society, and member of the advisory board of GFI, España and TribalData.

Positions in other Group companies: None.

Membership of board committees: Executive committee, audit committee, risk supervision, regulation and compliance committee, innovation and technology committee, and responsible banking, sustainability and culture committee.

Skills and competencies: Given her background as a government economist and overall executive and non-executive experience in finance (particularly from serving on the audit committees of listed companies), Ms Romana is a recognised financial expert. Having held important positions in Spanish credit institutions and in the field of capital markets, she can also provide strategic insights into banking, financial regulations and government relations.

Pamela Walkden

Non-executive director (independent)

Mrs Walkden joined the board in 2019.

Nationality: British. Born in 1960 in Worcester, England.

Education: Master's Degree in Economics from Cambridge University.

Experience: Pamela Walkden has had an extensive career in banking. 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: Mrs Walkden 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 (chairman).

Skills and competencies: Ms Walkden is a recognised financial expert in view of her broad, international experience in banking and auditing.

Jaime Pérez Renovales

General secretary and secretary of the board

Jaime Pérez Renovales joined the group in 2003.

Nationality: Spanish. Born in 1968 in Valladolid, Spain.

Education: Degree in Law and Business Administration from Universidad Pontificia de Comillas (ICADE E-3) and state attorney.

Experience: Jaime Pérez Renovales was director of the office of the second deputy prime minister for Economic Affairs and Minister of Economy, deputy secretary to the Spanish Prime Minister, chairman of the Spanish State Official Gazette and the committee for Government Reform. Previously, he had been vice general counsel and vice-secretary of the board. He was also head of Grupo Santander's legal department, general counsel and secretary of the board at Banco Español de Crédito, S.A. and deputy director of legal services at the CNMV. He sits on the jury for the Princess of Asturias Awards for Social Sciences and is chairman of the ICADE Business Club.

Mr Pérez is the secretary of all board committees.

4.2 Board composition

Size

At 31 December 2020, the board of directors was made up of the 15 members whose profile and background are described in section 4.1 'Our directors'. The Bylaws allow it to have between 12 and 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. Each director's status has been verified by the nomination committee and submitted to the board.

Executive directors

- Ana Botín, Group executive chairman
- José Antonio Álvarez, Group vice-chairman and chief executive officer

Section 4.3 provides a more detailed description of their roles and duties under 'Group executive chairman and chief executive officer'.

- Sergio Rial

Independent directors

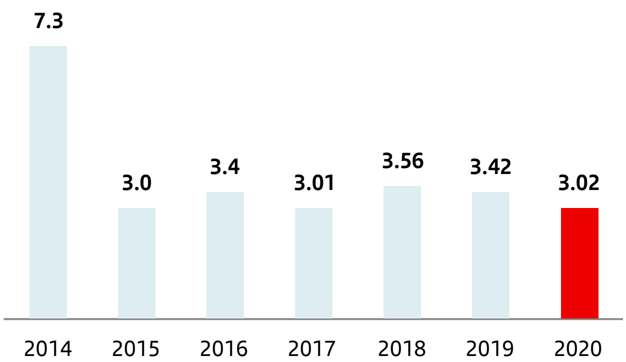
- Bruce Carnegie-Brown (lead independent director)
- Homaira Akbari
- Álvaro Cardoso
- R. Martín Chávez
- Sol Daurella
- Henrique de Castro
- Gina Díez
- Ramiro Mato
- Belén Romana
- Pamela Walkden

Every year, the nomination committee verifies and informs the board about the category of independent directors. It takes all the circumstances of each case into account, particularly any possible significant business relationships that could affect their independence. This analysis is described further in section 4.6 'Nomination committee activities in 2020'.

Independent non-executive directors account for 66.7% of board members. This conforms to best corporate governance practices as well as the board's Rules and regulations, which require that the board be predominantly made up of non-executive directors with at least 50% independent directors.

At the end of 2020, the average term of independent non-executive directors was 3.02 years.

Term of independent directors



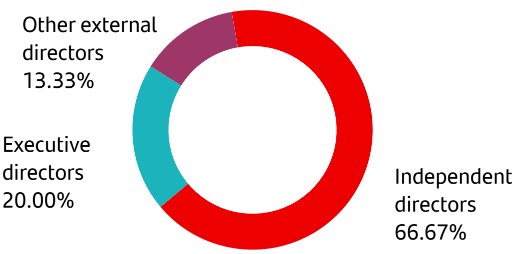
Other external directors

- Javier Botín
- Luis Isasi

These directors cannot be classified as independent directors for the following reasons:

- Mr Botín has been director for over 12 years.
- Although the nomination committee and the board believe that Mr Isasi meets the requirements to be classed as an independent director - in view of his remuneration as non-executive chair of Santander España, his entitlements as a director and the special nature of this body as supervisor of a business unit without its own corporate identity separate to Banco Santander - under prudent criteria it is considered preferable to classify him as an external director. This aligns to sub-sections 2 to 4 of article 529 *duodecies* of the Spanish Companies Act and to article 6.2 of the Rules and regulations of the board.

Our board composition



Tenure and equity ownership[A]

Board of directors		Tenure			Banco Santander shareholding[C]				
		Date of first appointment	Date of last appointment	End date[B]	Direct	Indirect	Shares represented	Total	% of share capital
Executive chairman	Ana Botín	04/02/1989	03/04/2020	03/04/2023	1,138,675	28,612,074		29,750,749	0.172%
Vice chairman and chief executive officer	José Antonio Álvarez	25/11/2014	12/04/2019	12/04/2022	1,820,754			1,820,754	0.010%
Vice chairman	Bruce Carnegie-Brown	25/11/2014	12/04/2019	12/04/2022	59,940			59,940	0.000%
Members	Homaira Akbari	27/09/2016	23/03/2018	23/03/2021	67,826	45,913		113,739	0.001%
	Javier Botín	25/07/2004	12/04/2019	12/04/2022	5,502,083	19,466,853	123,904,169[D]	148,873,105	0.858%
	Álvaro Cardoso	1/04/2018	01/04/2018	23/03/2021	0			0	0.000%
	R. Martín Chávez	27/10/2020	27/10/2020	27/10/2023	0			0	0.000%
	Sol Daurella	25/11/2014	03/04/2020	03/04/2023	149,483	476,837		626,320	0.004%
	Henrique de Castro	17/07/2019	17/07/2019	12/04/2022	2,982			2,982	0.000%
	Gina Díez	22/12/2020	22/12/2020	03/04/2023	0			0	0.000%
	Luis Isasi	19/05/2020	19/05/2020	03/04/2023	0			0	0.000%
	Ramiro Mato	28/11/2017	12/04/2019	12/04/2022	156,860			156,860	0.001%
	Sergio Rial	30/05/2020	30/05/2020	03/04/2023	171,913			171,913	0.001%
	Belén Romana	22/12/2015	12/04/2019	12/04/2022	208	4		212	0.000%
	Pamela Walkden	29/10/2019	03/04/2020	03/04/2023	2,608			2,608	0.000%
	Total				**9,073,332**	**48,601,681**	**123,904,169**	**181,579,182**	**1.047%**
General secretary and secretary of the board	Jaime Pérez Renovales								

A. Figures from 31 December 2020.
B. For more details, see 'Election, renewal and succession' in section 4.2. The periods provided do not take into account the additional period that may apply under article 222 of the Spanish Companies Act nor the annual renewal of one-third of the board established in article 27.1 of the Bylaws.
C. Banco Santander' shareholding policy aims to align our executive directors and shareholders' long-term interests. It includes the obligation for each executive director to maintain a significant investment in Banco Santander's shares while performing executive duties, equivalent to twice their annual salary. Executive directors have five years from the time they were appointed to reach the required level of investment. Until they do so, any shares they receive as remuneration are subject, in addition to the regulatory obligation not to sell them for one year from delivery, which applies to all cases, to a mandatory three-year holding period from their date of delivery, unless they already hold the mentioned investment equivalent.
D. Includes shares owned by Fundación Botín (chaired by Javier Botín) and syndicated shares. It does not include shares corresponding to Ana Botín and Javier Botín because 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 adapted this information to the CNMV's format and, therefore, added all the syndicated shares as Javier Botín's shareholdings. See 2.4 'Shareholders' agreements'.
For more details, see section 9.2 'Statistical information on corporate governance required by the CNMV'.

Diversity

A diverse board of directors is essential to its effectiveness. The combination of skills and experiences creates an environment with varied points of view that improves the quality of decision-making. Thus, we seek to achieve a sound balance of technical skills, expertise and perspectives.

Our policy on the selection, suitability assessment and succession of directors helps make our board more diverse from different perspectives, for instance, in terms of gender, age, geographical provenance, experience and knowledge, without implicit bias that could lead to any form of discrimination based on gender, age, disability, race or ethnic origin. It was amended in July 2018 in line with European legislation on the disclosure of non-financial and diversity information and the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) joint guidelines on suitability assessments of board members and key functions holders. In 2019, the new gender equality target of 40%-60% representation of either gender in the board by 2021, was included. It was later amended in December 2020, after the CNMV amended the Spanish Corporate Governance Code in June 2020 to include age diversity as a factor to take into account. Banco Santander applies this policy to select candidates for any vacancy on the board.

Our selection policy aims to diversify the board of directors in different terms. In particular, and without limiting the foregoing:

- **Country of origin or international education**: selection considers cultural diversity and international education, especially in the Group's main geographies.

- **Gender equality**: the nomination committee and the board of directors understand the importance of fostering equal opportunity between men and women as well as the need for women board members who possess the necessary skills, suitability and commitment to the role. They make a conscious effort to find women candidates with the required profile. Our policy fosters a selection of directors which maintains a balanced presence of women and men on the board.

  On 26 February 2019, the board changed its minority gender target, set at 30% in 2016 by the nomination committee, to a gender equality target in the board, which implies a minimum and maximum representation of either gender of 40% to 60% by 2021. By November 2019, the board met this target and, at year-end, women already accounted for 40% of board members.

  The board's number of women members is well above the average for large listed companies in Spain and Europe. According to figures published by the CNMV in July 2020, based on the annual corporate governance reports for 2019, the percentage of female directors in IBEX 35 companies in Spain was on average 27.5%. Furthermore, according to data published by Eurostat (the European Commission's statistical office) in March 2019, the percentage of female directors in large listed companies was, on average, 27% for all European Union countries.

- **Age**: the selection policy on the selection, suitability assessment and succession of directors also considers that selection processes must promote age diversity. There are no age limits for becoming a director or holding any role on the board, including the chairman and the chief executive officer.

- **Education and career**: selection ensures that candidates are qualified and suitable to understand our Group's businesses, structure and geographies individually and collectively; and that they fit within the Santander culture. The appointment process ensures that candidates will have banking and finance skills as well as expertise in other areas deemed important on our board skills and diversity matrix. Therefore, it takes into account education and work experience.

- Our policy has no implicit bias that could lead to discrimination due to **race, disability and/or ethnicity**.

Section 1.1 'Board skills and diversity' describes the result of these diversity standards in 2020.

Board skills and diversity matrix

The board's skills matrix reflects the balance of the knowledge, skills, qualifications, diversity and experience required to pursue our long-term strategy in an ever-changing market.

We updated it in 2018 to make it simpler, more transparent and comprehensive. It contains more information for our investors and other stakeholders, who demand that certain skills be more visible on our board. We also took into account recommendations from the EBA and ESMA guidelines on the suitability assessment of board members and key functions holders, which came into effect in June 2018. It has been further updated in October 2020 to disclose the board's diversity in terms of age, on the back of the CNMV's approval of the revised version of the Spanish Corporate Governance Code.

This year's matrix follows the structure introduced last year:

- We distinguish between **thematic** and **horizontal skills.**

- We include a separate **diversity section** which details diversity in terms of gender, country of origin and/or education abroad and, as of this year, in terms of age. Finally, we also include a **board tenure** section.

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 to this matrix.

We also include an additional chart (entitled 'Committees skills and diversity matrix') that provides a clear view of the balance of skills, not only at board level as a whole, but for each board committee. This enables the overall effectiveness of the board committees to be evaluated by referring to the significant presence of skills 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)	Sergio Rial	Bruce Carnegie-Brown (vice chairman and lead independent director)	Homaira Akbari	R. Martín Chávez	Sol Daurella	Henrique de Castro	Álvaro Cardoso	Gina Diez Barroso	Ramiro Mato	Belén Romana	Pamela Walkden	Javier Botín	Luis Isasi
SKILLS AND EXPERIENCE																
THEMATIC SKILLS																
Banking (86.7%)		●	●	●	●		●	●		●	●	●	●	●	●	●
Other financial services (66.7%)		●	●	●	●	●					●	●	●		●	●
Accounting, auditing and financial literacy (100%)		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Retail (80%)		●	●	●	●			●	●	●		●	●	●	●	●
Digital & information technology (53.4%)		●	●	●	●	●	●		●			●				
Risk management (86.7%)		●	●	●	●	●	●	●		●		●	●	●	●	●
Business strategy (100%)		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Responsible business & sustainability (80%)		●	●	●	●	●	●	●		●	●	●	●		●	
Human resources, culture, talent & remuneration (93.3%)		●	●	●	●	●	●	●	●	●	●	●	●	●		●
Legal and regulatory (13.3%)							●						●			
Governance and control (86.7%)		●	●	●	●	●	●	●		●		●	●	●	●	●
International experience	Continental Europe (80%)	●	●	●	●	●	●	●	●			●	●		●	●
	US/UK (93.3%)	●	●	●	●	●	●	●	●	●		●	●	●	●	●
	Latam (73.3%)	●	●	●		●	●		●	●	●	●			●	●
	Others (46.7%)			●	●		●	●	●			●		●		
HORIZONTAL SKILLS																
Top management (100%)		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Government, regulatory and public policy (6.7%)													●			
Academia and education (46.7%)		●			●	●	●	●			●	●				
Significant tenure (86.7%)		●	●	●	●	●		●	●	●	●	●	●		●	●
DIVERSITY																
Female (40%)		●				●		●			●		●	●		
Country of origin / international education	Continental Europe (60%)	●	●	●				●	●			●	●		●	●
	US/UK (80%)	●	●	●	●	●	●			●	●	●	●	●		●
	Latam (20%)			●						●	●					
	Others (6.7%)					●										
Age (years old)	Less than 55 (13.3%)							●							●	
	From 55 to 65 (73.4%)	●	●	●	●	●	●		●		●		●	●		●
	More than 65 (13.3%)									●		●				
BOARD TENURE																
0 to 3 years (53.4%)				●			●		●	●	●	●		●		●
4 to 11 years (33.3%)			●		●	●		●					●			
12 years or more (13.3%)		●													●	

Committees skills and diversity matrix

		Executive committee	Audit committee	Nomination 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%	71.4%	80%
Other financial services		100%	60%	33.3%	40%	60%	71.4%	60%
Accounting, auditing and financial literacy		100%	100%	100%	100%	100%	100%	100%
Retail		100%	80%	66.7%	80%	80%	71.4%	80%
Digital and information technology		66.7%	60%	66.7%	60%	40%	85.7%	40%
Risk management		100%	80%	100%	80%	100%	85.7%	100%
Business strategy		100%	100%	100%	100%	100%	100%	100%
Responsible business and sustainability		83.3%	60%	100%	60%	80%	85.7%	100%
Human resources, culture, talent and remuneration		100%	100%	100%	100%	100%	100%	100%
Legal and regulatory		16.7%	20%	33.3%	20%	40%	28.6%	20%
Governance and control		100%	80%	100%	80%	100%	85.7%	100%
International experience	Continental Europe	100%	80%	100%	100%	80%	100%	80%
	US/UK	100%	100%	100%	100%	100%	100%	100%
	LatAm	66.7%	60%	33.3%	60%	80%	71.4%	60%
	Others	33.3%	60%	100%	80%	40%	42.9%	40%
HORIZONTAL SKILLS								
Top management		100%	100%	100%	100%	100%	100%	100%
Government, regulatory and public policy		16.7%	20%	–	–	20%	14.3%	20%
Academia and education		50%	40%	100%	60%	40%	57.1%	60%
Significant tenure		100%	80%	66.7%	80%	80%	85.7%	100%
DIVERSITY								
Female		33.3%	60%	33.3%	20%	20%	42.9%	60%
Country of origin / international education	Continental Europe	83.3%	60%	33.3%	60%	60%	57.1%	60%
	US/UK	100%	80%	66.7%	60%	100%	85.7%	80%
	Latam	–	–	–	–	20%	–	20%
	Others	–	20%	–	–	–	14.3%	20%
Age (years old)	Less than 55	–	–	33.3%	20%	–	–	20%
	From 55 to 65	83.3%	80%	66.7%	80%	60%	100%	40%
	More than 65	16.7%	20%	–	–	40%	–	40%
BOARD TENURE								
0 to 3 years		33.3%	60%	33.3%	60%	80%	28.6%	40%
4 to 11 years		50%	40%	66.7%	40%	20%	57.1%	60%
12 years or more		16.7%	–	–	–	–	14.3%	–

Election, renewal and succession of directors

Election of directors

Our directors are appointed for three-year terms. However, one-third of board members are renewed each year in order of their tenure, based on when they were appointed. Outgoing directors may be re-elected. Each appointment, re-election and ratification is submitted to a separate vote at the general meeting.

Procedures for appointing, re-electing, evaluating and removing directors

Our internal policy for the selection, suitability assessment and succession of directors dictates standards for the board's quantitative and qualitative composition, how it is revised and how new candidates are identified, selected and appointed.

Shareholders appoint and re-elect directors at the general meeting. If directors step down during the term of office, the board of directors may provisionally designate another director by co-option until the general meeting confirm or revoke the appointment at the earliest subsequent meeting.

The nomination committee must issue a report and a reasoned opinion in advance of any proposal the board will make to shareholders to appoint, re-elect and ratify any category of director, as well as in advance of any board resolution about co-option.

Proposals must include a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate. Re-election and ratification proposals will provide an assessment of the work and dedication to the position during the last period in which the proposed director held office. If the board disregards the nomination committee's opinion, it must explain its decision and record its reasons in meeting minutes.

Directors must meet specific requirements dictated by laws for credit institutions and our Bylaws. Upon taking office, they must formally undertake to fulfil the obligations and duties prescribed therein and in the Rules and regulations of the board.

Our directors must be of renowned business and professional integrity, and have the knowledge and experience needed to perform their role and exercise good governance. Director candidates will also be selected on the basis of their professional contribution to the entire board.

For more details, see section 4.1 'Our directors' and the 'Board skills and diversity matrix' in section 4.2.

The board of directors will endeavour to have significantly more external or non-executive directors than executive directors, and for the number of independent directors to make up at least half of all members.

Our directors shall cease to hold office when the term for which they were appointed ends (unless they are re-elected); when the general meeting so resolves; or when they resign. When a director ceases to hold office prior to the end of his or her term (i.e. by general meeting resolution or by resignation), the director shall sufficiently explain the reasons for the resignation or, in the event of non-executive directors, their opinion on the reasons for their cessation in office by the general meeting in a letter to the other board members. In addition, when appropriate, Banco Santander will publicly disclose the cessation in office, including sufficient information on the director's reasons or circumstances provided by the director.

Directors must tender their resignation to the board and formally resign from their position if the board, on recommendation of the nomination committee, deems it appropriate to do so in cases that may adversely affect to the board's functioning or to Banco Santander's creditworthiness and reputation and, in particular, if they are find themselves in any of the circumstances of ineligibility or prohibition provided by law, irrespective of Royal Decree 84/2015, which implements Act 10/2014 on the organisation, supervision and solvency of credit institutions, on the honourability requirements for directors and the consequences of directors subsequently failing to meet such requirements.

Directors must notify the board, as soon as possible, of any circumstances affecting them, whether or not related to their performance in Banco Santander, that might damage its creditworthiness or reputation, especially when under criminal investigation, and the progress of any criminal trial. When the board is informed or becomes aware in another way of any of the mentioned situations, the board shall examine the case as soon as possible and, attending to the particular circumstances, decide, following a report from the nomination committee, whether or not to adopt any measures, such as opening an internal investigation, calling on the director to resign or proposing his or her cessation in office.

Proprietary non-executive directors must also tender their resignation when the shareholder they represent sells off or significantly reduces its equity holding.

Finally, succession planning for the main board members is key to Banco Santander's good governance. It ensures that leadership transitions are orderly and the board remains stable. The nomination committee and the board prioritize member succession planning, with sound and appropriate plans in place that are regularly revisited.

4.3 Board functioning and effectiveness

The board is the highest decision-making body and focuses on supervision

Banco Santander's board of directors is our highest decision-making body, except in matters reserved to shareholders at the general meeting. It performs its duties with unity of purpose and independent judgement.

The board's policy is to designate executive bodies and managers to run Group's day-to-day operations and apply its strategy. It focuses on general supervision and other functions it cannot delegate by law, under the Bylaws and the Rules and regulations of the board, including:

- General policies and strategies (including capital and liquidity, new products, operations and services; corporate governance, culture and values including policies on responsible business and sustainability (in particular, on environmental and social matters); risk control; remuneration policy; and compliance).
- Financial reporting, and general information reported to shareholders, investors and the general public, as well as the processes and controls that ensure full disclosure.
- Policies on reporting and communication with shareholders, markets and public opinion, and supervision of the disclosure of information and communications about Group.
- 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 transactions and investments.
- Calling the general shareholders' meeting.
- Governance-related matters in general, including related-party transactions.
- Banco Santander and Group's corporate and internal governance, including the GSGM, corporate frameworks and internal regulations.

Structure of the board

The board's governance structure ensures that it discharges its duties effectively. This section provides further details about this structure, which can be split into four dimensions:

- **Group executive chairman and chief executive officer**, who are the most senior executives in Group's strategic and ordinary management, which the board is responsible for overseeing, ensuring that their roles are clearly separated and complementary.
- **A lead independent director** who is responsible for coordinating non-executive directors effectively and making sure they serve as an appropriate counter- balance to executive directors.
- **A board committee structure**, which supports the board in:
  - Managing Group by exercising decision-making powers in the executive committee.
  - Formulating strategy for core areas in the responsible banking, sustainability and culture committee, and in the innovation and technology committee.
  - In supervision and taking important decisions in the audit, nomination, remuneration and risk supervision, regulation and compliance committees.
- **A board secretary**, who supports the board, its committees and our chairman, and is also general secretary of the group.

Rules and regulations of the board

The board is governed by the rules set out in the Bylaws and the Rules and regulations of the board, both of which are available at our corporate website.

- **Bylaws:** dictate the basic rules that apply to the composition and operation of the board and its members' duties and are supplemented and implemented by the Rules and regulations of the board. They can be amended only by the general meeting. See ' Rules for amending our Bylaws' in section 3.2.
- **Rules and regulations of the board:** set the rules for running and internally organizing the board of directors and its committees through the development of applicable laws and Bylaws' provisions. They set out the principles governing the actions of the board and its committees and the rules of conduct its members must follow.

  The board amended its Rules and regulations on 22 December 2020 to (i) adapt them to the Spanish Corporate Governance Code revised in June 2020, and to show our alignment with it; (ii) formally reflect specific Banco Santander's long-standing good practices; and (iii) include specific technical improvements and other minor changes. The main amendments were:

  - Formally including the objective of gender equality in the board, agreed in 2019, as well as the promotion of age diversity in the qualitative composition of the board and in directors' selection procedures.
  - Stipulating that the responsible banking, sustainability and culture committee must be composed of non-executive directors only.
  - Amending the composition of the innovation and technology committee to allow non-executive directors to chair it.
  - Specifying that the risk management skills to be taken into account in the appointment of audit committee members and its chair include both financial and non-financial risks.
  - Regulating the coordination of the supervision of the whistleblowing channel by the audit committee and the risk supervision, regulation and compliance committee and extending its use to other persons linked to Banco Santander in addition to employees.
  - Including collaboration between the responsible banking, sustainability and culture committee and the audit committee in the supervision and evaluation of the process of preparing and presenting non-financial

information and attributing expressly the supervision and evaluation of the environmental and social policies to the responsible banking, sustainability and culture committee.

- Expressly contemplating the board of director's power to set up advisory boards – composed by members external to the Group – other than the international advisory board.

- Amending the obligation for directors to notify the board of any criminal investigations which they are subject to, as well as their progress, and expressly contemplating its assessment by the board based on a report from the nomination committee and information, if any, in the annual corporate governance report.

- Adapting the provisions on shareholders and investor relations in the context of the general meeting to our internal policy on communication and engagement with shareholders and investors, updated in February 2020, and setting out the obligation for the board to analyse the voting results at the general meeting and any significant opposition to a specific resolution.

The Rules and regulations of the board adhere to all legal requirements as well as the principles set out in the Spanish Corporate Governance Code revised in June 2020; the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015; and 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. It also complies with the US regulations because our shares are listed as ADS on the NYSE, in particular, with Rule 10A-3 under the Securities Exchange Act (SEA) introduced by the Sarbanes-Oxley Act of 2002 (SOX) on requirements for companies' audit committees.

Our rules on the nomination and the remuneration committees also adhere to the recommendations and good operating practices set out in the CNMV's Technical Guide 1/2019 on Nomination and Remuneration Committees.

Group executive chairman and chief executive officer

Our executive chairman is Ana Botín and our chief executive officer is José Antonio Álvarez.

The roles of our Group executive chairman and chief executive officer are clearly separated, as follows:

Roles of the executive chairman and the chief executive officer

Executive chairman	Chief executive officer
• The chairman is the highest-ranking officer in Grupo Santander and its main representative with regulators, authorities and other major stakeholders. • The chairman´s direct reports are the chief executive officer and the senior managers in charge of long-term strategy of Grupo Santander (such as Corporate Development), the corporate functions (such as Communications and General secretariat) and control (including Risk and Internal Audit, without prejudice to their reporting to the audit and risk supervision, regulation and compliance committees) 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 Santander Group.	• 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).

The duties of the group executive chairman, the chief executive officer, the board, and its committees are clearly separated. Various checks and balances properly balance Grupo Santander's corporate governance structure. In particular:

- The board and its committees supervise both the group executive chairman and the chief executive officer.
- The board of directors has delegated all its powers to the executive chairman and the chief executive officer, except for those that cannot be delegated by law and under the Bylaws and the Rules and regulations of the board. The board directly exercises those powers to perform its general supervisory function.
- The lead independent director leads for the group executive chairman's appointment, succession planning and assessment, and plays a key role in our corporate governance, as detailed below.
- The audit committee is chaired by an independent director who is considered a 'financial expert' as defined in Regulation S-K of the Securities and Exchange Commission (SEC).
- The group executive chairman may not simultaneously act as Banco Santander's chief executive officer.
- The corporate risk, compliance and internal audit functions report as independent units to a committee or a member of the board of directors, and have direct, unfettered access to the board.

Lead independent director

The role of the lead independent director is key to our governance. The lead independent director coordinates non-executive directors and makes sure they serve as an appropriate counter-balance to the executive directors.

The following chart illustrates the functions of the lead independent director:

Duties of the lead independent director and activities during 2020

Duties	Activities in 2020
Facilitate discussion and open dialogue among independent directors, even by coordinating meetings of non-executive directors; and engage with them to consider their views.	Held three meetings with non-executive directors without executive directors present, where they were able to voice concerns and opinions. The meetings were also a valuable opportunity to discuss other matters such as board training topics, executive director performance and the operation of 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 pay.
Engagement with shareholders and other investors with the purpose of gathering information on their concerns, in particular, with regard to Banco Santander´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.	Although lead independent director did not replace the chair of the board in any meetings he was fully committed with its proper functioning.
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 informed on board meeting content.

Structure of board committees

The board currently has seven committees and one international advisory board with the following characteristics:

	Mandatory committees (required by Law, under Bylaws or under the Rules and regulations of the board)			Voluntary committees (permitted under Bylaws)
	Decision-making powers	Supervision, information advice and recommendations regarding functions in risk, financial reporting and audit, nomination and remuneration matters		Support and proposal in strategic areas
Board committees	Executive committee	Audit committee	Nomination committee	Responsible banking, sustainability and culture committee
		Risk supervision, regulation and compliance committee	Remuneration committee	Innovation and technology committee
External advisory board				International advisory board (members are non-directors)

Secretary of the board

Jaime Pérez Renovales is the secretary of the board. He assists the chairman and ensures the formal and substantial legality of all the board's actions. He also makes sure good governance recommendations and procedures are observed and regularly reviewed.

The board's secretary is also general secretary of Banco Santander. He acts as the secretary of all board committees and thus facilitates a fluid and effective relationship between the committees and the different units of the Group that must collaborate with them. It is not necessary to be a director to be secretary.

The nomination committee must issue an opinion before submitting proposals to appoint or remove the secretary to the board.

The board also has a deputy secretary of the board, Óscar García Maceiras. He acts as the deputy secretary on all board committees. He also assists the secretary and substitutes him in the event of his absence, inability to act or illness.

Board meetings

The board of directors held 20 meetings in 2020, including 11 ordinary meetings and nine extraordinary meetings. The Rules and regulations of the board dictate that it must hold at least nine annual ordinary meetings and one quarterly meeting.

Although board meetings follow an annually set calendar and a provisional agenda of items to discuss, new items can be added to the agenda and additional meetings can be called in accordance with new business needs. Directors may also propose items to be added to the agenda and are duly informed of changes to the calendar and meeting agendas.

The board also keeps a formal list of matters only it can address. It prepares a plan to distribute them among the ordinary meetings scheduled in the provisional calendar it has approved.

Directors are given relevant documents sufficiently in advance of each meeting of the board. This information sent to them via secure electronic means is specifically for preparing meetings and, in the board's opinion, it is thorough and sent sufficiently in advance.

The Rules and regulations of the board of directors also expressly recognise directors' right to request and obtain information on anything related to Banco Santander and its domestic and foreign subsidiaries. They also recognise their right to inspect the books, files, documents and any other records of corporate transactions, in addition to premises and facilities. Furthermore, directors can request and obtain any information and advice they deem necessary from the secretary in order to perform their duties.

The board meets at the chairman's discretion or at the request of at least three directors.

The lead independent director is also authorised to request a board meeting or that new items be added to the agenda for a meeting that has already been called.

Directors must attend meetings in person and make sure to limit absences to cases of absolute necessity. The nomination committee checks that no less than 75% of directors attend board and committee meetings. For further information, see 'Board and committee attendance' in this section 4.3.

If directors are unable to be present at meeting, they can designate another director as their special proxy for each meeting in writing to act on their behalf. Proxies are granted with instructions. Non-executive directors may only be represented by other non-executive directors. One director can 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 can be secured by audio-visual means or by telephone to hold the meeting concurrently.

Board meetings are validly quorate when more than half of its members attend in person or by proxy.

Resolutions are adopted by absolute majority of directors in attendance. The chairman has the casting vote in the event of a tie. The Bylaws and the Rules and regulations of the board only require qualified majorities according to the law.

The board secretary keeps the board's documents on file. He records the content of meetings in meeting minutes. Meeting minutes of the board and committees include statements members expressly request to be put on record.

The board may hire legal, accounting or financial advisers and other experts at Banco Santander's expense for assistance with their duties.

The board should encourage communication between its committees, especially the risk supervision, regulation and compliance committee and the audit committee. It should also promote dialogue between the risk supervision, regulation and compliance committee and the remuneration committee and the responsible banking, sustainability and culture committee, given the relevance of their respective work with each other.

Some committees hold joint meetings throughout the year. Although they cannot vote, any director can attend and participate in meetings of committees on which they do not serve if invited by the board chairman of the board and the chairman of the respective committee, after having asked the chairman of the board. Furthermore, all board members who are not executive committee members may attend executive committee meetings at least twice a year, for which they are to be called by the chairman.

During the year, directors that are not members of the executive committee attended 11 of the total of 46 meetings held.

Comparison of number of meetings held[A]

	Santander	Average Spain	US average	UK average
Board	20	11.0	7.9	7.7
Executive committee	46	10.1	—	—
Audit committee	15	8.5	8.2	5.7
Nomination committee	13	6.7	4.5	4.1
Remuneration committee	13	6.7	5.9	5.1
Risk supervision, regulation and compliance committee	13	13.8	NA	5.6

Source: Spencer Stuart Board Index 2020 (Spain, United States and United Kingdom).
NA: Not available.

The following chart shows the board's approximate time allocation to each function in 2020.

Approximate allocation of the board's time in 2020

Committee meetings

Committee meetings follow a calendar, which includes at least four meetings (except for the innovation and technology committee, which holds at least three meetings) and an annual work plan established yearly. Each committee meets as often as is required to fulfil its duties.

Committee meetings are quorate if more than half of its members are present in person or by proxy. Committee resolutions pass with a simple majority of votes. In the event of a tie, the committee chairman has the casting vote. Committee members may grant a proxy to another member; however, non-executive directors can only be represented by other non-executive directors.

Committee members are given relevant documents sufficiently in advance of each meeting to ensure effectiveness.

Committees have the authority to summon executives, who will appear at meetings at the invitation and under the terms dictated by the chairman. Furthermore, committees also may address, a request to the general secretary, for the hiring of legal, accounting or financial advisers or other experts at Banco Santander's expense for assistance with their duties. The other committees may also do so with the board's approval.

The role of committee secretary is non-voting and falls on the general secretary and secretary of the board. This fosters a fluid and efficient relationship with the units that must work with, and report to, committees.

Committee chairmen report on committees' meetings and activities at all board meetings. Furthermore, all board members are given a copy of committees' meeting minute and all documents provided for meetings.

Board and committee attendance

The table below shows the attendance rate of board and committee meetings.

Attendance to the board and committee meetings in 2020

		Committees						
Directors	Board	Executive	Audit	Nomination	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	Responsible banking, sustainability and culture
Average attendance	98%	94%	97%	100%	100%	97%	93%	97%
Individual attendance								
Ana Botín	20/20	44/46	_	_	_	_	4/4	4/4
José Antonio Álvarez	20/20	46/46	_	_	_	_	4/4	_
Bruce Carnegie-Brown	20/20	42/46	_	13/13	13/13	_	4/4	_
Homaira Akbari	20/20	_	15/15	_	_	_	4/4	4/4
Ignacio Benjumea[A]	10/10	20/20	_	_	6/6	5/5	2/2	2/2
Javier Botín	20/20	_	_	_	_	_	_	_
Álvaro Cardoso	18/20	_	_	_	_	12/13	_	3/4
R. Martin Chávez[B]	3/3	_	_	_	3/3	3/3	1/1	_
Sol Daurella	20/20	_	_	13/13	13/13	_	_	4/4
Henrique de Castro	20/20	_	14/15	_	13/13	_	2/4	_
Guillermo de la Dehesa[C]	7/7	13/13	_	3/3	3/3	_	1/1	_
Gina Díez[D]	1/1	_	_	_	_	_	_	_
Rodrigo Echenique	20/20	_	_	13/13	_	_	_	_
Esther Giménez-Salinas[E]	17/17	_	_	10/10	_	10/10	_	4/4
Luis Isasi[F]	10/10	27/27	_	_	8/8	9/9	_	_
Ramiro Mato	18/20	43/46	14/15	_	_	14/14	_	4/4
Sergio Rial[G]	10/10	_	_	_	_	_	_	_
Belén Romana	20/20	39/46	15/15	_	_	12/13	4/4	4/4
Pamela Walkden	20/20	_	15/15	_	_	_	_	_

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. Left the board and all the committees where he was a member on 30 May 2020.
B. Member of the board and member of the remuneration, risk supervision, regulation and compliance and innovation and technology committee since 27 October 2020. Member of the nomination committee since 22 December 2020.
C. Left the board and all the committees where he was a member on 3 April 2020.
D. Member of the board since 22 December 2020.
E. Left the board and all the committees where she was a member on 27 October 2020.
F. Member of the board and member of the executive committee, remuneration committee and risk supervision, regulation and compliance commitee since 19 May 2020.
G. Member of the board since 30 May 2020.

This table shows the average dedication of our directors to the board and committees:

Average dedication of directors to the board and committees

	Meetings per year	hours per member[A]	hours per chair[B]
Board	20	132B	264B
committee	46	230	460
Audit committee	15	150	300
committee	13	52	104
committee	13	52	104
compliance committee	13	130	260
sustainability and culture committee	4	20	40
technology committee	4	16	32

A. Includes hours of meeting preparation and attendance.
B. Of the 11 ordinary meetings held.

On average, each director dedicated approximately 58 days per year to their role (including their participation in committees), and 5 days to each board meeting, working 8 hours daily.

Directors must report any professional activity or post for which they will be nominated to the nomination committee so it can assess the time commitment to the group and check for possible conflicts of interest.

The annual suitability reassessment our nomination committee conducts every year (see in section 4.6 'Nomination committee activities in 2020') allows us to keep all information on the estimated time dedicated by directors to other roles and/or professional activities up to date and confirm their capacity to exercise good governance as directors of Banco Santander.

Overall, Banco Santander is able to verify compliance with the maximum number of company boards on which the law allows our directors to serve at once (i.e., up to one executive and two non-executive roles, or four non-executive roles; roles in the same group are considered a single role and roles in not-for-profit or non-commercial organisations are not included).

Training of directors and induction programmes for new directors

The board promotes its directors' continued development through an annual board training programme with contents the board chooses based on its performance reviews as well as economic, geopolitical and regulatory issues.

In 2020, these workshops, which typically follow board meetings, were run for all directors:

- Application Programming Interface development and use within Santander.
- Machine Learning and its potential for Santander.
- Cyber risk review covering core disciplines and new developments.
- Financial crime regulatory requirements and best practice guidance for senior management including anti money laundering and sanctions.
- Climate change and Santander's response.
- Risk Appetite Statement annual review covering material risks, calibration of limits and cascade across the Group and future enhancements proposed for 2021 Risk Appetite Statement development.

In addition, the board has robust induction and development programmes so new directors can better understand the Grupo Sanander's business and governance rules. They typically run between six to twelve months, from time a director is formally appointed by the board with regulatory approval. Key group managers provide detailed information on their areas of responsibility, addressing special needs found in director suitability assessments.

In 2020, these directors completed induction programmes with additional areas of focus:

- Pamela Walkden. who received additional deep-dive sessions with the audit committee chairs of certain subsidiaries and other key Grupo Santander positions given her transition to audit committee chair.
- Luis Isasi, who received additional deep-dive sessions covering Santander España after being appointed non-executive chairman.
- R. Martín Chávez and Gina Díez, who commenced their induction after being formally appointed and are expected to finish in 2021.

These programmes had been tailored to their experience and particular induction needs found when their suitability was being assessed.

Board assessment in 2020

The board undergoes a yearly assessment of its performance and effectiveness, composition, quality of its work and individual performance of its members. The assessment includes its committees and is conducted at least every three years by an external independent consultant, whose independence is assessed by the nomination committee.

In 2020, the assessment was conducted by an external independent expert.

External consultant independence

A robust selection process was undertaken to identify an external independent consultant to conduct the board assessment with a fresh perspective. A high degree of focus was placed on consultants with an in-depth understanding of Spanish and banking markets, and of the effectiveness of the boards of directors.

On 29 September, the board appointed Egon Zehnder to conduct the board assessment, following a favourable report of the nomination committee, which assessed and verified the consultant's independence.

Egon Zehnder, as a reference leader in its field, advised the Group in 2020 —occasionally and never exclusively— on processes related to the identification, selection and review of skills and potential of managers. The amounts paid to Egon Zehnder in 2020 for these services were:

Country	Total amount in local currency	Total amount in EUR [A]
United Kingdom	GBP 52,500	58,029
Argentina	ARS 5,602,905	54,246
Brazil	BRL 228,125	35,703
Chile	CLP 48,871,337	55,751
Spain [B]	EUR 1,137,781	1,137,781
Total		**EUR 1,341,510**

A. The amounts in EUR have been calculated based on exchange rates as at 31 December 2020.
B. Excluding the amounts received for the Banco Santander board of directors' 2020 review.

The nomination committee does not consider the referred amounts material in the context of the overall budget for such services, nor that they represent a significant proportion of Egon Zehnder's total fees.

For more details, see 4.6 'Nomination committee activities in 2020'.

Process, methodology and scope of the assessment

The lead independent director and the executive chairman organized and coordinated the assessment alongside the nomination committee.

The assessment methodology agreed with Egon Zehnder and endorsed by the nomination committee comprised:

- An anonymous questionnaire completed by all board members.

- Structured, detailed and confidential interviews with individual board members and select members of the executive team, covering their qualitative and quantitative assessment of key areas.
- Board and committee meeting observations to assess the quality of debate, dynamics and culture.

The process focused on board and committee structure, composition, processes and behaviours, including:

- The quality and efficiency of their functioning.
- Their size, composition and diversity.
- The performance of each director, general secretary and committee chairmen.
- The frequency and duration of meetings; content of the agenda and time dedicated to each item; quality of the information received; and decision making.

The objective of the exercise was to identify areas of continuous improvement therefore optimizing board impact in the future.

Findings and action plan

On 15 February 2021, Egon Zehnder shared the findings with the board, which included, among others, that:

- The board is appropriately composed, engages in healthy debate and makes decisions effectively.
- The committee structure, composition and operation is fit for purpose taking into account Banco Santander's scale and complexity.
- The executive chairman, CEO, lead independent director and general secretary performed positively and effectively.
- The board´s governance and logistics are well covered.
- A review of meeting frequency and agenda contents can help boost efficiency, striking a further balance between productivity and fulfilling regulatory expectations.

The board discussed the assessment and associated findings at its meeting held on 15 February 2021, and concluded that it was satisfied with its and its committees' performance and effectiveness.

Taking into account the Egon Zehnder findings, the board will develop and execute an action plan to address the identified areas of improvement, applicable to both the board and its committees. The action plan will specifically focus on improving efficiency of operation at both a board and committee level, at all times meeting regulatory and good governance expectations. In addition, committees will each be engaged on specific actions relevant to their ongoing effective and efficient operation.

The agreed action plan will be executed during 2021 under the supervision of the nomination committee, with regular progress reports to the board.

4.4 Executive committee activities in 2020

Composition

Position		Category	Appointed on
Chairman	Ana Botín	Executive	11/12/1989
Members	José Antonio Álvarez	Executive	3/01/2015
	Bruce Carnegie-Brown	Independent	12/02/2015
	Luis Isasi	Other external	20/05/2020
	Ramiro Mato	Independent	28/11/2017
	Belén Romana	Independent	01/07/2018
Secretary	Jaime Pérez Renovales		

A. Committee chair 10 September 2014.

In 2020, Ignacio Benjumea and Guillermo de la Dehesa stepped down from the committee, with Luis Isasi appointed on 20 May.

Functions

The executive committee is a key governance body of the Group and is delegated to exercise all the board's powers except those that cannot be delegated by law or under the Bylaws and the board's rules and regulations. The executive committee meets every week to ensure that key decisions can be made timely and efficiently, allowing the board to focus on general supervision. The executive committee regularly reports to the board on its core matters, providing all directors with the minutes from its meetings and related documents.

Committee performance

The board of directors, supported by its nomination committee, sets the executive committee's size and qualitative composition based on efficiency standards and guidelines for board composition. However, because the committee's size must allow it to perform its functions expeditiously with all executive directors present, the executive committee does not have the same qualitative composition as the board of directors. It has a majority of external directors, including three independent directors. This composition ensures a balance of opinions, as well as internal and external perspectives. It also complies with Recommendation 37 of the Spanish Corporate Governance Code, which stipulates that there must be at least two non-executive directors, one of whom should be independent. The secretary of the board is also the secretary of the executive committee.

The executive committee can meet as many times as its chairman (or, in her absence, vice-chairman) convenes it. However, it generally meets once a week.

'Committee meetings' in section 4.3 further describes the general rules that apply to these sessions.

Main activities in 2020

The executive committee handled several matters relating to the business of Santander, its main subsidiaries, risks and corporate transactions, in addition to the core issues it subsequently elevates to the full board of directors:

- **Earnings:** the committee was kept up to date on group earnings and investors and analysts' reactions to them.
- **Business performance:** the committee received reports on management and specific subjects related to the performance of Santander's business areas.
- **Information from the chairman:** the board's chairman presides over the executive committee and regularly reported on group management, strategy and institutional issues.
- **Information reported by the chief executive officer:** the Group chief executive officer reported key aspects relating to Group performance, budget and strategic business plans.
- **Corporate transactions:** the committee analysed and, where applicable, approved some corporate transactions (investments and divestments, joint ventures, capital transactions, etc.).
- **Covid-19:** the committee was kept up to date on pandemic-related developments, actively participating in decision-making aimed at mitigating its impact on the Group, as well as on the global economy and health of employees, customers and the general public.
- **Risks:** the committee was regularly informed about the Group's risks. Under the risk governance model, it took decisions about transactions that it had to approve owing to their amount or significance. Due to covid-19, risk presentations specifically focused on providing updated information on health indicators, as well as on the estimation and close monitoring of the impacts of the pandemic on liquidity, provisions, risks, etc.
- **Subsidiaries:** the committee received reports on the performance of the various units and business lines, with a specific focus on the impact of the pandemic on their credit portfolios. As per internal procedures, it authorised transactions and appointments of directors and key managers at subsidiaries.
- **Capital and liquidity:** from time to time, the committee received reports on capital ratios and the measures taken to optimize them. It also revised regulatory plans.
- **Supervisors and regulators:** the committee was frequently informed of regulatory developments, as well as projects to follow recommendations and new regulations.
- **Governance models:** the committee discussed and, where relevant, approved new governance model proposals for initiatives such as PagoNxt, as well as more established units such as Santander Corporate and Investment Banking (SCIB) and Wealth Management and Insurance (WM&I).
- **Issues under board delegation:** under the delegation conferred by the April 2020 AGM, and the subsequent sub-delegation of the board of directors' powers in its favour, the committee resolved to issue certain securities non-convertible in shares.

The executive committee held 46 meetings in 2020. 'Board and committee attendance' in section 4.3 provides information on executive committee members' attendance at meetings as well as the estimated average time each committee member spent on preparing for, and participating in, meetings.

4.5 Audit committee activities in 2020

'In a volatile and uncertain environment, it has been key for us, as a board audit committee, to continue doing the basics extremely well and to maintain our vigilance on new priorities. The covid-19 crisis has had a high impact on our 2020 agenda, but we have also remained focused on our fundamental responsibilities, including the oversight of the integrity of financial reporting and controls, the effectiveness of our internal audit function and the relationship with the external auditors.

The committee has maintained the focus on transparency, particularly around the difficult decisions we had to make during the year. We have also reflected and acknowledged how critical it is, in the current circumstances, to enhance cross-country collaboration and work in partnership with the executives and the external auditor.

Finally, I would like to thank Belén Romana for her service over the last four years as chair of the committee (of which she remains a member) until I took over in April'.

Pamela Walkden
Chairman of the audit committee

This section is the report the audit committee prepared on its activities on19 February 2021. The board of directors approved it on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	Pamela Walkden	Independent	29/10/2019[A]
Members	Homaira Akbari	Independent	26/06/2017
	Henrique de Castro	Independent	21/10/2019
	Ramiro Mato	Independent	28/11/2017
	Belén Romana	Independent	22/12/2015
Secretary	Jaime Pérez Renovales		

A. Committee chair since 26 April 2020.

The board of directors appointed the committee's members based on how their expertise, skills and experience fit within its purview.

For more details, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Pamela Walkden was appointed chairman of the committee with effects from 26 April 2020 replacing Belén Romana, who stepped down at the end of the maximum period permitted under Spanish law.

According to SEC Regulation S-K, new committee's chairman, Pamela Walkden, is considered a financial expert based on her training and experience in accounting, auditing and risk management, as well as the various leadership positions she held at entities where knowledge of accounting and risk management was essential, not to mention her international experience - focussed on the UK and Asia.

External auditor

Our external auditor is PricewaterhouseCoopers Auditores, S.L. (PwC). Its registered office is at paseo de la Castellana, no. 259 B, Madrid, and its Tax ID Code is B-79031290. It is registered with the *Registro Oficial de Auditores de Cuentas* (Official Registry of Account Auditors) of the *Instituto de Contabilidad y Auditoría de Cuentas* (Accounting and Audit Institute or ICAC) of the Spanish Ministry of the Economy under number S0242.

The lead partner is Alejandro Esnal, who has more than 25 years'experience in audits in the Spanish banking sector. He has also led a large number of projects in Spain, London and New York, both in connection with auditing and with internal control activities at financial institutions. Mr Alejandro Esnal participates actively in the committees and working groups of the audit sector and collaborates with regulators in matters relating to the improvement of the practices and regulations of financial institutions.

Since the previous incumbent has reached the end of the maximum legal term of five years, Julián González will be the lead audit partner in 2021. Mr González has experience as a global group audit partner (mainly in Spain and the UK) and a strong track record in the Spanish financial sector. He also participates in various international banking supervisory and regulatory forums.

Report on the independence of the external auditor

The audit committee confirmed the independence of the external auditor on 19 February 2021, before the 2020 auditor's report on the financial statements was issued, in accordance with section 4.f) of article 529 *quaterdecies* of the Spanish Companies Act, and article 17.4.c) (iii) of the Rules and regulations of the board. It found no objective reasons to doubt the independence of the external auditor.

The committee assessed the auditor's independence based on their personal situation and the financial relationship that the auditor or persons performing the audit have with the Group, analysing possible threats and establishing the appropriate safeguarding measures.

The committee also used the information found under the 'Duties and activities in 2020' section on the auditor's remuneration for audit and other services as well as considering written confirmation from the external auditor regarding its independence from Banco Santander in accordance with European and Spanish law, SEC rules and the rules of the Public Company Accounting Oversight Board (PCAOB).

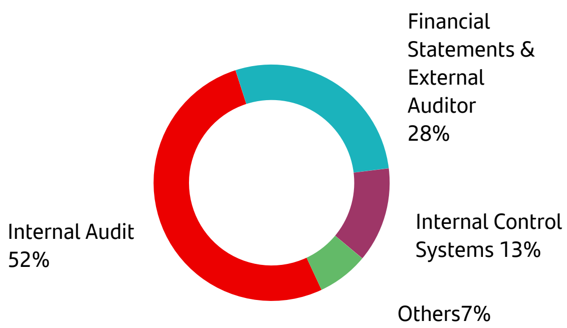
Proposed re-election of the external auditor for 2021

As indicated in section 3.6 'Our coming 2021 AGM', the board of directors proposed re-electing PwC as external auditor for 2021 at the 2021 AGM on the recommendation of the audit committee.

Time allocation

In 2020, the audit committee held 15 meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing for, and participating in, meetings.

The chart below shows the committee's approximate time allocation to each function in 2020.



Duties and activities in 2020

This section summarises the audit committee's activities in 2020.

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 2020 and endorsed their content, prior to their authorization for issue by the board. 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 over financial reporting (ICFR). • Endorsed the quarterly financial statements dated 31 December 2019, 31 March, 30 June and 30 September 2020, respectively, before they were approved by the board and released to the markets and supervisors. • Analysed and endorsed other financial information such as the annual corporate governance report; shares registration document filed with the CNMV; Form 20-F filed with the SEC with 2019 financial information; the half-yearly financial information filed with the CNMV and in Form 6-K with the SEC; and Santander's specific interim consolidated financial statements for Brazil. • Reviewed the balance sheet on the basis of the proposal of a capital increase to distribute of new shares equivalent to EUR 0.10 per share, as a complementary payment for 2019. • Analysed the goodwill attributed to Santander UK plc, Santander Bank Polska, S.A. and Santander Bank, N.A. and determined the need for an asset impairment in accordance with the applicable accounting rules. The committee acknowledged the effects of the pandemic, the uncertainty in the macroeconomic situation, expected returns and market premiums, amongst others. • Analysed the proposed EUR 1.6 billion overlay provisions based on the expected deterioration of the macroeconomic conditions due to the covid-19 health crisis. • Oversaw and assessed the preparation and reporting of non-financial information in accordance with applicable regulations and international benchmarks. In particular, reviewed the annual 'Green Bond Report' about the use of proceeds of each Green Bond issuance that was approved by the board.
Report to the board about applied tax policies	• Received information from the group's tax advisory unit about applied tax policies in compliance with the Code of Good Tax Practices and submitted it to the board of directors, expressly stating that, as part of the cooperative relationship encouraged by this code, the Agencia Estatal de Administración Tributaria (AEAT) Tax transparency report for the financial year 2019 was submitted.
Relationship with the external auditor	
Receive information on the audit plan	• Obtained confirmation from the external auditor that it had full access to all information to conduct the audit. • Discussed improvements in financial reporting based on new accounting standards and best international practices. • Analysed detailed information on the planning, progress and execution of the audit plan. • Analysed the auditor's reports about the annual financial statements before the external auditor submitted them to the board of directors.
Relations with the external auditor	• The external auditor attended all committee meetings in 2020, allowing the audit committee to act as a communication channel between the external auditor and the board. • The committee met twice in private session with the external auditor without Grupo Santander executives present.
Assessment of the auditor's performance	• Evaluated the external auditor and its contribution to the integrity of financial reporting on account of its work and opinions from units and the chairpersons of audit committees of different group's companies. During this assessment, the auditor informed the committee of the findings of regulators' inspections of PwC and the committee analysed those, as well as the information about any investigations involving PwC.

Duties	Actions taken
Independence	
PwC's remuneration for audit and non- audit services	• Monitored PwC's remuneration, including the following fees for audit and non-audit services provided to the group

EUR million

	2020	2019	2018
Audit	95.8	102.4	93.9
Audit-related services	6.0	7.8	6.8
Tax advisory services	0.8	0.7	0.9
Other services	1.2	2.3	3.4
Total	**103.8**	**113.2**	**105.0**

The 'Audit' heading mainly includes audit fees for the individual and consolidated financial statements of Banco Santander, S.A., and of some group companies; the integrated audits prepared in order to file Form 20-F for the annual report with the US SEC in relation to any entities currently required to do so; the internal control audit (SOX) for required group entities; the audit of the consolidated financial statements as of 30 June; and the regulatory auditor's reports for Grupo Santander's geographies.

Tax advisory services provided by PwC (mainly on tax and compliance) totalled EUR 40,000 for Spain and EUR 780,000 for other group subsidiaries.

The main fees under 'Audit-related services' include, amongst others, comfort letters, verifying financial and non-financial information (as required by regulators), and reviews of the documents to be submitted to domestic or foreign securities market authorities.

The fees paid for non-audit services and their proportion to all fees invoiced to Banco Santander and/or its group are as follows:

	Company	Group companies	Total
Amount of non-audit work (thousands of EUR)	487	1,513	2,000
Amount of non-audit work as a % amount of audit work	0.5%	1.4%	1.9%

In 2020, Santander arranged for services provided by audit firms other than PwC. EUR 172.4 million (EUR 227.6 and 173.9 million in 2019 and 2018, respectively).

Duties	Actions taken
Non-audit services. Assess threats to the independence and protective measures	• Reviewed services rendered by PwC and confirmed its independence. For those purposes: • Confirmed that all services rendered by Grupo Santander's auditor (audit and audit-related services, tax advisory and other services detailed in the section above) met regulatory independence requirements. • Confirmed 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, which for 2020 stood at 1.9%. • Average non-audit and audit-related fees paid to auditors in 2020 amount to 11% of total audit fees according to available information on the leading listed companies in Spain. • Confirmed the ratio of fees paid for all items relating to the services provided to the group to total fees charged by PwC in 2020. This ratio is less than 0.3% of PwC's total revenue worldwide. • Reviewed financial relations with companies related to PwC and persons who participate in audit works, concluding that financial relations could compromise PwC's independence. • Since the publication of the (EU) Regulation 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, Banco Santander meets the requirement that for a period of three or more consecutive years, total fees received for non-audit services do not exceed 70% of the average fees paid in the last three consecutive years for the audit of Group entities.
External auditor independence report	• After considering the information detailed above, the committee issued the 'Report on the independence of the external auditor', which is described at the beginning of this section 4.5.
Re-election of the external auditor	
Re-election of the external auditor	• Submitted proposal to the board (for subsequent submission to the 2021 AGM to re-elect of PwC as the external auditor of Banco Santander and its consolidated group in 2021.

Duties	Actions taken
Internal audit function	
Assess the performance of internal audit function	• Regularly supervised the impact of covid-19 on core activities on a regular basis, closely monitoring the changes to the original 2020 internal audit plan. • Received reports on progress with the internal audit plan, allowing the committee to exert strict controls over internal audit recommendations and ratings of units and corporate divisions. The chief audit executives (CAE) of core units and corporate divisions reported to the committee at least once in 2020. • The CAE and representatives of the Internal Audit division attended all the audit committee meetings in 2020; one meeting was with the CAE without other executives or the external auditor present. • Proposed the 2020 internal audit budget, making sure the function had the necessary material and human resources. In particular, the committee was kept informed of the creation of audit hubs and their associated schedule, as well as on digital initiatives related to the Internal Audit division. • Reviewed the annual audit plan for 2020-2023 based on a comprehensive risk assessment and submitted it to the board for approval. • Received regular information about internal audit activities in 2020. The overall distribution of audit ratings improved owing in part to continued efforts to build a stronger control environment. All issued audit reports were subject to additional scrutiny by the committee and certain business areas were required to present their action plans to it. • Reviewed the application of the measures in the 2020-2023 strategic internal audit plan. • Assessed the internal audit function's success in fulfilling its purpose and the CAE's performance in 2020, and reported its findings to the remuneration committee to set his variable pay.
Internal control systems	
Monitor internal control systems	• Received information on the evaluation of the group's 2019 Internal Control Model (ICM) and analysed its effectiveness according to regulations from the CNMV (ICFR) and the SEC (SOX). To fulfil its main objective of reducing risks associated with risk control, it put specific remediation plans in place and regularly updated the committee. • Reviewed the effectiveness of Grupo Santander's internal controls over the preparation of the financial statements filed in the US with Form 20-F for 2019 pursuant to the SOX. In its opinion, Grupo Santander's internal controls over said financial information were effective in all significant aspects.
Whistleblowing channel	• Received information from the Compliance and Conduct division about the whistleblowing channel (*Canal Abierto*), particularly regarding questionable financial and accounting practices, financial reporting, auditing and internal controls. It confirmed that no claim regarding these issues had been filed through this channel. • The committee was informed about the changes made to the whistleblowing channel that enable communications from employees and from other people not related to Banco Santander, such as shareholders, customers, suppliers and other third parties guaranteeing their confidentiality and allowing anonymous communications. See section 8.1.
Coordination with Risk	• Took action to make sure the internal audit plan is properly coordinated with the oversight of significant group risks and attended joint meetings with board's risk supervision, regulation and compliance committee to report on model risk, group's risk management, complaints submitted to *Canal Abierto*, vendor risk management, legal risk, internal auditing in the Risk and Compliance division, and other matters.
Other activities	• Took part in the appointment of new CAE for the subsidiaries in accordance with the group's internal regulations upholding the correct supervision and control of such appointments in conjunction with the nomination committee was ensured.
Related-party and corporate transactions	
Creation of special-purpose vehicles or entities based in countries considered tax havens	• The head of Tax informed the committee about the group's offshore entities in accordance with Spanish regulations. See note 3.c in the 'Notes to the consolidated annual accounts'.
Approval of related party transactions	• Confirmed if related-party transactions required or not the approval from the governing bodies according to the law and the board's rules and regulations. • No board member direct or indirectly carried out any transactions with Banco Santander that were deemed significant or under unusual market conditions. The committee examined the related-party transactions disclosed in the financial statements. See section 4.12 'Related-party transactions and conflicts of interest'.
Transactions involving structural or corporate changes	• Reviewed the transactions involving structural or corporate modifications planned by the group during 2020 prior to the submission to the board of directors, analysing their economic conditions and the accounting and internal audit impact.
Information for general meetings and corporate documentation	
Reporting to shareholders	• At our April 2020 AGM, Belén Romana, as committee chairman, reported to shareholders on the matters and activities within the committee's scope.
Corporate documents for 2020	• Drafted this committee report for 2020, 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 2021 identified following the assessment carried out by the board and its committees.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see 'Board assessment in 2020' in section 4.3.

The committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Appointed a new committee chair in line with robust succession planning, ensuring a smooth transition and continued focus on committee effectiveness.
- Strengthened the coordination and sharing of information with the main units and divisions through committee chair participation in country audit committee meetings, reciprocated by country reporting and attendance of country audit committee chairs at the group audit committee, as well as holding two audit committee conventions to facilitate coordination, raise awareness of global initiatives and expectations, and to discuss relevant topics.
- Remained focused on, and debated, critical areas such as internal control, risk assessment, digital transformation and relationships with suppliers.

2021 priorities

The committee identified these priorities for 2021:

- Continue to evolve the communication between Group audit committees to ensure there is effective sharing of knowledge and concerns.
- Monitor the execution of the internal audit plan, taking into consideration planned adjustments as well as tracking risks caused by covid-19 and reviewing management's of those risks.
- Continue to promote the involvement of the first line of defence and review internal audit recommendations.
- Support the further improvement of the internal risk assessment and controls, with particularly focus on the Group's key strategic projects.
- Ensure proper coordination with other board committees, especially the risk supervision, regulation and compliance committee.
- Ensure the effectiveness of the committee, taking into account any areas of continuous improvement and allowing sufficient time for quality debate on key topics and internal audit issues.

4.6 Nomination committee activities in 2020

'The committee has continued its work on overseeing the process on key appointments to the board and senior management roles, supported by its work on robust succession planning. Focus has remained on the collective skills and experience of the board and ensuring that gender and broader diversity remain front of mind in our succession planning. In addition, we have continued our work on improving our overall effectiveness through commissioning an external evaluation of the board and its committees.

Corporate and internal governance of the subsidiary governance has been a key feature in the year, driving continuous improvement across the Group and ensuring adequate oversight and control of subsidiary operations. The committee has tracked governance developments (trends, regulation, and best practices) and the implications for the Group, and kept these under continuous review.

There have been four changes to the membership of the committee during the year: Guillermo de la Dehesa, Esther Giménez-Salinas and Rodrigo Echenique left the committee upon their resignation from the board and R. Martín Chávez became a member in December 2020. I would like to take this opportunity to thank Guillermo, Esther and Rodrigo, on behalf of the committee, for their hard work and commitment to our discussions and to welcome Marty who brings relevant skills and experience to the committee, including technology and digital expertise'.

Bruce Carnegie-Brown
Chairman of the nomination committee

This section is the report the nomination committee prepared on its activities on 19 February 2021. The board of directors approved it on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	Bruce Carnegie-Brown	Independent	12/02/2015[A]
Members	R. Martín Chávez	Independent	2/12/2020
	Sol Daurella	Independent	23/02/2015
Secretary	Jaime Pérez Renovales		

A. Committee chair since 12 February 2015.

The board of directors appointed the committee's members based on how their expertise, skills and experience fit within its purview.

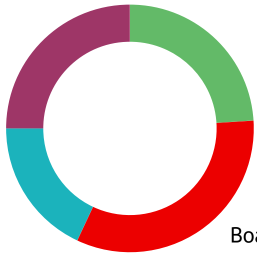
Further information can be found in section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

In 2020, Guillermo de la Dehesa, Esther Giménez-Salinas and Rodrigo Echenique stepped down from the committee, with R. Martín Chávez appointed in 22 December.

Time allocation

In 2020, the nomination committee held 13 meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing for, and participating in, meetings.

The chart below shows the committee's approximate time allocation to each function.



Duties and activities in 2020

This section summarizes the nomination committee's activities in 2020.

Duties	Actions taken
Composition of the board and its committees	
Selection, suitability assessment and succession policy and renewal of the board and its committees	• Reviewed the selection, suitability and succession practices with an external consultant and implemented findings through the updated selection, suitability assessment and succession of directors policy. The review concluded that these activities were conducted in line with industry best practices. • Ensured that board member selection guaranteed the individual and collective suitability of directors, fostered diversity of gender, experience and expertise, and assessed the skills, time and dedication needed for the role. • Continued to oversee the appointment of board and committee members and top executives, and planning their succession. • Assessed board committee composition to balance members' skills and experience appropriately. • Checked board members' general skills and competence to cover Santander's strategic markets in addition to their experience and expertise in technology, digital strategy, banking, finance, regulations and other areas. • Oversaw appointments to key roles and regularly reviewed succession plans from a strategy perspective. • Made sure that nominations, interviews and appointments of directors consider diversity.
Appointment, re-election, confirmation and removal of directors and committee members	• Checked that the overall composition and skills of the board and its committees were appropriate, and identified necessary areas of expertise and experience based on the skills matrix in order to select members. • Assessed candidates, as well as their credentials, and evaluated their skills and suitability for the position, in accordance with the procedure outlined in the selection, suitability assessment and succession of directors policy. • Recommended to the board, for subsequent submission to the general meeting the appointment of Luis Isasi, Sergio Rial, R. Martín Chávez and Gina Díez as new board members (these appointments would make the board more diverse in terms of skills and background) and the re-election as directors of the directors whose term of office expired. • Recommended to the board changing the composition of committees to further enhance their performance and support to the board in their respective areas, in accordance with best international practices and the board's rules and regulations. • Acknowledged the resignation of Guillermo de la Dehesa, Esther Giménez-Salinas and Rodrigo Echenique before the end of their tenure, and the reasons given in a letter to the board, namely personal issues related to the length of time they had been directors and to board renewal. • Submitted a proposal to the board, upon completion of one year of their term of office and in accordance with the Bylaws, the re-election of the members of the international advisory board. See section 4.11 'International advisory board'.
Succession planning	
Succession planning for executive directors and senior managers	• Received and analyzed information on succession planning for executive directors, senior management and key positions throughout the Group. Ensured plans are in place for the orderly succession of senior managers and that there is a structured, rigorous and transparent procedure based on merit and objective criteria, promoting diversity in its broadest sense. • Reviewed an external expert's report on this topic, which concluded that Santander's overall succession arrangements and framework for the executive directors, senior management and key positions throughout the Group meet regulatory requirements and align with best industry practices. • Analyzed proposals to update the selection, suitability assessment and succession policy for directors approved by the board on 27 February 2020 and 22 December 2020.

Duties	Actions taken
Director status verification	
Annual director status confirmation	• Confirmed each director's status (as executive, independent and other external) and submitted its recommendation to the board of directors in order to confirm or revise it in the annual corporate governance report and at the annual general meeting. See section 4.2 'Board composition'. • Evaluated directors' independence and confirmed that the Group had no significant business relations with companies where they are or were significant shareholders or directors, particularly in terms of financing extended to them by the Group. Ultimately, the committee found no significant relations because (i) financing transactions (a) did not make these companies financially dependent since they could substitute it with funding from other banks and entities, and (b) are aligned with Grupo Santander's share of the relevant market, and (ii) relations did not reach comparable price-sensitive thresholds used in other jurisdictions as a reference (e.g. NYSE, Nasdaq and the Canadian Bank Act).
Regular assessment	
Annual suitability assessment of directors and key roles	• Assessed the suitability of board members and senior managers, as well as holders of internal control functions and key roles in the Group, and confirmed their business and professional integrity, suitable skills and experience to perform their duties, and ability to make decisions independently for the Group's benefit. • Furthermore, the committee found that directors are suitable to exercise good governance at Banco Santander. It noted that, on average, directors attend approximately 98.65% of the meetings of the board and committees on which they serve, and that the committee has not been compelled to take any action regarding attendance because no director's attendance is below the 75% minimum. • In 2020, the committee was not informed by any director of Banco Santander, and had no awareness to the best of its knowledge, of any circumstance or situation that could harm the Group creditworthiness and reputation, whether or not related to their performance in Santander, or criminal cases in which they are investigated, that should be assessed by the committee for its report to the board.
Conflicts of interest and other directors' professional activities	• Examined the information provided by the directors regarding other professional activities or positions to which they had been proposed and the time to be dedicated to them, concluding that such obligations did not interfere with the dedication required as directors and that there was no conflict of interest that could affect the performance of their duties.
Board self-assessment	• In coordination with the executive chairman and the lead independent director, the committee tracked the execution of the action plan defined in the 2019 self-assessment, which was performed internally. • Led by the executive chairman and the lead independent director, the committee monitored the 2020 board evaluation review, conducted by an independent external consultant, whose independence was verified by the committee upon analyzing its business relations with the Group and, in particular, the services rendered and the amounts received. The scope of the assessment included the board and all its committees, as well as its members and the general secretary. See 'Assessment of the board' in section 4.3. • Updated the board skills and diversity matrix and submitted it to the board for approval. See section 'Board skills and diversity matrix' in section 4.2.
Senior Management	

Appointment of key positions	• Issued favourable opinions on the following appointees, approved by the board:
	  • António Simões as new regional head of Europe.
	  • Alexandra Brandão as the new global head of Human Resources, replacing Jaime Pérez Renovales, who continues as general and board secretary, and Roberto di Bernardini, who was appointed chief talent officer.
	• Also issued favourable opinions on director and senior manager appointments within the core subsidiaries of Grupo Santander.

Talent and director training	• Received information about the global knowledge and talent strategy, aimed at transforming our workforce to ensure it is ready for digital transformation, and conducted activities on the Group's cultural transformation. • Reviewed the director induction, information, training, development and knowledge refreshment programmes in line with the Rules and regulations of the board, EBA Guidelines, Spanish Corporate Governance Code and supervisory body requests, making sure that these programmes take into account each director's circumstances and needs.
Corporate governance and Internal governance	
Corporate governance	• Supervised the internal governance system, evaluated the corporate governance system to ensure that it fulfils its mission of promoting the corporate interest and takes into account the legitimate interests of the other stakeholders, and verified the information on corporate governance that was made public. • Analyzed new governance regulations, emerging trends and best governance practices and analyzed their implications for the Group, and reported on the adaptation of the Rules and regulations of the board and other internal regulations to the Spanish Corporate Governance Code revised in June by the CNMV. • Supervised the strategy on communication and engagement with shareholders and investors and other stakeholders, receiving information on the meetings held between them and the lead director and Shareholders and Investors Relations team, as well as on their opinion of Banco Santander and its group's corporate governance. • Received an overview of the highlights and outcomes of the 2020 AGMs, focusing on their format as virtual (April 2020 AGM) and hybrid (in-person and virtual, October 2020 AGM) meetings due to covid-19 measures and restrictions, ensuring shareholders' rights at all stages: delegation, voting, attendance, information, participate and proposed resolutions.

Duties	Actions taken
Internal governance oversight	• Assessed the suitability for certain appointments and re-elections at subsidiaries subject to Grupo Santander's appointments and suitability procedure, and checked that the composition of subsidiaries' boards of directors was appropriate. • Checked subsidiaries' application of the GSGM in regard to the structuring of their boards and board committees, as well as the alignment of their functions with best practices. • Issued favourable opinions on the appointment of subsidiary board members that properly represent Banco Santander with a full understanding of their functions and duties.
Information for the general meeting and corporate documentation	
Reporting to shareholders	• At our April 2020 AGM, Bruce Carnegie-Brown, as committee chairman, reported to shareholders on the matters and activities within the committee's scope.
Corporate documents for 2020	• Drafted this report on the committee's activities in 2020, which includes an analysis of its performance and the priorities identified for 2021 following the effectiveness assessment of the board and its committees. • Revised the annual corporate governance report.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see 'Board assessment in 2020' in section 4.3.

The committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Remained focused on driving continuous corporate governance improvement across the Group, facilitated through the appointment of Luis Isasi, Sergio Rial, Gina Díez and R. Martín Chávez to the board, bolstering its skills and experience. Those appointments also enabled the refreshment of certain committees and increased the number of female board members to 40%.

- Received regular updates on how the units within the group are meeting governance expectations, as well as overseeing key governance matters applicable to the entire Group. This included the review of subsidiary board composition and the adaptation to regulatory developments.

- Continued its focus on effective succession planning (board members and senior managers). This included a refresh of the senior manager succession policy and a review of the succession planning methodology with an external advisor, which concluded that these activities were conducted in line with industry best practices.

- Played an active role in commissioning the annual board and committee's effectiveness review, led by an external firm.

- Received information about the global knowledge and talent strategy, focused on leading the workforce transformation of Santander to ensure it is ready for the challenges of digitalization.

2021 priorities

The committee identified the following priorities for 2021:

- Continued review of succession plans, having regard to the current and future strategy of the Group and potential challenges the business may face when identifying future leadership needs and the development of internal succession.

- Continue to ensure that gender and broader diversity remains a key priority in our succession planning and appointments, acknowledging that building a more diverse and inclusive workforce is a critical component to developing a sustainable and successful business.

- Continue to monitor board members' skills and experience, in particular training needs and ongoing training and development for the whole board.

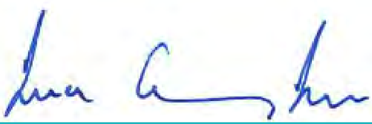
- Ensure that the review findings, suggested actions and the lessons learned from the external board effectiveness review are embedded and closely monitor progress against the action plan.

- Keep the corporate governance framework under constant review and monitor compliance, ensuring that the interests of all stakeholders are considered. For this purpose, the committee will closely monitor the engagement with shareholders and, together with the lead independent director, will receive and embed their feedback and insights.

4.7 Remuneration committee activities in 2020

'During 2020, we have maintained oversight of the application and implementation of remuneration policies and frameworks for the group and have been focused on simplifying executive remuneration within the regulatory parameters that apply. This has included shaping compensation schemes consistent with the Group's values of Simple, Personal and Fair. In addition, and in the light of the pandemic, we supported a reduction to executive and non-executive directors' compensation to help finance contributions to a fund created to provide medical equipment and supplies to help limit the spread of the virus in the countries in which the Group operates.
There have been several changes to the membership of the Committee during the year: Guillermo de la Dehesa and Ignacio Benjumea left the Committee upon their resignation from the board and Luis Isasi and R. Martín Chávez became members in May and October 2020, respectively. I would like to take this opportunity to thank Guillermo and Ignacio, on behalf of the committee, for their hard work and commitment to our discussions and to welcome Luis and Marty.'

Bruce Carnegie-Brown
Chairman of the remuneration committee



This section is the report the remuneration committee prepared on its activities on 19 February 2021. The board of directors approved it on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	Bruce Carnegie-Brown	Independent	12/02/2015[A]
Members	R. Martín Chávez	Independent	27/10/2020
	Sol Daurella	Independent	23/02/2015
	Henrique de Castro	Independent	29/10/2019
	Luis Isasi	Other external	19/05/2020
Secretary	Jaime Pérez Renovales		

A. Committee chair since 12 February 2015.

The board of directors appointed the committee's members based on their skills and expertise pertaining to matters within its purview.

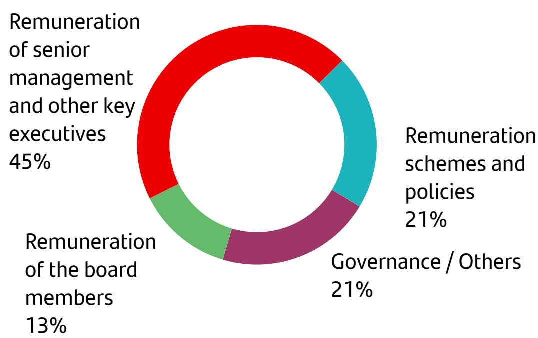
For more details, see 4.1 'Our directors' as well as the 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Ignacio Benjumea and Guillermo de la Dehesa stepped down from the committee in 2020. Furthermore, Luis Isasi and R. Martín Chávez were appointed to the committee on 19 May and 27 October 2020, respectively.

Time allocation

In 2020, the remuneration committee held 13 meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing for, and participating in, meetings .

The chart below shows the committee's approximate time allocation to each function in 2020.



Duties and activities in 2020

This section summarises the remuneration committee’s activities in 2020.

Duties	Action taken
Remuneration of directors and senior management	
Individual remuneration of directors in their capacity as such	• Analyzed the individual remuneration of directors in their capacity as such, based on the positions they held on the collective decision-making body, their membership on, and attendance at, the various committees, and any other objective circumstances evaluated by the board. • Submitted a proposal to the board to reduce the board's 20% annual allotment and attendance fees cut for the balance of 2020, with effect from 1 April 2020, with a view to contributing to the financing of the fund set up to provide medical equipment and supplies to help limit the spread of the covid-19.
Individual remuneration for executive directors	• Proposed to the board the individual remuneration for executive directors, based on the proposal of the 50% reduction of the chairman and chief executive officer's salary and bonus. • The committee has also applied the same prudence approach in the current situation to propose that the fixed components of the remuneration be maintained for the following year.
Individual variable remuneration for executive directors	• Proposed to the board immediately payable and deferred amounts of variable remuneration of the preceding year. A portion of deferred variable pay is capped and contingent on executive directors' long-term objectives. In light of customer, risk, capital and earnings metrics set by the board, the proposed variable remuneration was less than in the previous year. Its value also decreased further on account of the executive chairman and chief executive officer’s waiver of half of their fixed pay and bonus for the year. • Submitted a proposal, as part of the directors´ remuneration policy for the annual performance indicators and targets used to calculate the annual variable remuneration for 2021, subject to board approval. In addition, it also proposed the achievement scales for annual and multi-year performance targets and their associated weightings. • Informed favourably the board and submitted a proposal regarding the executive chairman and the chief executive officer's contracts which have been updated to ensure they are aligned with the recommended limitations, payments arising from the termination of its contracts (including the unconsolidated amounts of long-term savings systems and those received for non-compete commitments). This was to fully comply with new recommendation 64 of the revised Spanish Corporate Governance Code. By virtue of these amendments, pre-retirement in these contracts will disappear.
Share plans	• Submitted a proposal to the board, for subsequent vote at the April 2020 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; a plan for employees of Santander UK Group Holdings plc and other Group companies in the UK). • Analyzed and submitted to the board a proposal for the Digital Transformation Award, which was designed and implemented to provide the Group with a tool to attract and retain key talent to drive long-term share value creation through the achievement of key digital milestones. • Authorised to increase the mandatory share holding period for executive directors from one to three years to fully comply with new recommendation 62 of the revised Spanish Corporate Governance Code, while this retention period only applies as long as they do not hold shares equivalent to two years of fixed salary, this is imperative in accordance with Group's policy. This new period will be included in the 2020 directors’ remuneration annual report and also included in the Group's new Policy on directors’ remuneration in 2021, 2022 and 2023 submitted to shareholders for a binding vote.
Propose the annual directors' remuneration report to the board	• Drafted and proposed to the board the annual directors' remuneration report for it to be put to a non-binding vote at the April 2020 AGM. • Assisted the board of directors in monitoring compliance with the director remuneration policy. • Received information from the lead independent director about contact with key shareholders and proxy advisers on executive director remuneration issues. • Held a joint session with the risk supervision, regulation and compliance committee to verify that remuneration schemes factor in risk, capital and liquidity, and do not offer incentives to assume risk that exceeds the level tolerated by Banco Santander, therefore promoting and being compatible with adequate and effective risk management.

Remuneration policy for senior management and other key executives	• Encouraged on simplify the executive remuneration by configuring compensation plans in line with our values of Simple, Personal and Fair. • Submitted to the board for approval proposals for the determination or modification of fixed and variable annual remuneration of certain members of senior management, in accordance with Group policies and applicable regulations. • Determined the global annual variable remuneration for 2019 -payable immediately- and the deferred remuneration of the main executive segments, in line with the achievement of the quantitative and qualitative targets set, for this purpose, a joint meeting was held with the risk supervision, regulation and compliance committee to ensure that the management of the various risks is adequately considered. In addition, proposed to the board the remuneration of senior management, based on their individual achievement of the annual performance targets and their weightings outlined by the board and. in particular, determined the variable remuneration of (i) the CAE, once the audit committee assessed its performance and communicated its conclusions to that effect to it; and (ii) the chief risk officer (CRO) and the chief compliance officer (CCO), after assessing their performance at the joint meeting with the risk supervision, regulation and compliance committee. • Analysed and discussed the Group's general remuneration policy, including that of senior manager, presented by the Compensation function on the basis of applicable legal or regulatory requirements, recommendations from regulators and the inputs received from stakeholders, providing their comments on the matter for consideration when it is updated. • Proposed to the board the annual performance indicators used for the calculation of variable remuneration for 2021 to be approved by the board, with the aim of simplifying to the extent possible the bonus pool scorecard. • Established, for submission to the board, the achievement scales for the annual and multi-year performance targets and weightings.
Remuneration of other executives whose activities may have a significant impact on the Group's risk profile (Identified Staff)	
Remuneration for other executives who are Identified Staff but not senior management	• Reviewed the fixed and variable remuneration ratios for control functions to ensure alignment with regulation and overall consistency with their control objectives. • Set key remuneration elements for Identified Staff. • Reviewed and updated the composition of Identified Staff to recognize employees who qualify for inclusion in this category. • Submitted a proposal to the board, for subsequent submission to the 2020 AGM, regarding the approval for maximum variable remuneration of up to 200% of the fixed component for group employees whose activities have a material impact on the Banco Santander or Group's risk profile, this includes executive directors. • Reviewed certain compensation schemes to support the attraction and retention of key talent to help drive digitalization, as well as the application of different incentives implemented across the Group, and the level of achievement of the long term metrics associated with past deferred remuneration.
Assist the board of directors in supervising compliance with remuneration policies	• Reviewed director remuneration programmes to align with the Group's results, culture and risk appetite; and that no incentives are offered to assume risk above the tolerated level by the Banco Santander, therefore promoting effective risk management. • Reported to the board on an external adviser's remuneration policy assessment in view of Act 10/2014, which dictates that a credit institution's remuneration policy will be subject, at least once a year, to an independent internal review to confirm compliance with remuneration guidelines and procedures adopted by the board of directors.
Gender pay	
	• Continued the implementation of the diversity and inclusion strategy on remuneration, including progress against gender targets to support reducing the gender pay gap. Reviewed gender and equal pay data within the Group, comparing year-on-year data and against the set targets, promoting measures to improve them. The gender pay gap (average pay comparison between men and women) and the equal pay gap (comparison of pay for the same job, level, and/or area: 'equal pay for equal work'), remain key areas of focus within the Group's strategy. See section 'A talented and engaged team' in the 'Responsible banking' chapter, for additional information.
Internal governance	
Governance	• Supervised the alignment of the Group's companies with Banco Santander's commitment during the covid-19 in remuneration practises and in remuneration on local boards reduction. • Assessed the impact of compensation regulation changes, in particular, the definition, impact and expected timeline of the European Union agreement to revise executive remuneration rules (compensation chapter of Capital Requirement Directive "CRD V", updating "CRD IV").
Information for the general shareholders' meeting and corporate documentation	
Reporting to shareholders	• At our April 2020 AGM, Bruce Carnegie-Brown acting as the committee's chair, reported to the shareholders on the matters and activities within the purview of the committee during 2019.
Corporate documents for 2020	• Drafted this report on the committee's activities in 2020, which includes an analysis of its performance and the priorities identified for 2021 following the effectiveness assessment of the board and its committees.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see 'Board assessment in 2020' in section 4.3.

The committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Remained focused on leading remuneration practices and how these were applied across the Group. This included compensation schemes that support the attraction and retention of critical skillsets needed to drive Santander's strategy, as well as simplifying executive remuneration to ensure that structures were Simple, Personal and Fair, and consider ESG factors. Insights provided by the lead independent director about his contact with key shareholders and proxy advisors on remuneration aided the committee's work in this regard.
- Supported executive and non-executive director pay cuts to contribute to the fight against the covid-19. This also led to certain subsidiaries reducing board fees in light of Banco Santander's commitment during the pandemic.
- Addressed the importance of the gender pay gap and equal pay by overseeing the implementation of the diversity and inclusion strategy on remuneration, including progress against gender targets.

The director remuneration policy report

Pursuant to section 2 of article 529 *novodecies* of the Spanish Companies Act, the remuneration committee issues this report in respect of the proposed director remuneration policy for 2021, 2022 and 2023. It will be submitted by the board of directors at the next 2021 AGM as a separate item on the agenda and is an integral part of this report. See section 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.

This remuneration policy is prepared by the Compensation function of Banco Santander with the input received during the year from the remunerations committee and the board of directors on the matters covered by it. Each January a first draft of this policy is submitted to the remuneration committee for analysis and discussion. This meeting considers the inputs received, through its chairman and lead director, from shareholders and other stakeholders in the dialogue held with them during the year, in order to obtain their opinion on our corporate governance and, in particular, our remuneration structures.

Regulatory recommendations and legal or regulatory requirements that may have been established since the last time the director remuneration policy was submitted for approval by the annual general meeting are also taken into account. In addition, the committee oversees that the policy is aligned with the Group's culture and values in accordance with our Simple, Personal and Fair values. After that, the Compensation function prepares the final draft policy for its final report by the remuneration committee and approval by the board of directors in February.

Based on its analysis and supervision of the remuneration policy, the remuneration committee believes that the director remuneration policy for 2021, 2022 and 2023 (found in section 6.4 below) conforms to the principles of Banco Santander's remuneration policy and the remuneration system set out in the Bylaws.

This policy now considers, among others, the simplification of the executive framework, by reducing the number of metrics used in the pool calculation from 7 to 4 (NPS, CET1, ROTE and Cost of Credit), combining simplicity with the acknowledgment of the most relevant aspects for clients, results, financial strength and the appropriate management of the risk of the entity, as well as compliance with ESG goals.

2021 priorities

The committee identified the following priorities for 2021:

- Keep incentive measures under continuous review to ensure they continue to align with our strategic aims and drive the right culture and behaviours; balancing the needs of our people, customers, communities, shareholders and regulators.
- Continue to enhance our employee value proposition with a view to attracting and retaining key talent for the Group.
- Ongoing constant coordination with the remuneration committees of the Group subsidiaries: monitoring the implementation and application of the corporate policies regarding remuneration to ensure a consistent approach in this respect.
- Manage and improve pay equality across the Group.

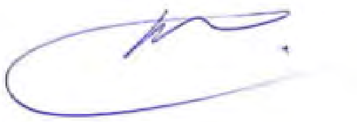
4.8 Risk supervision, regulation and compliance committee activities in 2020

'During 2020, the committee has supported and advised the board of directors in defining and assessing risk policies affecting the Group and in determining the current and future risk appetite and the strategy and culture in this area, the identification of the various types of financial and non-financial risk, and the measures planned to mitigate the impact of identified risks in the event that they materialise.

This year, the committee has been deeply involved in the monitoring of the actions and risks derived from the covid-19 situation and has received updates in this regard. The committee has continued discharging its core role as set out in the Rules and regulations of the board, focused not only on the day to day risks, but also on the more strategic non-traditional risks whilst doing so in full coordination with the board and its committees. In this regard, the committee held a strategic session in October 2020, fully focused on strategic risks, supported by external speakers. This approach will continue in 2021.

There have been two changes to the membership of the committee during the year: Luis Isasi and R. Martin Chávez joined the committee in May 2020 and October 2020 respectively, acknowledging the fact that Ignacio Benjumea and Esther Giménez-Salinas left the committee upon their resignation from the board. I would like to take this opportunity to thank Ignacio and Esther, on behalf of the committee, for their hard work and contribution and to welcome Luis and R. Martin, who bring a diverse range of skills and experience to the committee.'

Álvaro Cardoso de Souza
Chairman of the risk supervision, regulation and compliance committee



This section is the report on the activities of the risk supervision, regulation and compliance committee. It was prepared by the committee on 19 February 2021 and approved by the board of directors on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	Álvaro Cardoso	Independent	23/04/2018[A]
Members	R. Martín Chávez	Independent	27/10/2020
	Luis Isasi	Other external	19/05/2020
	Ramiro Mato	Independent	28/11/2017
	Belén Romana	Independent	28/10/2016
Secretary	Jaime Pérez Renovales		

A. Committee chair since 1 October 2020.

The board of directors appointed the committee's members based on their skills and expertise pertaining to matters within its purview.

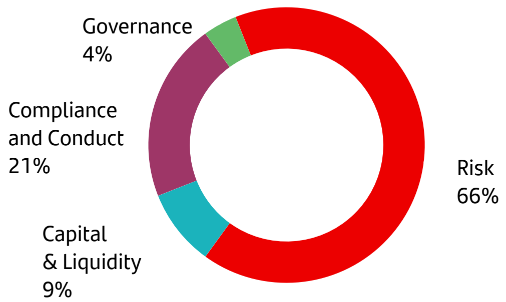
Further information can be found in section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

In 2020 Ignacio Benjumea and Esther Giménez-Salinas stepped down from the committee. Luis Isasi and R. Martín Chávez became members on May and October 2020, respectively, to fill their vacancies.

Time allocation

In 2020, the committee held 13 meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing and participating in meetings.

The chart below shows the committee's approximate time allocation to each function in 2020A.



A. All topics about regulatory and supervisory relations discussed in 2020 are included in each task provided in the chart.

Duties and activities in 2020

This section summarizes the risk supervision, regulation and compliance committee's activities in 2020.

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	• Carried out an overview of the Group's risks, conducted specific analyses by unit and risk type and assessed proposals, issues and projects relating to risk management and control. The Group's main subsidiaries and businesses presented an update on their risks to this committee. • Submitted to the board the approval of the risk appetite statement, including proposals for new metrics. Carried out quarterly reviews on compliance with the risk appetite limits. • Coordinated with the responsible banking, sustainability and culture committee the supervision and evaluation of the alignment of risk appetite and limits with corporate culture and values. • Received information on the proper management and control of risks within the Santander Group , particularly the risk profile assessment (RPA) and the risk control self-assessment (RCSA), two of the main tools for controlling these risks. As part of the overall risk strategy, the RPA continued to evolve with a focus on the control environment component, mainly in non-financial risks. The RCSA discussion provided an overview of the main risks identified for the Group and reported on the progress and next steps of the integration between RCSA, control certification and other risk assessments. • Oversaw the update of our social and environmental policies (in coordination with the responsible banking, sustainability and culture committee), which set out the financing criteria and prohibited actions in specific sectors such as energy, mining and soft commodities. • Monitored, in full coordination with the innovation and technology committee, risks stemming from technological obsolescence and cybersecurity, including data leakage, incident and vulnerability detection, patch management, network security and access control, amongst others. Received reports on major IT developments and projects. • Supervised the risks associated with the main corporate transformation programs analysed by Banco Santander and the measures proposed to mitigate them. In particular, it monitored the risks associated with PagoNxt (the new payments platform of Banco Santander), One FCC (the strategic project to address FCC risk) and our enhanced internal model risk management. • Reviewed the 2020 recovery plan, assessed the group's resilience in severe stress scenarios and submitted it to the board of directors for approval. • Reviewed the risks associated with the 5-year strategic plan, S25 (until 2025) and the 3-year strategic financial plan, P-23 (from 2021 to 2023), which analyses the Group's priorities and projects and quantifies a financial plan for the next three years. It also reviewed the alignment of these plans with the Group's risk appetite.
Covid-19	• Reviewed the macroeconomic landscape and the impact on 2020 provisions due to covid-19. • Received regular updates on the most affected portfolios and those under moratoria programmes and holiday payments across the different subsidiaries. Oversaw the monitoring carried out to proactively identify customers with credit issues in the areas of recoveries and collections, ensuring that prudent practices were in place to mitigate compliance and conduct and reputational risks associated to recoveries whilst providing support to our clients.
Risk management and control	• Received regular updates on the top risks being managed and the adequacy of mitigating controls. • Analysed the emerging risks and how they affect to the different geographies and risk areas. Held a strategic session attended by the chair of the responsible banking, sustainability and culture committee to discuss Banco Santander' top emerging risks with deep dives into climate change and demographics. • Received, along with other board members, a specific training session on climate change which contributed to the committee's work in this regard in full coordination with the responsible banking, sustainability and culture committee. • Supported the board in conducting stress tests of Banco Santander. It assessed the scenarios and assumptions to be used in such test, analyzing the results and the measures proposed by the Risk function. Ensured that Banco Santander' stress test programme aligned with EBA Guidelines 2018/04. • Special focus continued on non-performing loans and non-performing assets. • Received periodic information about market and structural risk of Banco Santander and reviewed counterparty risk. • Monitored non-financial risks, including legal, vendor and climate-related risks, which remained key areas of focus. • Continuously examined the Brexit situation, including its impact on risk to Santander UK and the Group and our preparedness to reduce and mitigate such risks.
Supervise the Risk function	• Ensured the independence and effectiveness of the Risk function and that sufficient human resources were duly provided. • Assessed the Risk function and the performance of the CRO in joint session with the remuneration committee, to inform the board in order to establish his variable pay. • Reviewed new appointments to key positions in the Santander Group' Risk function.

Duties	Actions taken
Collaboration to establish rational remuneration policies and practices	• Held a joint session with the remuneration committee to confirm that remuneration schemes factor in risk, capital, and liquidity and that offered no incentives to assume risks above the level tolerated by Banco Santander in line with adequate and effective risk management. • Analyzed with the remuneration committee the factors used to determine the ex-ante risk adjustment of total variable pay assigned to the units based on how previously assessed risks materialised. • Revised the 2020 bonus pool and results of the annual exercise to identify employees whose work had a material impact on the group's risk profile.
Capital and liquidity	
Assist the board in approving capital and liquidity strategies and supervising their implementation	• Reviewed the internal capital adequacy assessment process (ICAAP) prepared by the finance department and reviewed by the risk function, in accordance with industry best practices and supervisory guidelines, and submitted it to the board for approval. Moreover, reviewed a capital plan based on the scenarios envisaged over a three-year period. • 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 capital and risk management and provides an overview of the function, base capital and prescribed capital requirements, policies for managing the risks undertaken by Banco Santander from a capital consumption standpoint, the composition of the Group's portfolio and its credit quality, measured in terms of capital, and the roll-out of advanced internal models. • Reviewed the internal liquidity adequacy assessment process (ILAAP) and assessed the liquidity plan in view of the Group's business model, and submitted it to the board for approval. • Continuously monitored capital levels and capital management, including the 2020 securitizations plan.
Compliance and conduct	
Supervise the Compliance and Conduct function	• Reviewed and approved the 2020 Compliance program (Group and local units) and new SCIB Compliance and Conduct operating model. • Acknowledged, challenged and endorsed the new Compliance and Conduct strategy (*One Compliance*). • Endorsed the appointment of the Group's new CCOs (among others, the new CCO of the project *One Santander in Europe*) prior to its final submission to and approval by the nomination committee. • Received monthly reports on conduct and compliance matters as part of the risk and compliance monthly report, covering regulatory issues, product governance and consumer protection, reputational risk, internal and external events, notifications and inspections by supervisors, covid-19 updates, among others. • Assessed the Compliance and Conduct function (including its staffing and resourcing suitability) as well as the Group chief compliance officer's performance in a joint session with the remuneration committee, with the purpose of informing the board to set her variable pay.

Regulatory compliance	• Monitored compliance with regulatory requirements regarding:
	  • The Dodd Frank Title VII update.
	  • Adaptation to the Volcker Rule compliance programme in line with recent amendments, continuing the oversight of this regulation in 2020.

Regulatory compliance - Supervise the whistleblower channel (*Canal Abierto*)	• Received an annual update on the *Canal Abierto* (the model of whistleblowing channel in Grupo Santander) and was informed of its changes, aimed at permitting the communication of irregularities not only by employees but also by other persons related to Banco Santander, such as directors, shareholders, suppliers, contractors and subcontractors, guaranteeing confidentiality and allowing for anonymous communications. • Helped to ensure that the Group's culture is embedded through increasing awareness on the importance of Speaking Up. • Reviewed the measures taken in the different countries on the back of incidents reported through whistleblowing channels, in particular in relation to breaches of regulatory requirements, codes of conduct and implementing regulations as well as breaches of corporate values and irregularities of potential significance of any nature, other than whose power is attributed to the audit committee.

Financial crime compliance (FCC)	• Oversaw the Group's observance with FCC regulations as well as the activities carried out by the function. In particular:
	  • Received an overview of its strategy, including the Group' priorities and associated peer benchmarking.
	  • Received monthly updates on the most relevant FCC risks and other matters relevant to its four main pillars of the function (Governance, Know Your Customer, Transaction Monitoring and Sanctions).
	  • Obtained monthly quantitative information on risk appetite metrics and other indicators considered critical to its performance, being aware of the indicators that were in excess of the proposed thresholds and the corresponding action plans.
	  • Received the recommendations and observations stemming from the annual independent expert report about Banco Santander in accordance with the Spanish Law 10/2010 and Royal Decree 304/2014 (on anti-money laundering and terrorism financing).
	  • Held on a bi-annual basis specific sessions on the status of the FCC function.

Product governance and consumer protection	• Received an update on the status of customer complaints in 24 countries and 9 SCIB branches, as well as on the associated action plans to address deficiencies and mitigate detriment to customers. • In a joint session with the remuneration committee, learned about the progress of the local action plans regarding internal sales force remuneration and received an overview of the assessment on the external sales force regarding its potential conduct risk impact. • Received information on the main risks identified, concerns, priorities, actions taken by the product governance and consumer protection unit to mitigate conduct risks with retail customers, including product governance activity and monitoring.

Duties	Actions taken
Governance	
Corporate governance and internal governance	• Received quarterly updates from the chairman of the responsible banking, sustainability and culture committee on the matters discussed by such committee. • Worked alongside the audit committee, with which it held a joint meeting to share information on common issues, including the Group's risk management, risk model, complaints submitted to *Canal Abierto*, vendor risk management, legal risk, and internal auditing in the Risk and Compliance division.
Regulators and supervisors	
Regulatory and supervisory relations	• Received regular updates on regulatory and supervisory relations and maintained focus on the most relevant developments related to the SSM, the Single Resolution Board (SRB), the supervisors of all the Group's subsidiaries and the Supervisory Review and Evaluation Process (SREP).
Information for the general shareholders' meeting and corporate documentation	
Corporate documents for 2020	• Drafted the report on its activities in 2020, which includes an analysis of its performance and the priorities identified for 2021 following the assessment of the board and its committees.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see 'Board assessment in 2020' in section 4.3.

In 2020, the committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Monitored the Group's risks and risk indicators, especially relevant to monitor the impacts of the pandemic, and ensured that risk profiles remained within the risk appetite limits set by the board. In particular, it devoted additional efforts to the analysis of the potential risks derived from the macro-economic situation in the different geographies where the Group operates, backed up by regular country reporting on key risks relevant to their jurisdiction.
- Focused on the analysis of Banco Santander's emerging risks and held a strategic session (attended by external speakers) to review top strategic risks.
- Coordinated with other board committees, to ensure full alignment and to share matters of mutual interest.
- Ensured that the Risk and Compliance and conduct functions remained effective and appropriately resourced.

2021 Priorities

The committee has identified the following priorities for 2021:

- Continuing focus on Group's top risks, early warning indicators, impacts and mitigation actions in order to assure that risks are appropriately managed with risks profiles remaining within the risk appetite limits approved by the board.
- Remaining alert to emerging and non-traditional risks to enable key strategic changes in the business environment to be anticipated. These risks will be discussed at at least one strategic meeting of the committee in 2021.
- Proactively support economic recovery after the covid-19 crisis, in particular by overseeing the Group's credit-related policies to help our customers and foster their economic resilience during the crisis, while maintaining the strength of Banco Santander's capital and liquidity.
- Ongoing focus on the main business units, geographies and new businesses (including new digital platforms), with an additional focus on emerging business strategically relevant for the Group.
- Continuing close coordination with other board committees to ensure they are all aware of and leverage areas of mutual interest.
- Continuing working on the committee's effectiveness to make sure that its role is discharged in the most tangible and effective manner, following the recommendations of the institutional effectiveness assessment.

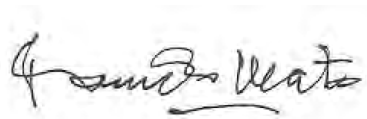
4.9 Responsible banking, sustainability and culture committee activities in 2020

'During 2020, the committee has continued assisting the board of directors in fulfilling its oversight responsibilities with respect to the responsible business strategy and sustainability issues. The committee has had a special focus this year on the sustainable finance and green agenda across the main regions and businesses of the Group, climate change strategy, culture (maintaining our commitment on our Simple, Personal and Fair way of doing business), proactively being part of the solution and monitoring responsible business practices in relation to the covid-19 pandemic (including, among others, the interaction with customers, monitoring the practices associated with the government programs and recoveries and collection activities, as well as with other different stakeholders, such as investors, vendors, shareholders, employees, and the public opinion in general).

The committee has continued its coordination activities, not only with the board of directors, but also with the main committees such as the risk supervision, regulation and compliance committee, remuneration committee, audit committee and nomination committee.

During 2020, Ignacio Benjumea and Esther Giménez-Salinas left the committee upon their resignation from the board. I would like to take this opportunity to thank Ignacio and Esther, on behalf of the committee, for their contributions. Finally, the executive chairman has left the membership of the committee due to the adaptation of the Rules and regulations of the board to fully comply with the revised Spanish Corporate Governance Code, which recommends that the committee shall be composed solely of non-executive directors. I would like to take this opportunity to also thank Ana Botín for her invaluable contribution as a member of this committee'.

Ramiro Mato
Chairman of the responsible banking, sustainability and culture committee



This section is the report on the activities of the responsible banking, sustainability and culture committee. It was prepared by the committee on 16 February 2021 and approved by the board on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	Ramiro Mato	Independent	01/07/2018[A]
Members	Homaira Akbari	Independent	01/07/2018
	Álvaro Cardoso	Independent	24/07/2018
	Sol Daurella	Independent	01/01/2018
	Belén Romana	Independent	01/07/2018
Secretary	Jaime Pérez Renovales		

A. Committee chair since 1 July 2018.

The board of directors appointed the committee's members based on their skills and expertise pertaining to matters within its purview.

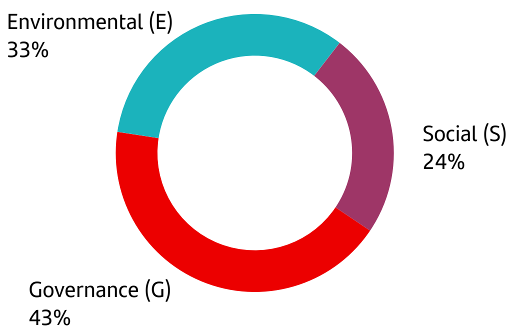
Further information can be found in section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Ignacio Benjumea and Esther Giménez-Salinas stepped down from the committee in 2020. Furthermore, Ana Botín stepped down from the committee in December 2020, in line with best corporate governance practices, which recommend that the committee is made up solely of non-executive directors.

Time allocation

In 2020, the responsible banking, sustainability and culture committee held four meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing for, and participating in, meetings.

The chart below shows the committee's approximate time allocation to each ESG criteria in 2020.



Duties and activities in 2020

This section summarizes the responsible banking, sustainability and culture committee's activities in 2020 based on ESG criteria.

Duties	Actions taken
Environmental (E)	
Sustainable banking	
Environmental and climate change	• Engaged on the group's climate change strategy, as well as on the plan and associated actions, in line with our external commitments, and provided feedback to members of the senior management and the board of directors. • Reviewed climate-related risks and opportunities and analyzed new climate change regulations • Reviewed and discussed the materiality assessment identifying sector exposures to potential climate transition and physical risks and reviewed roadmap to embed climate in banking processes. • The chair engaged in the annual strategy session of the risk supervision, regulation and compliance committee on, among other issues, climate change in which the latest developments of the industry, regulators and in the Group were discussed. • Received, along with other board members, a training session on climate change covering the latest industry developments and our group's strategy, climate-related business risks and opportunities, commitments related to climate change, next steps to fulfil the United Nations Collective Commitment to Climate Action supporting the transition to a net zero economy.
Sustainable finance	• Reviewed sustainable finance, which refers to that of activities that have a positive impact on the environment including climate finance which includes that of assets or technologies that entail a reduction in CO_2 emissions (*e.g.* renewable energy, refurbishment to increase energy efficiency, clean technologies and CO_2 capture and storage). • Reviewed Banco Santander´s current sustainable finance proposal and the opportunities identified to present a vision across the Group, after working with countries, global businesses and corporate areas. • Reviewed the proposal of the new global sustainable framework to issue green, social and sustainable bonds, the rationale for issuing them and the key features of the same.
Santander environmental footprint	• Reviewed and discussed (i) the direct environmental impact of the group's operations and the implementation status of its new energy efficiency and sustainability plan to reduce the carbon footprint; and (ii) the proposed new initiatives. • Reviewed the 2020 emissions' offsetting corporate plan, which will allow the Group to fulfil the goal of becoming a carbon-neutral organization, in regards to its own operations.
Social (S)	
Inclusive banking	
Sustainable finance and financial inclusion	• Reviewed strategies and plans on responsible banking with a focus on sustainable finance (including financial inclusion) for the regions of North and South America, and the global businesses of SCF, WM&I and SCIB.
Support for higher education	• Reviewed the current and future contribution to the group's responsible banking strategy of Santander Universidades, which is one of its key strategic components along with sustainable finance and financial inclusion.
Governance (G)	
Responsible banking strategy	
Policies	• Monitored, supervised and evaluated the policies on responsible business and sustainability and, in particular, on environmental and social matters with the purpose of fulfilling their mission of promoting corporate interest and taking into account, as appropriate, the legitimate interests of the other stakeholders. • Participated, together with the risk supervision, regulation and compliance committee in the update of the environmental and social risk management policy, evaluating and making proposals to the board as to advisable changes. This policy establishes how the environmental and social risks are identified in the oil and gas, energy, mining and metals and in soft commodities sectors.
Governance	• Coordinated with the other committees on issues relating to culture and values, responsible banking practices and sustainability in order to ensure that adequate and effective control processes were in place and that risks and opportunities relating to sustainability and responsibility were identified and managed in accordance with the responsible banking principles approved by the board. • Received regular updates from corporate functions, global businesses and regional units of the different initiatives to drive the responsible banking agenda, enhancing communication and sharing best practices and concerns. • The chair maintained close communication with the chair of the risk supervision, regulation and compliance committee and the members of both committees had access to the materials presented to each, as well as to regular reports of both committees to the board of directors to obtain a global overview of key risks and opportunities relating to responsible banking matters. An example of this collaboration has been the participation of committee members and the representatives of the responsible banking function in the annual strategy session of the risk supervision, regulation and compliance committee, to review the potential risks and opportunities of climate change.

Duties	Actions taken
Responsible banking initiatives and challenges	• Reviewed the responsible banking approach in response to key stakeholders (customers, suppliers and communities) in the context of covid-19 and challenges ahead and discussed the alignment of Banco Santander's activities and priorities with the expectations of society and how Banco Santander can help rebuild a more resilient and inclusive economy moving forward. • Received reports from the compliance and conduct function regarding its oversight of potential reputational impacts arising from environmental and social matters. In particular, the status of the emerging conduct and reputational risks due to covid-19 were considered, as well as the level of implementation of corporate recommendations related to conduct with customers and other initiatives impacting the perception of other stakeholders (shareholders, regulators, employees and communities). • Received reports on initiatives for facing the challenges relating to the new banking environment and inclusive and sustainable growth. • Reviewed metrics and targets, the progress made on priorities, the agenda and proposed commitments relating to responsible banking and the disclosure of such information to the public. • Assisted the board in making sure responsible banking targets, metrics and commitments were embedded across the Group and measured effectively. • Received reports on the progress made on the implementation plans relating to responsible banking priorities approved for 2020 and the priorities defined with local units for 2020 to 2022. • Discussed and validated the scorecard to be proposed to the remuneration committee and the board with specific metrics of responsible banking, which have been taken into account to make specific qualitative adjustments on the quantitative variables of the 2020 bonus pool.
Commitment to sustainability goals	• Monitored public commitments relating to sustainability goals, including climate change objectives for 2021-2025, in order to adapt to the new business environment and support inclusive and sustainable growth.
Culture and values	
Culture	• Coordinated with the remuneration committee in its review of the alignment of remuneration schemes with corporate culture and values. • Coordinated, through its chairman and other committee members, with the risk supervision, regulation and compliance committee in the supervision and evaluation of (i) the alignment of risk appetite and limits with corporate culture and values; and (ii) the non-financial risks. • Reviewed The Santander Way, which is our global culture approved by the board in January 2015, aligned with the group's strategy and complementing Santander's ambition to build a more responsible banking. Since 2015, a common language and behaviour has resulted in our values Simple, Personal and Fair (Simple, Personal and Fair (SPF) permeating all units. Our corporate policy is an important factor in developing coherent initiatives and enabling us to measure our values SPF progress and impact through a strengthened group culture governance, centralized culture coordination within the responsible banking unit and improved measurement. Significant progress continues both globally and locally, resulting in positive tangible results for our people, customers, shareholders and communities. • Assisted the board in promoting and embedding corporate culture and values across the Group, monitoring its level of adherence and ensuring that the corporate culture is aligned with the purpose and values of the Group.
SPF with employees	• Engaged on the global 2020 diversity and inclusion strategy and the actions proposed to drive continued improvement in this regard; and drove actions associated with the inclusion of individuals with disabilities in order to progress towards 2025 targets. Diversity and inclusion are key elements of the entire corporate strategy that affects Santander's relationship with all its stakeholders. • Updated on The Santander Way, which contained Santander´s public commitments to build a more responsible bank. Our activities and investments help us address a number of the United Nations' Sustainable Development Goals and support the Paris Agreement's objective of combatting climate change and adapting to its effects. • Reviewed and discussed the evolution of the former whistleblowing channel to the *Canal Abierto* model as a means of boosting the group´s cultural transformation, promoting an environment in which our employees feel free to speak up without fear. The *Canal Abierto* was launched in 2019 within the Top 10 subsidiaries of the group and there are currently anonymous channels available in most of the group's units.
SPF with customers	• Engaged on the group's ten consumer protection principles for promoting our values SPF with customers, as well as the methodology used to measure them and standards for engaging vulnerable customers. • Reviewed responsible business practices towards customers, which was a priority of the responsible banking agenda for 2020. The aim of contributing to an increased in customer satisfaction and support loyalty was discussed in connection with two key levers: (i) increasing standards of remuneration practices and awareness across first and second lines of defence; and (ii) training our sales force. The committee reviewed the implementation status of the action plans associated with these two levers. • Reviewed the status of the reputational risks due to covid-19.
SPF with suppliers	• Reviewed details of a pilot program during 2020 to introduce further ESG criteria within our processes of supplier certification and offer review and contracting. The results of the pilot program will be used to assess the risk appetite in connection with introducing greater ESG criteria within our supply chain management in the future.
SPF with general society	• Reviewed progress of responsible banking and non-financial information communications and marketing.

Duties	Actions taken
Stakeholders engagement	
Non-financial information	• Coordinated with the audit committee in its supervision and evaluation of the process of preparing and presenting the non-financial information, in accordance with the applicable regulations and leading international standards. • Reviewed the 2020 Group's statement of non-financial information, including the independent expert's report, which are set out in the 'Responsible banking' chapter of this annual report.
Indexes and ratings	• Analyzed global and national awards, rankings and indexes relating to sustainability. • Reviewed the reports of the relevant ESG analysts and its ratings and indexes, our position within them compared to our peers, and discussed our action plan to maintain our position in selected ESG ratings and indexes. • Reviewed key metrics.
Shareholders and other stakeholders	• Supervised and monitored corporate reputation and engagement with stakeholders, and helped measure related initiatives. • Worked with the nomination committee in the supervision and evaluation of the communication and engagement with shareholders and other stakeholders, ensuring the dissemination and the quality of the information available to them.
Information for the general shareholders' meeting and corporate documentation	
Corporate documents for 2020	• Drafted this report on the committee's activities in 2020, which includes an analysis of its performance and the priorities identified for 2021 following the effectiveness assessment of the board and its committees.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see 'Board assessment in 2020' in section 4.3.

The committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Continued to focus on embedding the responsible banking agenda throughout the Group, with emphasis on sustainable financing and inclusive banking; monitored the risks and opportunities of climate change, further integrating them into Banco Santander's strategy and governance through feedback to senior managers and the board; and collaborated on the review of Banco Santander's commitments regarding coal power generation.
- Closely followed issues related to Banco Santander's reputation through the risk, compliance and conduct and communication functions. In particular, the potential impacts of the pandemic on vulnerable customers, together with how Banco Santander committed to be part of the solution as a responsible bank, attracted the attention of the committee.
- Continued to coordinate with other committees, such as the remuneration committee on the alignment of remuneration schemes with our corporate culture and values.

2021 Priorities

The committee identified the following priorities for 2021:

- Assisting the board in setting our climate change strategy, managing the risks this entails and harnessing opportunities and developing sustainable finance proposals towards a lower carbon economy.
- Monitoring responses to the covid-19 crisis, including the status of payment holidays upon expiry, vulnerable customers and the recovery and collection functions, to ensure responsible banking practices are embedded in our customer-centric strategy.
- Monitoring proposed initiatives, targets and metrics to achieve the commitments on diversity and inclusion, financial inclusion, talent management and ethical behaviour.
- Promoting diversity and inclusion and overseeing how our culture, including SPF values, are embedded in the Group.
- Promoting the communication of progress and achievements of the Group to further develop Santander´s reputation as one of the world's most sustainable banks.

4.10 Innovation and technology committee activities in 2020

'Through 2020, the committee has reviewed the IT strategy (based on the pillars of agile, cloud, core system evolution, deep technology skills –*e.g.* API and artificial intelligence– and data) and its execution progress towards the ambition of becoming the leading global financial services open platform. Additionally, the committee received periodic progress updates on group digital priorities and cybersecurity. Given the additional risks of the pandemic, those reviews acquired additional relevance in 2020.

There have been some changes to the membership of the committee during the year: Guillermo de la Dehesa and Ignacio Benjumea left the committee upon their resignation from the board and I became board member and the chair of this committee in October and December, respectively, replacing Ana Botín who remains a member of this committee. I would like to take this opportunity to thank Ignacio, Guillermo and Ana, on behalf of the committee, for their contributions'.

R. Martín Chávez
Chairman of the innovation and technology committee

This section is the report on the activities of the innovation and technology committee. It was prepared by the committee on 27 January 2021 and approved by the board of directors on 22 February 2021.

Composition

Position		Category	Appointed on
Chairman	R. Martín Chávez	Independent	27/10/2020[A]
Members	Ana Botín	Executive	23/04/2007
	Homaira Akbari	Independent	27/09/2016
	José Antonio Álvarez	Executive	23/02/2015
	Bruce Carnegie-Brown	Independent	23/02/2015
	Henrique de Castro	Independent	23/07/2019
	Belén Romana	Independent	19/12/2017
Secretary	Jaime Pérez Renovales		

A. Committee chair since 22 December 2020.

The board of directors appointed the committee's members based on their skills and expertise pertaining to matters within its purview.

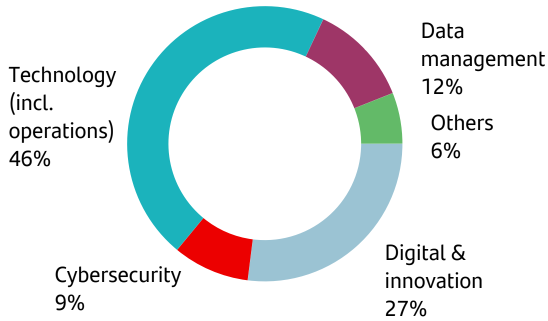
Further information can be found in section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Ignacio Benjumea and Guillermo de la Dehesa stepped down from the committee in 2020. R. Martín Chávez became a member of the committee on 27 October 2020, and chairs the committee since 22 December 2020.

Time allocation

In 2020, the innovation and technology committee held four meetings. 'Board and committee attendance' in section 4.3 provides information on committee members' attendance and the estimated average time they spent on preparing for, and participating in, meetings.

The chart below shows the committee's approximate time allocation to each function in 2020.



Duties and activities in 2020

This section summarizes the innovation and technology committee’s activities in 2020.

Duties	Actions taken
Innovation	
Innovation	• Oversaw the implementation of the group’s innovation agenda, reported to the board on plans and activities relating to innovation and identified major challenges and capabilities relating to innovation. • Identified opportunities to accelerate innovation and increase the rate of success of new business models, technologies, systems and platforms in the Group, for which the strategy for the creation of PagoNxt was reviewed. • Identified other group initiatives to accelerate digital transformation, such as coaching programs, greater links with start-ups, innovation labs and the creation of a testing environment for new projects (sandbox).
Cybersecurity	
Cybersecurity	• Built up mechanisms to combat increasing threats, such as controls and automated security. • Analyzed the main data loss incidents in other major entities. • Supervised the group’s cybersecurity threat level and global cybersecurity transformation plan for 2020. • Monitored together with the board of directors and the risk supervision, regulation and compliance committee the group’s cybersecurity risks (internal data leakage and potential external threats, *e.g.* ransomware and third party management of customer data), IT strategy (the evolution of the core banking system) and the situation of the compliance systems for financial crime prevention. • Reviewed the implementation of the Group’s global cybersecurity plan, in addition to major risks and controls to mitigate them. • Received updates on employee’s cybersecurity training and awareness and identified key areas for future plans.
Digital	
Digital	• Received an update on the digital strategy (Santander Digital and PagoNxt), forward-looking commitments for 2021 and its execution plans. • Checked on the collaboration between local units and business units to undertake digital initiatives, monitoring its execution. • Monitored metrics for the digital transformation in terms of return on investments, evolution of the unit cost per product/service/data storage, time-to-market and customer attraction. • Reviewed primary digital strategies for transforming and accelerating the growth of new businesses.
Technology and operations	
Technology and operations	• Reviewed the global technology strategy plan, and its implementation, and reported to the board on plans and activities relating to technology and operations. • Informed on the group’s main strategic technological priorities, particularly in regard to the implementation of agile, cloud, core system evolution, deep technology skills (*e.g.* API and AI) and data, partnering global businesses, support functions and retail and small and medium enterprises (SMEs) units (local and regional) while, at the same time, improving cost efficiency and reducing IT risk. • Made sure the technology and operations strategy properly addressed relevant issues and the group’s priorities. • Received reports about the international advisory board’s deliberations about technology and innovation.
Data management	
Data management	• Received updates on the new model and data unit, which resulted from combining Santander Analytics (models) and the former data unit teams in order to have a single point of contact and leverage all existing talent with an end-to-end and cross-functional view of the models and the data value chain. • Ensured that the data function’s resources were sufficient, validating the adequacy and readiness of the same.
Information for the general shareholders' meeting and corporate documentation	
Corporate documents for 2020	• Drafted this report on its activities in 2020, which includes an analysis of its performance and the priorities identified for 2021 following the effectiveness assessment of the board and its committees.

Annual assessment of the committee and its achievement of 2020 objectives

The committee's effectiveness review for 2020 was part of an external independent consultant's review of the board. It covered the committee's structure, composition, processes and behaviours, concluding that it is fit for purpose and effective. For more details about the findings resulting from the assessment see ‘Board assessment in 2020’ in section 4.3.

The committee addressed all the priorities that were identified for 2020. Among the salient actions, it:

- Refreshed its composition, which includes the addition of R. Martín Chávez initially as a member and, with effect from 22 December 2020, as committee chair.
- Contributed to highlight the importance of the group’s IT strategy and its execution, acknowledging the ambition to become the leading open global financial services platform.
- Supervised the implementation of the policies and actions to mitigate the cybersecurity risks, data management and analytical capabilities of the Group's businesses, taking into account the recommendations and opinions of the international advisory board.

2021 Priorities

The committee identified the following priorities for 2021:

- Supporting the board on the group's innovation strategy, monitoring and responding to trends resulting from new business models, technologies, currencies and products.
- Focusing on the execution of the technology and operations transformation model, implementing a business-led evolution, and cybersecurity monitoring.
- Prioritizing digital strategy and monitoring its delivery, as well as providing recommendations on cross-sectional projects for the Group.
- Supervising that data management is effective and that the new model and data unit run smoothly and has appropriate resources.
- Optimizing the committee's role, functioning and scope in view of the work carried out by the international advisory board.

4.11 International advisory board

Members

The members are all external and not members of the board.

Composition		Positions
Chairman	Larry Summers	Former Secretary of the US Treasury and president emeritus of Harvard University
Members	Sheila C. Bair	Former chairman of the Federal Deposit Insurance Corporation. Former president of Washington College
	Mike Rhodin	Board member of TomTom, Syncsort and HzO. Former IBM senior Vice President
	Marjorie Scardino	Former CEO of Pearson and director of Twitter
	Francisco D'Souza	CEO of Cognizant and director of General Electric
	James Whitehurst	Chairman and CEO of Red Hat
	George Kurtz	CEO and co-founder of CrowdStrike
	Blythe Masters	Former CEO of Digital Asset Holdings
	Nadia Schadlow	Former deputy National Security Advisor for Strategy and Assistant to the President of the United States
Secretary	Jaime Pérez Renovales	

Functions

Banco Santander's international advisory board was formed in 2016 to provide strategic insight into future challenges and opportunities for the group's businesses, particularly in respect of innovation, digital transformation, cybersecurity and new technologies, capital markets, corporate governance, brand and reputation and regulation and compliance.

Its members are prominent and respected leaders who possess extensive experience with strategic challenges and opportunities, particularly in terms of innovation, digital transformation and the US market.

Meetings

The international advisory board meets at least twice a year. In 2020, it met in the spring and autumn.

Rationale

The international advisory board affords the Group structured and recurrent insights from international leaders who, due to other commitments, are not able to support it as board members.

4.12 Related-party transactions and conflicts of interest

Related-party transactions

Directors, senior managers and significant shareholders

This subsection includes the report on related-party transactions mentioned under recommendation six of the Spanish Corporate Governance Code.

As per the Rules and regulations of the board, the board of directors must analyze transactions between Banco Santander or Group companies and directors; shareholders holding a significant individual interest or with others, including shareholders represented as board members in Banco Santander or other Group companies; or people related to them.

Related-party transactions are subject to a favourable opinion issued by the audit committee and approval by the board, except in cases where the law requires that they should be approved at a general meeting. In cases of emergency, they may be authorised exceptionally by the executive committee and subsequently confirmed by the board.

Related-party transactions are to be assessed for its authorization according to the principle of equal treatment and market conditions.

Nonetheless, the board is not required to authorize transactions that simultaneously meet the following three conditions:

- Are carried out under agreements with basic standard terms that usually apply to customers contracting the product or service in question.
- Are entered into prices or rates set by the party acting as supplier of the goods or service in question, or arm's length terms and conditions for commercial relations with similar customers, where the goods or services are not subject to set rates that already exist.
- Equal an amount that does not exceed 1% of Banco Santander's annual income.

In 2020, following due enquiry, no board member, person represented by a director or shareholders that own, whether individually or together with others, a significant interest, or persons related to them carried out transactions with Banco Santander that were considered significant or under non-market conditions.

The audit committee confirmed that all related-party transactions completed during the year fully complied with the abovementioned conditions so as not to require approval from the governing bodies as mentioned in the audit committee activities report under section 4.5 'Audit committee activities in 2020'.

Banco Santander also has a policy for the admission, authorization and monitoring of loans, credits and guarantees for directors and senior managers. It sets out the procedure in place for risk transactions of which they or their related parties like spouse or other person with similar relationship; minor children or those of legal age who are economically dependent; or companies controlled by directors or senior managers whose activity is limited to the mere holding of assets and the management of personal or family assets.

Furthermore, it outlines general rules in terms of maximum borrowing, interest rates and other similar conditions to those that apply to other employees. In accordance with this policy and with banking regulations, the policy provides that loans, credits or guarantees to be granted to Banco Santander's directors and senior managers or to their related parties must be authorized by the board and subsequently by the ECB, except in the cases listed below:

- Transactions are subject to a collective agreement signed by Banco Santander, with similar conditions to those of transactions granted to any employee.
- Transactions are carried out under agreements with standard conditions that generally apply to a large number of customers, provided that the amount granted to the beneficiary or its related parties does not exceed EUR 200,000.

Note 5.f of the 'consolidated financial statements' lists the Santander Group's direct risks in the form of loans, credits and guarantees extended to directors and senior managers in the ordinary course of business as of 31 December 2020. The terms and conditions of these transactions are the same as those performed under market conditions or applied to other employees, and the corresponding benefits in kind are imputed to them, where applicable.

Intra-group transactions

Intra-group transactions are performed under the same rules, approvals and procedures as transactions with customers in addition to mechanisms to ensure they are subject to market prices and conditions

Note 52 ('Related parties') in the 'Consolidated financial statements' and note 47 ('Related parties') in the individual financial statements specify the amounts of the transactions with other group entities (subsidiaries, associates and jointly-held entities), directors, senior managers and related parties.

Conflicts of interest

Banco Santander has standards and procedures to prevent conflicts of interest resulting from our activities and functions, or between us and our directors and senior managers. We also have an internal policy that provides the Santander Group's employees, directors and entities with criteria to prevent and manage conflicts of interest resulting from their activities.

Directors and senior managers

Our directors must adopt the necessary measures to avoid situations in which their direct or indirect interests may enter into conflict with corporate interests or their obligation towards Banco Santander.

Directors' duty to avoid conflicts of interest requires them to fulfil certain obligations, and they must refrain from using the Banco Santander name or their role to exert undue influence on private transactions. They cannot use corporate assets and confidential information for private purposes, nor take advantage of Banco Santander's business opportunities. Moreover, they are barred from obtaining benefits or remuneration (other than courtesies) from third parties in connection with their role; or carrying out activities, on their own behalf or that of others, that place them in a situation of effective or potential competition or permanent conflict with Banco Santander.

Directors must report direct or indirect conflicts of interest they or their related parties may have with Banco Santander to the board. Such conflicts will be disclosed in the financial statements.

In 2020, no director reported having any conflict of interest with the Group, despite abstaining on 43 occasions from deliberations and votes on matters at board and committee meetings. On 20 occasions, directors abstained owing to proposals to appoint, re-elect or remove directors, or appoint them to board committees or to the boards of Grupo Santander companies. On 10 occasions, the matter under consideration related to remuneration, loans or credits and on 1 occasion, the matter was a risk transaction between Banco Santander and a company related to a director. Lastly, on 12 occasions, directors abstained in respect of the annual verification of their status and suitability.

As directors and senior managers are subject to the Policy on conflicts of interest and the Code of Conduct in Securities Markets, they must provide Compliance function with a statement on any relations they hold, which they must keep up to date. Directors and senior managers must also report any potential conflict of interest owing to their relations or any other reason to the Compliance function. Furthermore, where a conflict does exist, they must abstain from making decisions or casting votes, in addition to notifying anyone who is to take the respective decision.

The chief officer of the area in question is responsible for resolving conflicts of interest. Conflicts that involve several areas must be resolved by the common senior officer. However, if none of the foregoing rules apply, the Compliance function will designate someone to resolve the conflict. In the event of doubt, the Compliance function should be consulted.

The Code of Conduct in Securities Markets describes control mechanisms and bodies for resolving conflicts of interest related to securities markets. This code can be found on the Santander Group's corporate website. It dictates that directors, senior managers or related parties may not carry out (i) counter-transactions on Santander Group's securities within 30 days from the time they are acquired or sold; or (ii) transactions on Santander Group securities 30 days before the quarterly, half-year or annual results are announced and until they are published.

Group companies

Because Banco Santander is the only group company listed in Spain, no mechanisms must be in place to resolve conflicts of interest with subsidiaries listed in Spain.

If such conflicts do arise, Banco Santander, as the parent company, must consider the interests of all its subsidiaries and how they contribute to the long-term interest of the entire group. Subsidiaries should also consider the interests of Grupo Santander examine how the decisions they take may affect the Group.

Banco Santander, 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 (Senior Executive Vice President —SEVP—) of the Banco Santander's senior managers (other than the executive directors described in section 4.1 'Our directors') as of 31 December 2020.

Rami Aboukhair	COUNTRY HEAD – SANTANDER SPAIN	Born in 1967, Rami Aboukhair joined Grupo Santander in 2008 as a director of Santander Insurance and head of Products and Marketing. He had also served as managing director of products, marketing and customers at Banco Español de Crédito, S.A. (Banesto) and managing director and head of Retail Banking at Santander UK. In 2015, Mr Aboukhair was appointed country head of Santander España. In 2017, he was named chief executive officer of Banco Popular Español, S.A. until it merged with Banco Santander, S.A. He is currently country head of Santander España.
Lindsey Argalas	HEAD OF SANTANDER DIGITAL	Born in 1974, Lindsey Argalas joined the group in 2017 as senior executive vice-president and group head of Santander Digital. Previously, she had served as principal of The Boston Consulting Group (BCG) (1998-2008) and as senior vice-president and chief of staff to the CEO of Intuit Inc. (2008-2017).
Alexandra Brandão	GLOBAL HEAD OF HUMAN RESOURCES (*)	Born in 1978, Alexandra Brandão joined Grupo Santander in 2003 as head of Products and Services for Individuals at Santander Totta. From 2012 to 2016, she was global head of Knowledge and Development at the Grupo Santander Corporate Centre; head of Human Resources from 2016 to 2018; and head of Commercial Management and Segments at Santander Portugal from 2019 to 2020. Ms Brandão is member of the board of directors of Banco Santander Uruguay.
Juan Manuel Cendoya	GROUP HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH	Born in 1967, Juan Manuel Cendoya joined Banco Santander in July 2001 as group senior executive vice-president and head of the Communications, Corporate Marketing and Research division. In 2016, Mr Cendoya was appointed vice-chairman of the board of directors and head of Institutional and Media Relations of Santander España. He is also a member of the board of directors of Universia España Red de Universidades, S.A. Previously, he had been head of the legal and tax department of Bankinter, S.A. He is a government lawyer and a non-executive director at Arena Communications Network, S.L.
José Doncel	GROUP HEAD OF ACCOUNTING AND FINANCIAL CONTROL	Born in 1961, José Doncel joined Grupo Santander in 1989 as head of Accounting. Previously, he had served as head of accounting and financial management at Banco Español de Crédito, S.A. (Banesto) (1994-2013). Mr Doncel was appointed senior executive vice-president and head of the Internal Audit division in 2013 and group head of Accounting and Financial Control in 2014. He currently serves as the Group's chief accounting officer.
Keiran Foad	GROUP CHIEF RISK OFFICER	Born in 1968, Keiran Foad joined Grupo Santander in 2012 as deputy chief risk officer at Santander UK. Previously, he held risk and corporate leadership roles at Barclays Bank plc (1985-2011) and served as chief risk officer at Northern Rock plc. In 2016, he was appointed senior executive vice-president and deputy chief risk officer of Banco Santander, before being appointed the group chief risk officer in 2018.

José Antonio García Cantera	GROUP CHIEF FINANCIAL OFFICER	Born in 1966, José Antonio García joined Grupo Santander in 2003 as senior executive vice-president of Global Wholesale Banking of Banco Español de Crédito, S.A. (Banesto). In 2006, he was appointed chief executive officer of Banesto. Previously, Mr García had served on the executive committee of Citigroup EMEA, as well as 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. He currently serves as the group chief financial officer.
Juan Guitard	GROUP CHIEF AUDIT EXECUTIVE	Born in 1960, Juan Guitard joined Grupo Santander in 1997 as head of Human Resources at Santander Investment, S.A. Previously, he had been general counsel and secretary of the board of Santander Investment, S.A. and Banco Santander de Negocios, S.A. In 2013, Mr Guitard was head of Banco Santander's Risk division. In November 2014, he was appointed head of the Internal Audit division. Currently, he serves as the group chief audit executive. He is also a state attorney.
José María Linares	GLOBAL HEAD OF CORPORATE & INVESTMENT BANKING	Born in 1971, José María Linares joined Grupo Santander in 2017 as senior executive vice-president and global head of Corporate and Investment Banking. Previously, he served as an equity analyst at 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), as well as senior director Latin America TMT equity analyst at Société Générale, New York & São Paolo (1997-1999). Mr Linares joined JP Morgan in 1999 and was subsequently appointed 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 Grupo Santander and global head of Corporate and Investment Banking.
Mónica López-Monís	GROUP HEAD OF SUPERVISORY AND REGULATORY RELATIONS	Born in 1969, Mónica López-Monís joined Grupo Santander in 2009 as general counsel and secretary of the board of Banco Español de Crédito, S.A. (Banesto). Previously, she had been general counsel at Aldeasa, S.A. and Bankinter, S.A., as well as independent director at Abertis Infraestructuras, S.A. In 2015, Ms López-Monís was appointed senior executive vice-president of Santander and group chief compliance officer. She has been the group's head of Supervisory and Regulatory Relations since September 2019 and is a state attorney.
Javier Maldonado	GROUP HEAD OF COSTS	Born in 1962, Javier Maldonado joined Grupo Santander in 1995 as head of the International Legal division of Banco Santander de Negocios, S.A. Mr Maldonado held several roles at Santander UK and in 2014 was appointed senior executive vice-president of Santander and head of Coordination and Control of Regulatory Projects. He currently serves as group senior executive vice-president and head of Costs.
Dirk Marzluf	GROUP HEAD OF TECHNOLOGY AND OPERATIONS	Born in 1970, Dirk Marzluf joined Grupo Santander in 2018 as senior executive vice-president and head of IT and Operations. Previously, he had served as CIO at AXA Group since 2013, leading the insurance group's technology and information security transformation and co-sponsoring its digital strategy. Mr Marzluf also held global roles at Accenture, Daimler Chrysler and Winterthur Group.
Víctor Matarranz	GLOBAL HEAD OF WEALTH MANAGEMENT & INSURANCE	Born in 1976, Víctor Matarranz joined Grupo Santander in 2012 as head of Strategy and Innovation at Santander UK. In 2014, he was appointed senior executive vice-president and head of the Executive Chairman's Office and Strategy. Previously, Mr Matarranz had held several roles at McKinsey & Company, where he had become partner. He currently serves as global head of Wealth Management & Insurance.

José Luis de Mora	GROUP HEAD OF STRATEGY AND CORPORATE DEVELOPMENT AND OF CONSUMER FINANCE (SANTANDER CONSUMER FINANCE)	Born in 1966, José Luis de Mora joined Grupo Santander in 2003. Since then, he has been in charge of the group's Strategic Plan Development and Acquisitions. In 2015, he was appointed group senior executive vice-president and group head of Financial Planning and Corporate Development. He was appointed head of Santander Consumer Finance on 1 January 2020 and CEO of the same entity on 17 December 2020.
Jaime Pérez Renovales	GROUP HEAD OF GENERAL SECRETARIAT AND HUMAN RESOURCES (*)	See profile in section 4.1 'Our directors'.
Javier San Félix	HEAD OF SANTANDER GLOBAL PAYMENTS	Born in 1967, Javier San Félix joined Grupo Santander in 2004 as head of strategic planning in the Consumer Finance division. He was appointed director and executive vice-president of Santander Consumer Finance in Spain in 2005 and chief operating officer of the Santander Consumer Finance division in 2006. 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. From 2016 to 2018, he served as senior executive vice-president and head of retail and commercial banking at Santander UK. He currently serves as head of Santander Global Payments.
António Simões	REGIONAL HEAD OF EUROPE	Born in 1975, António Simões joined Grupo Santander in 2020 as regional head of Europe. He was previously at HSBC, where he held roles including chief executive officer of global private banking, member of the group management board and group executive committee, and chief executive of HSBC Bank plc and chief executive of Europe, encompassing all UK and European operations for HSBC Group.
Marjolein van Hellemondt-Gerdingh	GROUP CHIEF COMPLIANCE OFFICER	Born in 1964, Marjolien van Hellemondt-Gerdingh joined Santander Group in 2019 as senior executive vice-president and chief compliance officer. Previously, she had been chief compliance officer of several banking and financial entities such as NN Group, Zurich Insurance Company and De Lage Landen International B.V.

(*) Jaime Pérez Renovales continued as head of Human Resources supporting Alexandra Brandão until February 2021, when he leaved the Human Resources function.

6. Remuneration

Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.7, 9.4 and 9.5 comprise 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 sets out the directors' remuneration policy for 2021, 2022 and 2023, which is to be put to a vote at the general shareholders' meeting.

The annual report on directors' remuneration and the directors' remuneration policy for 2021, 2022 and 2023 were approved by our board of directors on 22 February 2021, without any votes against or abstentions.

The current remuneration policy for directors is available on our corporate website.

6.1 Principles of the remuneration policy

Director remuneration in their capacity as such

The board of directors sets the individual remuneration of directors (including executive directors) for the performance of supervisory and collective decision-making duties within the amount fixed by shareholders and commensurately with the roles they perform on the collective decision-making body, their committee membership and attendance, and other objective circumstances the board might consider.

Remuneration of directors for executive duties

Banco Santander's remuneration policy for executive duties dictates that:

1. Remuneration must be in line with shareholders' interests, conducive to creating long-term value and compatible with our rigorous risk management, long-term strategy and values.
2. Fixed remuneration must make up a significant proportion of total compensation.
3. Variable remuneration must reward individuals for their role in achieving set goals within the framework of prudent risk management.
4. The global remuneration package and its structure must be competitive in order to attract and retain talent.
5. Remuneration decisions must avert conflicts of interest and discrimination.

The remuneration committee and the board enlisted the assistance of Willis Towers Watson to:

- Compare relevant data with that on markets and comparable entities on account of the group's size, characteristics and operations.
- Analyse and confirm compliance with certain quantitative metrics required to evaluate accomplishment of objectives.
- Estimate the fair value of variable remuneration linked to long-term objectives.

6.2 Remuneration of directors for supervisory and collective decision-making duties: policy applied in 2020

A. Composition and limits

According to our Bylaws, the remuneration of directors in their condition as such consists of a fixed annual amount set at the general shareholders' meeting. This amount remains in effect until shareholders vote to amend it, even though the board may reduce it in the years it deems appropriate. At the annual general shareholders' meeting, remuneration for 2020 was set at EUR 6 million, which included (a) annual allotment and (b) attendance fees.

Santander has taken out a civil liability insurance policy for directors subject to usual terms proportionate to its circumstances.

Directors can receive shares, share options or share-linked compensation, subject to prior approval at the general shareholders' meeting. Directors can also 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 Banco Santander, whether they are the duties of an executive director or otherwise in addition to their oversight and collective decision-making as board members.

Lastly, non-executive directors do not have the right to receive any benefit on the occasion of their removal from office.

B. Annual allotment

Each director received the amounts for serving on the board and its committees included in the chart below for 2019 and 2020.

As a gesture of responsibility in view of the situation created by the health emergency the board of directors agreed on 5 May 2020 to reduce their allotments by 20% for the balance of 2020, with effect from 1 April 2020, and propose that amounts saved thereby be used to finance the initiatives of Banco Santander to fight against the covid-19 pandemic.

Accordingly, the applicable amounts in 2020 and 2019 were:

	2020		
Amount per director in euros	1 Apr to 31 Dec	1 Jan to 31 Mar	2019
Members of the board of directors	49,500	22,500	90,000
Members of the executive committee	93,500	42,500	170,000
Members of the audit committee	22,000	10,000	40,000
Members of the appointments committee	13,750	6,250	25,000
Members of the remuneration committee	13,750	6,250	25,000
Members of the risk supervision, regulation and compliance committee	22,000	10,000	40,000
Members of the responsible banking, sustainability and culture committee	8,250	3,750	15,000
Chairman of the audit committee	38,500	17,500	70,000
Chairman of the appointments committee	27,500	12,500	50,000
Chairman of the remuneration committee	27,500	12,500	50,000
Chairman of the risk supervision, regulation and compliance committee	38,500	17,500	70,000
Chairman of the responsible banking, sustainability and culture committee	27,500	12,500	50,000
Lead director	60,500	27,500	110,000
Non-executive vice chairmen	16,500	7,500	30,000

A. Since 2015, Bruce Carnegie-Brown has been allocated EUR 700,000 in minimum total annual pay (including annual allowances and attendance fees) for services to the board and its committees, particularly as chairman of the appointments and remuneration committees and lead independent director; and for the required time and dedication to perform these roles. However, in line with the board of directors' decision to reduce their allotments and fees with effects from 1 April 2020 explained above, which is shared by Mr. Bruce Carnegie-Brown, the same reduction shall be applied to this amount. Accordingly, the amount assigned for 2020 will be EUR 595,000.

C. Attendance fees

Pursuant to resolutions approved by the board on the remuneration committee's recommendations, attendance fees for board and committees meetings (not including the executive committee, for which no fees are set) totalled the amounts included in the chart below for the last two years.

The amounts applied until 31 March 2020 were the same as in 2019. On 5 May 2020, as a gesture of responsibility in view of the situation created by the health emergency, the board of directors agreed to reduce their attendance fees by 20% for the balance of 2020, with effect from 1 April 2020, and propose that the amounts saved thereby be used to finance the initiatives of Banco Santander to fight against the covid-19 pandemic.

	2020		
Attendance fees per director per meeting in euros	1 Apr to 31 Dec	1 Jan to 31 Mar	2019
Board of directors	2,080	2,600	2,600
Audit committee and risk supervision, regulation and compliance committee	1,360	1,700	1,700
Other committees (excluding executive committee)	1,200	1,500	1,500

D. Breakdown of bylaw-stipulated emoluments

Total director bylaw-stipulated emoluments and attendance fees received in 2020 amounted to EUR 4.1 million (EUR 4.9 million in 2019). This is 31% less than the amount approved at the general meeting. Each director earned the following amounts for these items:

			Amount in euros										
			2020										2019
			Annual allotment								Board and committee attendance fees	emoluments and attendance fees	
Directors	Executive	Non-executive	Board[N]	EC	AC	ASC	RC	RSRCC	RBSCC	Total			
Ms Ana Botín-Sanz de Sautuola y O'Shea		—	76,500	144,500	—	—	—	—	12,750	233,750	55,220	288,970	333,800
Mr José Antonio Álvarez Álvarez		—	76,500	144,500	—	—	—	—	—	221,000	48,620	269,620	312,800
Mr Bruce Carnegie-Brown		I	326,380	144,500	—	21,250	21,250	—	—	513,380	81,620	595,000	700,000
Ms Homaira Akbari		I	76,500	—	34,000	—	—	—	12,750	123,250	79,040	202,290	225,900
Javier Botín-Sanz de Sautuola y[A]		N	76,500	—	—	—	—	—	—	76,500	44,720	121,220	136,800
Antonio Cardoso de[B]		I	136,000	—	—	—	—	34,000	12,750	182,750	60,420	243,170	275,500
Martín Chávez		I	8,086	—	—	548	5,269	8,430	—	22,333	15,120	37,453	—
Ms Sol Daurella Comadrán		I	76,500	—	—	21,250	21,250	—	12,750	131,750	81,920	213,670	239,700
Manuel Drummond Borges Cirne		I	76,500	—	34,000	—	21,250	—	—	131,750	85,040	216,790	86,746
Díez[E]		I	1,973	—	—	—	—	—	—	1,973	2,080	4,053	—
Fernández de[F]		N	44,389	83,847	—	—	12,361	19,790	—	160,387	42,640	203,027	—
Mr Ramiro Mato García-Ansorena		I	119,000	144,500	34,000	—	—	34,000	12,750	344,250	86,160	430,410	500,300
Mr Sergio Rial[G]		—	42,000	—	—	—	—	—	—	42,000	20,800	62,800	—
Ms Belén Romana García		I	98,044	144,500	34,000	—	—	34,000	12,750	323,294	93,980	417,274	524,600
Ann[H]		I	114,454	—	34,000	—	—	—	—	148,454	66,140	214,594	33,915
Mr Rodrigo Echenique Gordillo[I]		N	74,724	—	—	20,757	—	—	—	95,481	60,020	155,501	219,134
Benjumea Cabeza de[J]		N	34,500	65,167	—	—	9,583	15,333	5,750	130,333	43,140	173,473	432,700
Guillermo de la Dehesa[K]		N	23,100	43,633	—	6,417	6,417	—	—	79,567	28,180	107,747	398,800
Giménez-Salinas i[L]		I	63,532	—	—	17,648	—	28,236	10,589	120,005	71,400	191,405	228,768
Mr Carlos Fernández González[M]		I	—	—	—	—	—	—	—	—	—	—	213,249
Total			**1,545,182**	**915,147**	**170,000**	**87,870**	**97,380**	**173,789**	**92,839**	**3,082,207**	**1,066,260**	**4,148,467**	**4,862,712**

A. All amounts received were reimbursed to Fundación Botín.
B. Director since 1 April 2018.
C. Director since 27 October 2020.
D. Director since 17 July 2019.
E. Director since 22 December 2020.
F. Director since 19 May 2020
G. Executive director since 30 May 2020
H. Director since 29 October 2019.
I. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020
J. Stepped down as director on 5 May 2020.
K. Stepped down as director on 3 April 2020.
L. Stepped down as director on 27 October 2020
M. Stepped down as director on 28 October 2019
N Includes emoluments for chairing committees and other roles.
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 executive duties

The policy on directors' remuneration for executive duties in 2020 was approved by the board of directors and put to a binding vote at the general shareholders' meeting on 3 April 2020, with 94,40% of the votes in favour. The table below summarises the policy and its implementation for Ana Botín and José Antonio Álvarez.

In the case of Sergio Rial, who was appointed director on April 2020, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020, but he qualifies as an executive director pursuant to section 529 *duodecies* of the Spanish Companies Act (Ley de Sociedades de Capital), because of his role as CEO and vice-president of Banco Santander (Brasil) S.A. (Santander Brasil).

Component	Type	Policy	Implementation in 2020
Gross annual salary	Fixed	• Paid in cash on a monthly basis.	• Ana Botin: EUR 3,176 thousand. • José Antonio Álvarez: EUR 2,541 thousand.
Variable remuneration	Variable	• Individual benchmark reference. • Calculated against annual quantitative metrics and a qualitative assessment on account of individual performance. • 50% of each payment is shares withheld for three years, unless the director already holds shares for an amount equivalent to twice their fixed remuneration. The number of shares is set at the time of the award. • 40% paid in 2021; • 60% deferred in five years. ◦ 24% paid in equal parts in 2022 and 2023. ◦ 36% paid in equal parts in 2024, 2025 and 2026, provided certain long-term objectives are met (2020-2022).	• See section 6.3 B ii) for details on annual metrics and assessment. • See section 6.3 B iv) for details on long-term metrics. • See section 6.3 B iii) for details on individual variable pay.
Pension scheme	Fixed	• Annual contribution of 22% of base salary.	• No change since 2018
	Variable	• Annual contribution of 22% of 30% of the average of variable remuneration in the last three years	• See section 6.3 C for details on annual contributions and pension balance.
Other remuneration	Fixed	• Includes life, accident and medical insurance, and other in-kind compensation. • Includes a fixed remuneration supplement in cash (not considered salary or pensionable) since supplementary death and disability benefits were eliminated.	• No change for Ana Botín or José Antonio Álvarez since 2018.
		• Payment for non-compete commitment	• N/A.
Shareholding policy	N/A	• In addition to the regulatory obligation to hold shares for one year from their grant date, executive directors also have the obligation to hold them for three years from their award date, unless the director already holds shares for an amount equivalent to 200% of their fix annual remuneration. • Ana Botín and José Antonio Alvarez have the obligation to accumulate this 200% within a period of five years since 2016 to demonstrate the shareholding.	• Policy updated during 2020 to assure compliance with recommendation 62 to the Good Governance Code for Listed Companies of the CNMV

A. Gross annual salary

The board resolved to maintain the same gross annual salary for Ana Botín and José Antonio Álvarez for 2020 as in 2019.

It also maintained the fixed pension contribution of 22% of gross annual salary it had declared in 2019 for 2020.

Executive directors' gross annual salary and fixed annual contribution to pension for 2020 and 2019 were as follows:

EUR thousand	2020 Gross annual salary	2020 Fixed annual pension contribution	2020 Total	2019 Gross annual salary	2019 Fixed annual pension contribution	2019 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 GordilloA	—	—	—	600	—	600
Total	**5,717**	**1,258**	**6,975**	**6,317**	**1,258**	**7,575**

A. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020. Figure includes his gross annual salary until he ceased to be an executive director.

B. Variable remuneration

i) General policy for 2020

The board approved the executive directors' variable remuneration on the remuneration committee's recommendation, according to its policy:

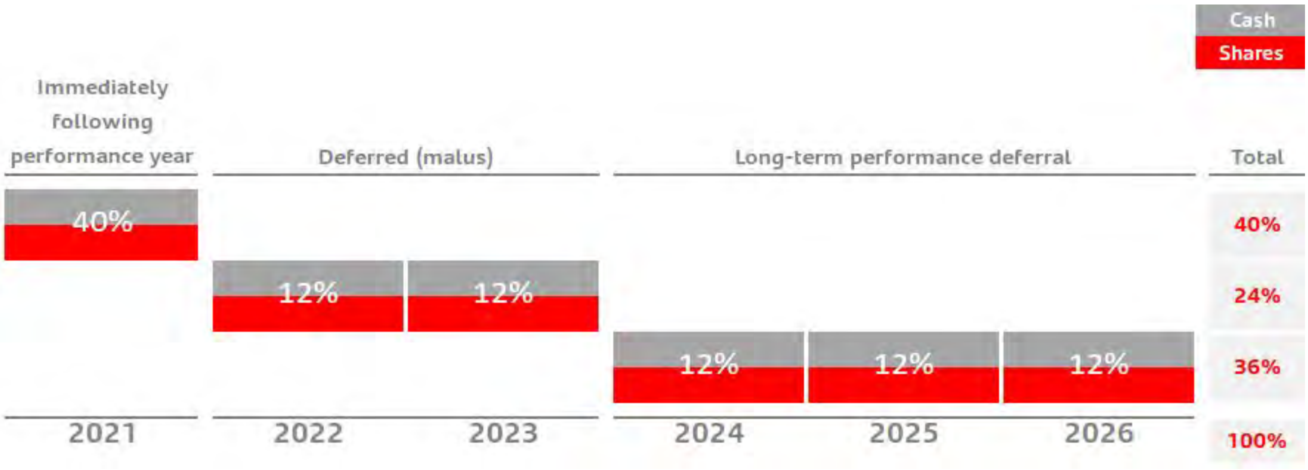
- Variable components (including the variable part of the contributions to the benefit systems) of executive directors' total remuneration in 2020 should amount to less than 200% of fixed components, as established by resolution of the annual general shareholders' meeting on 3 April 2020.
- At the beginning of 2021, on the remuneration committee's recommendation, the board approved the final amount of the 2020 incentive, based on the set bonus pool in accordance with the directors' remuneration policy approved at the general shareholders' meeting of 3 April 2020, in consideration of:
  - A group of short-term quantitative metrics measured against annual objectives.
  - A qualitative assessment that cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.
  - Any exceptional adjustment that must be supported by evidence.
  - The final figure is adjusted to executive directors' individual variable remuneration benchmark in accordance with the current model as well as (i) their individual objectives, which generally match the group's and cover financial, risk management, client satisfaction and social impact metrics, such as being among the Top 10 companies to work for in the group's main geographies or financial empowerment objectives; and (ii) how they achieve them, with consideration for how they manage employees and have adhered to corporate values.

A. Any exceptional adjustment supported by evidence

Quantitative metrics and qualitative assessment aspects are described below.

- Payment of the approved incentive is split equally into cash and shares. 40% is paid in 2021, once the final amount has been set. The remaining 60% will be deferred in equal parts over five years (subject to long-term metrics) as follows:
  - The deferred amount payable in 2022 and 2023, (24% of the total) will be paid if none of the malus clauses described below are triggered.
  - The deferred amount payable in 2024, 2025 and 2026, (36% of the total) will be paid if the malus clauses are not triggered and the multi-year targets described below are reached. These targets can only reduce these amounts and the number of deferred shares (which can be lower but not higher).
  - When the deferred amount is paid in cash, the beneficiary may be paid the amount adjusted for inflation up to the date of payment.
  - All payments in shares will be withheld for three years after being delivered, unless the director already holds shares for an amount equivalent to twice his/her annual salary.
  - 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 time they are received.

The payment schedule of the incentive is illustrated below.



All deferred payments can be subject to malus, even if they are not subject to long-term objectives. Similarly, Santander can claw back paid incentives in the scenarios and for the period dictated in the group's malus and clawback policy.

ii) Quantitative metrics and qualitative assessment for 2020

Executive directors' variable remuneration for 2020 has been based on the corporate centre executives' common bonus pool, which calculation comes from the quantitative and qualitative metrics approved by the board at the beginning of 2020 on the remuneration committee's recommendation. This also takes into account the input received from the human resources committee, which for these purpose counts on the participation of the senior management in charge of the group's risk, compliance, audit, human resources and general secretariat and financial accounting and control functions, who among others provided input on risk, solvency, liquidity, results' quality and recurrence, and other compliance and control aspects. The quantitative and qualitative results for the bonus pool resulting from the process above, which are considered by the board, upon recommendation from the remunerations committee, are included in the chart below.

It is worth noting that none of the metrics and targets below have been modified in any manner, despite the exceptional crisis circumstances created by the covid-19 pandemic:

Category and (weight)	Metrics	% Achievement over target	Assessment	Weighted assessment[A]	Component	Assessment	Total weighted score[B]
	Quantitative metrics				Qualitative		
Customers (20%)	Net Promoter Score (NPS)[C]	Target: TOP3 in 6 countries. Achieved: TOP3 in 6 countries[D]	81.3 %	8.13 %	Evaluation of the robustness of the governance, culture and management of conduct risk with our clients	+2.15% - Strength in governance, especially in the approval of products, and relevant improvements in remuneration models, while some aspects of culture and management by the first line of defense are still under development.	20.33 %
	Number of loyal customers[D]	Target: 22,719,800 Achieved: 22.838.300	100.5 %	10.05 %			
Risks (10%)	Non-performing loans ratio	% Target: 3.08% % Achieved: 3.21%	95.6 %	4.78 %	Assessment of the control environment and appropriate management of risk appetite and excesses recognised.	+ 1.45% - Improvement of the control environment, key in managing the risks derived from the health and economic crisis. No relevant non-compliance in risk appetite.	6.23 %
	Cost of Credit Ratio (IFRS9)	% Target: 1.02% % Achieved: 1.28%	0.0 %	0.00 %			
Capital (20%)	Capital ratio (CET1)	% Target: 11.90% % Achieved: 12.10%	180.0 %	36.00 %	Efficient capital management.	+ 3.10% - Reinforced capital ratio and above the target, despite the significant increase in provisions due to the context of the year	39.10 %
Return (50%)	Ordinary net profit (ONP)[E]	Target: €8,243.2 million Result: €4,581.15 million[G]	0.0 %	0.00 %	Suitability of business growth compared to the previous year, considering the market environment and competitors.	+1.83% - Solid and sustainable results despite global crisis context, with focus this year on on new origination and protecting spreads, managing costs in an efficient manner.	5.41 %
	RoTE - Return on Tangible Equity	% Target: 11,34% % Achieved: 6.71%[G]	0.0 %	0.00 %	Sustainability and solidity of results. Efficient cost management and achievement of efficiency goals.	+ 0.30% - Sustainable growth in a global crisis environment, with more efficient use of capital in term of profitability.	
					Progress in the commitments assumed to promote the Group's Responsible Banking agenda and incorporate it into its business strategy (additional indicator in 2020)	+ 3.28% - Progress exceeding forecasts in most of the Group's responsible banking agenda commitments.	
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.			The underlying business performance resulted in a final bonus calculation of 71.08% of the target bonus. The board of directors, upon recommendation from the remuneration committee, exercised its discretion to reduce this target bonus to 67.32%, which was the original target submitted to the board in December 2020 and resolved that the amount saved would be contributed to the Santander fund set up to support the fight against Covid-19		(3.75)%
TOTAL							**67.32 %**

A. The weighted assessment is the result of multiplying each objective's assessment by its weighting per category. Each category has same weighting, except as described under Note E below.
B. Result of adding or subtracting the qualitative assessment to/from the weighted assessment.
C. The net promoter core (NPS) measures customers' willingness to recommend Santander. The assessment is based on the number of the group's core markets where Santander's NPS scores in the top 3, as well as on its performance against competitors. In 2020.
D. The achievement amount is calculated by adding the weight each country where the target is met has over the total of Santander Group clients.
E. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for transactions the board believes have an impact not connected to the performance of evaluated directors, for which extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur in the year are evaluated. The specific weight of ONP in the total scorecard is 20% and RoTE is 30%.
F. 2020 underlying profit attributable to the Group is €5,081 million, but restructuring costs have been applied to it for the purpose of calculating scorecard results, reducing this figure to €4,581 million
G. 2020 ordinary RoTE is 7.44%, but restructuring costs have been applied to it for the purpose of calculating scorecard results, reducing this figure to 6.71%.

The following section details the individual variable remuneration approved by the board.

iii) Determination of the individual variable remuneration for executive directors set in 2020

The board approved executive directors' variable remuneration on the remuneration committee's recommendation based on the policy mentioned in the paragraphs above and the result of the quantitative metrics and qualitative assessment described above, and taking into account the commitment made by Ana Botín and José Antonio Alvarez on 23 March 2020 to reduce the total on their salary and variable remuneration in 50% described below.

The board also verified that none of the following circumstances have occurred:

- The Group's ONP[1] for 2020 was not more than 50% less than for 2019. Otherwise, variable remuneration would not have been greater than 50% of the benchmark incentive.
- The group's ONP was not negative. Otherwise, the incentive would have been zero.

The board voted to maintain the same benchmark incentive for Ana Botín and José Antonio Álvarez in 2020 as in 2019.

Variable contributions to pensions were not modified in 2020, so the amounts are the 22% of the 30% of the last three assigned bonus' average.

Voluntary Reduction of Executive Remuneration (Chairman and CEO)

On 23 March 2020, given the health crisis created by the covid-19 pandemic, Ana Botín and José Antonio Álvarez proposed to reduce their 2020 total compensation (salary and bonus) by 50% and use the amounts saved to finance the Santander covid-19 relief fund. This proposal was supported by the remuneration committee and approved by the board of directors.

To achieve the 50% reduction compared to 2019, the board of directors decided to apply an additional adjustment to Ana Botín's and José Antonio Alvarez's variable compensation, reducing the variable compensation by 74% in the case of Ana Botín and 79% in the case of José Antonio Álvarez.

Ana Botín's total salary and bonus for 2019 was EUR 9,688 thousand, with EUR 3,176 thousand salary and EUR 6,512 thousand bonus (of which EUR 4,168 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 2,344 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of her salary and bonus for 2020 has been established at EUR 4,844 thousand, with EUR 3,176 thousand salary and EUR 1,668 thousand bonus (of which EUR 1,068 thousand is the sum immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 600 thousand is deferred variable remuneration linked to long-term objectives at face value).

José Antonio Álvarez's total salary and bonus for 2019 was EUR 6,893 thousand, with EUR 2,541 thousand salary and EUR 4,352 thousand bonus (of which EUR 2,786 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 1,566 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of his salary and bonus for 2020 has been established at EUR 3,446.5 thousand, with EUR 2,541 thousand salary and EUR 906 thousand bonus (of which EUR 580 thousand is immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 326 thousand is deferred variable remuneration linked to long-term objectives at face value).

The chart below shows the comparison between the amounts received in 2019 and those received in 2020:

	2019			2020			% Var. 2020 vs 2019
	Salary	Bonus	Total	Salary	Bonus	Total	
Chairman	3,176	6,512	9,688	3,176	1,668	4,844	(50)%
CEO	2,541	4,352	6,893	2,541	906	3,447	(50)%

Additionally, Ana Botin has made a personal decision to donate the full amount of the cash bonus paid this year for 2020 to Banco Santander's *Euros de tu nómina* program, through which employees can give up part of their pay to projects sponsored by a group of charities voted for by employees and Banco Santander matches the employees donation, and to *Empieza por Educar*, the Spanish affiliate of Teach for All.

Breakdown of immediately payable and deferred remuneration

The immediately payable variable remuneration in deferred amounts not contingent on long-term metrics and variable remuneration deferred and contingent on long-term objectives approved by the board of directors, following a proposal by the remuneration committee resulting from the aforementioned process are:

[1] For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for transactions the board believes have an impact not connected to the performance of evaluated directors, for which extraordinary profit, corporate transactions, impairments, or accounting or legal adjustments that may occur during the year are evaluated. The exclusion in the calculation for these purposes of goodwill impairments is aligned with the supervisors' criteria on their recommendations on dividend distributions.

Immediately payable and deferred (not linked to long-term objectives) variable remuneration

	2020			2019		
EUR thousand	In cash	In shares	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	534	534	1,068	2,084	2,084	4,168
Mr José Antonio Álvarez Álvarez	290	290	580	1,393	1,393	2,786
Mr Rodrigo Echenique Gordillo	—	—	—	640	640	1,280
Total	**824**	**824**	**1,648**	**4,117**	**4,117**	**8,234**

A. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020. Immediate and deferred variable remuneration not contingent on long-term objectives included until he stepped down.
B. The share amounts in the foregoing table correspond to a total of 307 thousand shares in Banco Santander (1,122 thousand shares in 2019).

The following chart states deferred variable remuneration at fair value, which will only be received in 2024, 2025 and 2026, provided that long-term multi-year targets are met

(see section 6.3 B iv)), beneficiaries continue to be employed at Santander Group, in accordance with the terms approved in the general shareholders' meeting, and no circumstances triggering malus clauses occur[2]:

Deferred variable remuneration linked to long-term objectives (fair value)

	2020			2019		
EUR thousand	In cash	In shares	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	210	210	420	821	821	1,642
Mr José Antonio Álvarez Álvarez	114	114	228	548	548	1,096
Mr Rodrigo Echenique Gordillo	—	—	—	252	252	504
Total	**324**	**324**	**648**	**1,621**	**1,621**	**3,242**

A. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020. Variable remuneration contingent on long-term objectives included until he stepped down.
B. The number of shares in the table total 121 thousand shares in Banco Santander (442 thousand shares in 2019).

Fair value has been determined on the grant date based on the valuation report of an independent expert, Willis Towers Watson. Based on the design of the plan for 2020 and success levels of similar plans at peer entities, the expert found a range of 60%-80% reasonable to estimate the initial success ratio. Therefore, fair value was considered to be 70% of the maximum value.

The maximum number of shares to be delivered under the plan (480 thousand shares not adjusted for fair value) is within the limit of 4,283 thousand shares authorised in the annual general meeting on 3 April 2020 for executive directors. This limit was calculated with the weighted average daily volume of weighted average listing prices of Santander shares in the 15 trading sessions prior to the Friday (not inclusive) before 2 February 2021 (the date on which the board approved the 2020 bonus for executive directors), which was EUR 2.685 per share.

iv) Multi-year targets linked to the payment of deferred amounts in 2024, 2025 and 2026

The multi-year targets linked to the payment of the deferred amounts payable in 2024, 2025 and 2026 are:

	Metrics	Weight	Target and compliance scales (metrics ratios)
A	Earnings per share (EPS) growth in 2022 vs 2019	33 %	If EPS growth ≥ 15%, then metric ratio is 1.5 If EPS growth ≥ 10% but < 15%, then metric ratio is 1 – 1.5[C] If EPS growth ≥ 5% but < 10%, then metric ratio is 0 – 1[C] If EPS growth < 5%, then metric ratio is 0
B	Relative Total Shareholder Return (TSR)[A] in 2020-2022 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 2022	33 %	If CET1 is ≥ 12%, then metric ratio is 1 If CET1 is ≥ 11% but < 12%, then metric ratio is 0 – 1[E] If CET1 is < 11%, then metric ratio is 0

A. TSR refers to the difference (%) between the final and initial values of capital invested in ordinary shares of Banco Santander. The final value is calculated based on the dividends or other similar concepts (such as the Santander Scrip Dividend programme) shareholders receive for this investment during the corresponding period -as if they had invested 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

[2] Corresponds to the fair value of the maximum amount to be received over a total of 3 years, subject to continued service -with certain exceptions-, non- applicability of malus clauses and compliance with set goals. Fair value was estimated at the plan award date on account of several scenarios for the variables in the plan during the measurement periods.

average share price at that date. To calculate TSR, the weighted average daily volumes of the weighted average listing prices for the fifteen trading sessions prior to 1 January 2020 (exclusive) is considered (to calculate the initial value) and the fifteen trading sessions prior to 1 January 2023 (exclusive) (to calculate the final value). The peer group consists of BBVA, BNP Paribas, Citi, Crédit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.

B. To check success in terms of this objective, possible increases in CET1 resulting from capital increases will be disregarded (except in relation to the Santander Scrip Dividend programme). Furthermore, the CET1 ratio at 31 December 2022 could be adjusted to factor out the impact of any new regulations on its calculation up to that date.

C. Linear increase in the EPS ratio based on the specific EPS growth rate in 2022 in respect of 2019 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 ratio as a function of the CET1 ratio in 2022 within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2024, 2025 and 2026, 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 pay set in early 2021).
- 'A' is the EPS ratio according to the scale in the table above, based on EPS growth in 2022 vs 2019.
- 'B' is the TSR ratio according to the scale in the table above, according to the relative performance of Banco Santander's TSR within its peer group in 2020-2022.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2022 described in the table above.
- In any event, 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.

- **v) Malus and clawback**

Deferred amounts (whether or not contingent on multi-year targets) will be earned if the beneficiariy continues to work with the group[3], and none of the circumstances triggering the malus clause arise before each payment, according to the section on malus and clawback clauses in the remuneration policy.

Similarly, Banco Santander can clawback any paid variable amounts in the scenarios and for the period dictated by the terms and conditions in the said policy.

Variable remuneration for 2020 can be clawed back until the beginning of 2027.

Malus and clawback clauses are triggered if the financial performance of the Banco Santander, a specific division or area, or exposures generated by staff is poor on account of:

Category	Factors
Risk	Significant failures in risk management by Banco Santander, or by a business or risk control unit.
Capital	An increase in capital requirements at the Banco Santander 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 Banco Santander'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 committe, and cannot be proposed once the retention period for the final payment in shares under the plan has elapsed in early 2027. Therefore, on the remuneration committee's recommendation and depending on the level of compliance with the conditions for applying malus clauses, the board determines the specific deferred incentive amount to be paid as well as any amount that could be subject to clawback.

C. Main features of the benefit plans

Executive directors participate in the defined contribution pension scheme created in 2012, which covers contingencies due to retirement, disability and death.

[3] When the beneficiary's relationship with Banco Santander or another group entity terminates because of retirement, early retirement or pre-retirement; a dismissal ruled by the courts to be wrongful; unilateral withdrawal for good cause by an employee (which includes 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; mandatory redundancy; or because an employer other than Banco Santander ceases to belong to Santander Group, the right to receive shares and deferred amounts in cash and any amounts of the deferred amounts in cash adjusted for inflation will remain under the same conditions in force as if none of such circumstances had occurred. In the case of death, the right will pass to the beneficiary's heirs.
In cases of justified temporary leave due to temporary disability, suspension of contract due to maternity or paternity leave, or leave to care for children or a relative, there will be no change in the beneficiary's rights. If the beneficiary goes to another group company (even through international assignment and/or expatriation), these rights will likewise not change. If the relationship terminates by mutual agreement or because the beneficiary obtains a leave not mentioned above, the terms of the termination or temporary leave agreement will apply.
None of those circumstances attach the right to receive the deferred amount in advance. If beneficiaries or their heirs maintain the right to receive deferred pay in shares and cash and any deferred amounts in cash adjusted for inflation, it will be delivered within the periods and under the terms dictated by the rules for the plans.
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.

In the event of pre-retirement and up until the retirement date, executive directors have the right to receive an annual allowance. Ana Botín's maximum allotment is the sum of her fixed remuneration and 30% of the average of her last three variable remuneration amounts. José Antonio Álvarez's allotment is his fixed remuneration paid as senior vice president.

According to the 2012 system, contracts for executive directors (and other senior managers) with defined benefit pension obligations were transformed into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement, even if they are not active at Banco Santander at the time, based on contributions to the system. It also replaces their previous right to receive a pension supplement in the event of retirement.

The initial amount for each executive director in the new defined contribution pension scheme corresponded to the market value of the assets for which the provisions for due obligations were recognised when the previous pension commitments had been transferred to the new pension scheme.

Every year since 2013, Banco Santander has been contributing to the pension scheme for executive directors and senior executives in proportion to their pensionable bases until their departure from the group, retirement, death or disability (even during pre-retirement). The pensionable base for executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (in the event of José Antonio Álvarez's pre-retirement, it will be his fixed remuneration as a senior executive vice-president). Contributions will be 22% of pensionable bases in all cases.

Pursuant to remuneration regulations, contributions calculated on the basis of variable remuneration are subject to the discretionary pension benefits scheme. Therefore, under the policy, malus and clawback clauses can be enforced on them in place at any given time and during the same period in which variable remuneration is deferred. Furthermore, these contributions must be invested in shares in Banco Santander for five years from the date of the executive director's retirement, or from the date on which executive directors leave the group. Once that period has elapsed, the amount invested in shares will be paid to them or their beneficiaries if some contingency covered by the pension scheme was happened or will be added to the remainder of their cumulative balance until their retirement age when the total amount will be paid.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. The economic rights of the directors previously mentioned belong to them even if they are not active at Banco Santander at the time of their retirement, death or disability. Their contracts do not stipulate any severance payment outside the extent of the law for termination of contract or the aforementioned annual allowance for pre-retirement.

Pursuant to the director's remuneration policy approved at the annual general meeting on 23 March 2018, the system contributes 22% of the respective pensionable base.

The provisions recognised in 2020 for retirement pensions a amounted to 2,019 thousand euros (2,003 thousand euros in 2019), as broken down below.

EUR thousand	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,155	1,145
Mr José Antonio Álvarez Álvarez	864	858
Total	**2,019**	**2,003**

These are the amounts corresponding to each executive director as of 31 December 2020 and 2019 in the pension scheme:

EUR thousand	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	49,444	48,104
Mr José Antonio Álvarez Álvarez	18,082	17,404
Mr Rodrigo Echenique Gordillo	—	13,268
Total	**67,526**	**78,776**

A. Rodrigo Echenique has not participated in the defined contribution pension scheme described in the preceding paragraphs. However, for reference purposes, this year's table details his rights before he was named an executive director. Rodrigo Echenique's accrued obligation as of December 2020 is zero, since he received the benefit in the form of capital in 2020. Therefore, there is no pending commitment in this regard in respect of Rodrigo Echenique.

D. Other remuneration

Santander Group also takes out insurance policies for life, health and other contingencies for its executive directors. This other remuneration component includes the fixed supplement approved for Ana Botín and José Antonio Álvarez to replace the supplementary benefits from the pension scheme eliminated in 2018, in addition to the cost for insuring death or disability until they retire. Executive directors are also covered under the group's civil liability insurance policy.

Rodrigo Echenique received 1,800 thousand euros as first payment for his compensation for his two-year non-compete commitment from the date he stepped down as executive director (30 April 2019). In May 2020 he received the same amount for the payment that was pending in connection with this commitment.

Note 5 to the group's consolidated financial statements describes other benefits received by executive directors in detail.

E. Shareholdings

In 2016, on the remuneration committee's recommendation, the board of directors approved a shareholding policy to better align executive directors with shareholders' long-term interests.

According to this policy, in addition to the executive directors' commitment to maintaining a significant holding of shares in the group for as long as they have their role, executive directors active on 1 January 2016 would have five years to demonstrate that their personal assets include shares in Banco Santander that amount to twice their nett annual salary on that date. Executive directors have complied with this policy.

Likewise, in addition to the regulatory obligation for executive directors not to sell the shares they receive as remuneration for a year from their award, which is included in the shareholding policy, and will apply to all cases, this policy has also been updated to include the obligation for executive directors not to sell the shares they receive as remuneration for a period of three years from their award date, unless the executive director already holds Banco Santander shares for an amount equivalent to twice his/her fix annual remuneration.

F. Remuneration of Sergio Rial in Santander Brasil

Sergio Rial has received the following remuneration In his role as CEO of Santander Brasil:

2020	BRL thousand	EUR thousand
Base salary	12,645	2,175
Other fixed benefits	39	7
Pensions	5,041	867
Variable remuneration	30,240	5,201
Total	**47,965**	**8,250**

His variable remuneration is subject to the same policy principles, deferrals, multi year targets linked to the payment of deferred amounts and malus and clawback principles described in B herein, though referred to the subsidiary where he is the CEO.

G. Remuneration of board members as representatives of Banco Santander

The executive committee has resolved that the remuneration received by directors who represent Banco Santander on boards of companies where it owns equity and were appointed after 18 March 2002 will accrue to the group. No executive director received remuneration for this type of representation in 2020 or 2019.

However, in 2020 Alvaro Cardoso de Souza was paid BRL 1,947 thousand (EUR 335 thousand) as non-executive chairman of Banco Santander Brasil, S.A., Homaira Akbari was paid USD 190 thousand (EUR 156 thousand) as member of the board of Santander Consumer USA (SCUSA) and EUR 17,200 as member of the Board of PagoNxt), and Henrique Manuel Drummond Borges Cirne de Castro and Ramón Martín Chávez Márquez were each paid the same EUR 17,200 as members of the board of PagoNxt.

Likewise, Luis Isasi was paid EUR 740 thousand as chairman of the board of Santander Spain (amount included in the chart below as "other remuneration" as it is paid by Banco Santander, S.A.)

H. Individual remuneration of directors for all items in 2020

Below is a breakdown of each director’s short-term salary (payable immediately) and deferred remuneration not based on long-term performance for 2020 and 2019. Note 5 to the group’s consolidated financial statements contains disclosures on shares delivered in 2020 under the deferred remuneration schemes of previous years where conditions for their delivery were met in the related years.

Directors	EUR thousand 2020: Bylaw-stipulated emoluments: Board and board committees annual allotment	Board and committee attendance fees	Salary and bonus of executive directors: Fixed Salary	Immediate payment bonus (50% in shares)	Deferred payment bonus (50% in shares)	Total	Pension Contribution	Other remuneration	Total	2019 Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	234	55	3,176	667	400	4,243	1,155	1,131	6,818	9,954
Mr José Antonio Álvarez Álvarez	221	49	2,541	362	217	3,120	864	1,764	6,018	8,270
Mr Bruce Carnegie-Brown	513	82	—	—	—	—	—	—	595	700
Ms Homaira Akbari	123	79	—	—	—	—	—	—	202	226
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A]	77	45	—	—	—	—	—	—	122	137
Mr Álvaro Antonio Cardoso de Souza[B]	183	60	—	—	—	—	—	—	243	276
Mr Ramón Martín Chávez Márquez[C]	22	15	—	—	—	—	—	—	37	—
Ms Sol Daurella Comadrán	132	82	—	—	—	—	—	—	214	240
Mr Henrique Manuel Drummond Borges Cirne de Castro[D]	132	85	—	—	—	—	—	—	217	86
Ms Gina Díez Barroso[E]	2	2	—	—	—	—	—	—	4	—
Mr Luis Isasi Fernández de Bobadilla[F]	160	43	—	—	—	—	—	740	943	—
Mr Ramiro Mato García-Ansorena	344	86	—	—	—	—	—	—	430	500
Mr Sergio Rial[G]	42	21	—	—	—	—	—	—	63	—
Ms Belén Romana García	323	94	—	—	—	—	—	—	417	525
Mrs Pamela Ann Walkden[H]	148	66	—	—	—	—	—	—	214	34
Mr Rodrigo Echenique Gordillo[I]	95	60	—	—	—	—	—	1,800	1,955	4,874
Mr Ignacio Benjumea Cabeza de Vaca[J]	130	43	—	—	—	—	—	102	275	524
Mr Guillermo de la Dehesa Romero[K]	80	28	—	—	—	—	—	—	108	399
Ms Esther Giménez-Salinas i Colomer[L]	120	71	—	—	—	—	—	—	191	228
Mr Carlos Fernández González[M]	—	—	—	—	—	—	—	—	—	214
Total 2020	**3,081**	**1,066**	**5,717**	**1,029**	**617**	**7,363**	**2,019**	**5,537**	**19,066**	**—**
Total 2019	**3,770**	**1,094**	**6,317**	**5,146**	**3,087**	**14,550**	**2,003**	**5,770**	**—**	**27,187**

A. All amounts received were reimbursed to Fundación Botín.
B. Director since 1 April 2018.
C. Director since 27 October 2020.
D. Director since 17 July 2019.
E. Director since 22 December 2020.
F. Director since 19 May 2020
G. Executive director since 30 May 2020
H. Director since 29 October 2019.
I.Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020
J. Stepped down as director on 5 May 2020.
K. Stepped down as director on 3 April 2020.
L. Stepped down as director on 27 October 2020.
M. Stepped down as director on 28 October 2019.

The following table provides each executive director's salary contingent on multi-year targets. It is only paid if they remain active in the group, malus clauses do not apply and set multi-year targets (or their minimum thresholds, with the corresponding deduction arranged at the end of the year) are achieved.

	EUR thousand 2020 (50% in shares)[A]	2019 (50% in shares)[A]
Ms Ana Botín-Sanz de Sautuola y O'Shea	420	1,642
Mr José Antonio Álvarez Álvarez	228	1,096
Mr Rodrigo Echenique Gordillo[B]	—	504
Total	**648**	**3,242**

A. Fair value of the maximum amount receivable over a total of 3 years (2024, 2025 and 2026), which was estimated when the plan was granted, based on several scenarios relating to variables in the plan during the measurement periods.
B. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.

I. Ratio of variable to fixed pay components in 2020

At the April 2020 AGM, shareholders approved a maximum ratio of 200% of variable to fixed components in executive directors' pay.

The table below shows the ratio of variable components to fixed components for each executive director's total pay in 2020. This ratio decreased by 90 p.p. for Ana Botín and by 66 p.p. for José Antonio Álvarez in respect of 2019 owing to the decrease in their variable pay mentioned in subsection B.iii.

Executive directors	Variable Components / fixed components (%)
Ms Ana Botín-Sanz de Sautuola y O'Shea	40 %
Mr José Antonio Álvarez Álvarez	24 %
Mr Sergio Rial	167 %

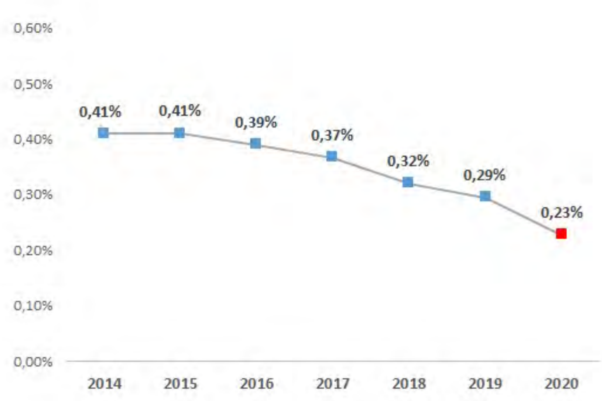
For these purposes:

- Variable components include all items of this nature, such as any contributions to the pension scheme calculated on directors' variable pay.
- Fixed components consist of the other items each director receives for executive duties, including contributions to pension schemes calculated on the basis of fixed remuneration and other benefits, as well as all bylaw-stipulated emoluments that the director is entitled to receive in his or her capacity as such.

J. Comparative analysis of directors' remuneration, company performance and average remuneration of employees

This chart summarises directors' compensation (short-term remuneration, deferred variable remuneration and/or deferred variable remuneration linked to multi-year targets) for executive duties in relation to underlying attributable profit.

Ratio of executive directors' total remuneration to underlying attributable profit



The following chart shows the comparative analysis between the directors' remuneration, the company performance (underlying profit attributable to the Group, Ordinary ROTE) and the average remuneration of Santander employees in the last 5 years:

Directors' remuneration[1]	2020	2019	2018	2017	2016
• Executive Directors					
Ms Ana Botín-Sanz de Sautuola y O'Shea	6,818	9,954	10,483	10,582	9,800
Mr José Antonio Álvarez Álvarez	6,018	8,270	8,645	8,893	8,255
Mr Sergio Rial[A]	63	—	—	—	—
• Non-Executive Directors[2]					
Mr Bruce Carnegie-Brown	595	700	732	731	721
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[B]	122	137	121	124	115
Ms Sol Daurella Comadrán	214	240	215	207	191
Ms Belén Romana García[C]	417	525	414	297	219
Ms Homaira Akbari[D]	202	226	199	159	32
Mr Ramiro Mato García-Ansorena[E]	430	500	450	36	—
Mr Álvaro Cardoso de Souza[F]	243	276	148	—	—
Mr Henrique Manuel Drummond Borges Cirne de Castro[G]	217	86	—	—	—
Mrs Pamela Ann Walkden[H]	214	34	—	—	—
Mr Luis Isasi Fernández de Bobadilla[I]	943	—	—	—	—
Mr Ramón Martín Chávez Márquez[J]	37	—	—	—	—
Ms Gina Díez Barroso[K]	4	—	—	—	—
Company's performance					
Underlying profit attributable to the Group	5.081	8.252	8.064	7.516	6.621
Ordinary RoTE	7,44%	11,79%	12,08%	11,82%	11,08%
Employees' average remuneration	43.867	43.262	41.522	40.519	n.a.

1. Deferred variable remuneration linked to long-term objectives not included. 2. Non-executive directors' remuneration fluctuations are caused by joining or leaving the Board of Directors and the difference in the amount of meetings they assist during the year. Hence there is no correlation between their remuneration and the company performance. A. Executive director since 30 May 2020. B. All amounts received were reimbursed to Fundación Botín. C. Director since 22 December 2015. D. Director since 27 September 2016. E. Director since 28 November 2017. F. Director since 23 March 2018. G. Director since 17 July 2019. H. Director since 29 Octobre 2019. I. Director since 19 May 2020. J. Director since 27 October 2020. K.Director since 22 December 2020.

J. Summary of link between risk, performance and remuneration

Banco Santander's remuneration policy and its application in 2020 have promoted sound and effective risk management while the fulfilment of business objectives.

The key elements of the remuneration policy for executive directors making alignment between risk, performance and reward in 2020 were as follows:

Key words	Aspect aligning risk, performance and remuneration
Metrics balance	The balance of quantitative metrics and qualitative assessments, including customer, risk, capital and profitability in relation to risk, 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 senior managers Control functions 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 pay and clawback can be applied to vested or paid compensation under the conditions dictated by the group's remuneration policy.
Payment in shares	At least 50% of variable pay is in shares withheld for a period of time upon delivery.

6.4 Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote

Remuneration policy principles and remuneration system

A. Directors' remuneration in their capacity as such

Director's remuneration is regulated by article 58 of the Banco Santander's bylaws and article 33 of the Rules and regulations of the board of directors. For 2021, 2022 and 2023, no changes to the principles and composition of directors' remuneration for supervisory and collective decision-making duties are planned with respect of those in 2020. They are described in sections 6.1 and 6.2.

B. Executive directors' remuneration

Executive directors are entitled to be paid the remuneration (e.g., salaries, incentives, bonuses, severance payments for early termination from such duties, and amounts to be paid by Banco Santander for insurance premiums or contributions to savings schemes) deemed appropriate for performing executive functions following a proposal from the remunerations committee and by resolution of the board of directors, subject to the limits set by law. For 2021, 2022 and 2023, no changes to the principles of executive directors' remuneration for executive duties are planned. They are described in sections 6.1 and 6.3.

Every year, Banco Santander conducts a comparative analysis of total compensation for executive directors and other senior executives. For 2021, the analysis will consist of a 'peer group' made up by BBVA, BNP Paribas, Citi, Crédit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.

Directors' remuneration for 2021

A. Directors remuneration in their capacity as such

In 2021, directors, in their capacity as such, will receive remuneration for supervisory and collective decision-making duties for a total of up to 6 million euros as authorised by the shareholders at the April 2020 AGM (which will again be put to a vote at the 2021 AGM). It consists of:

- annual allocation; and
- attendance fees.

The amounts agreed for 2021 are the same as those initially established for 2020 disclosed in section 6.2.B and C above, with the exception of the IT and innovation committee, whose members will receive an annual allotment of EUR 25,000, with an additional EUR 70,000 in the case of its chairman, and the same attendance fees as other committees (with the exception of the executive committee, the audit committee and the risk supervision, regulation and compliance committee).

The specific amounts and the form of payment are determined by the board of directors in the manner described in section 6.2 above, based on the objective circumstances of each director.

As per the description of the director remuneration system, Banco Santander will pay the premium for the civil liability insurance of its directors in 2021, which it took out under customary market terms and proportionally to the circumstances of Banco Santander.

B. Executive directors' remuneration for the performance of executive duties

i) Fixed remuneration components

A) Gross annual salary

On the remuneration committee's recommendation, the board resolved that Ana Botín and José Antonio Álvarez's gross annual salaries would be the same for 2021 as in 2020. Their gross annual salary amounts could increase owing to adjustments made to the fixed remuneration mix based on standards approved by the remuneration committee, as long as it will not increase the group's costs.

As regional head for South America, Sergio Rial will receive, subject to the approval of the 2021 AGM, a gross annual salary amount of EUR 750 thousand.

B) Other fixed remuneration components

- Benefit systems: defined contribution schemes as set out in section 'Pre-retirement and benefit schemes'.
- Supplement to fixed salary: Ana Botín will receive EUR 525,000 and José Antonio Álvarez, EUR 710,000 as a supplement to their fixed pay in 2021. This had been approved in 2018 when the supplementary death and disability pension schemes were eliminated.
- Social welfare benefits: executive directors will also receive social welfare benefits such as life insurance premiums, medical insurance and the allocation of remuneration to employee loans, in accordance with Banco Santander's general policy for senior management, and in the same terms as the rest of employees. Additional information can be found under the 'Pre-retirement and benefit plans' section.

ii) Variable remuneration components

The board approved the policy on executive directors' variable remuneration for 2021 on the remuneration committee recommendation, based on the remuneration policy principles described under section 6.3.

In the case of Sergio Rial, although it is not expected that he will receive any variable remuneration from Banco Santander, S.A. in 2021, the same principles apply to his variable remuneration in Santander Brasil, though referred to the metrics and targets for the region and country where he carries out his executive duties.

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

- The final amount of variable remuneration will be set at the start of the following year (2022) based on the benchmark amount and subject to compliance with the annual objectives described under section B) below.
- 40% of the incentive will be paid immediately once the final amount has been set, and 60% will be deferred in equal parts paid out over five years and subject to long-term metrics:
  - The amount deferred over the first two years (24% of the total) will be paid in 2023 and 2024 on the condition that no malus clauses described under section 6.3 B vi) are triggered.
  - The amount deferred over the next three years (36% of the total) will be paid in 2025, 2026 and 2027, on the condition that no malus clauses are triggered and long-term targets –described in section D) Deferred incentive subject to long-term performance objectives– are met.

The Group can claw back incentives already paid in the cases and during the term set out in its malus and clawback policy, described under section 6.3 B vi).

Exceptionally, when a new executive director joins Banco Santander, his/her variable pay may include a sign-on bonus and/or buyouts.

Variable components in executive directors' total remuneration for 2021 cannot exceed the limit of 200% of fixed components, submitted for approval to the 2021 AGM. However, under EU regulations on remuneration, certain variable components can excluded.

A. Variable remuneration benchmark

Variable remuneration for executive directors in 2021 will be set based on a standard benchmark contingent upon the full achievement of set targets. The board of directors may revise the variable pay benchmark on the remuneration committee's recommendation and following market and internal contribution criteria.

B. Setting of final variable remuneration based on yearly results

Based on that standard benchmark, 2021 variable remuneration for executive directors will be based on the corporate bonus pool, and set according to:

- A set of short-term quantitative metrics measured against annual objectives.
- A qualitative assessment that cannot raise or lower the quantitative result by more than 25%.
- An exceptional adjustment that must be supported by duly substantiated evidence and may involve changes owing to control and/or risk defficiencies, negative assessments from supervisors or unexpected material events.

In an effort to further simplify the executive compensation framework, upon recommendation from the remuneration committee, the board of directors has approved a simplification of the metrics based on yearly results, which number has been reduced from the seven metrics used in 2020 and previous years to four.

The scorecard below provides the detailed quantitative metrics, qualitative assessment factors and weightings:

Category and weighting	Quantitative metrics	Qualitative assessment
Customers (20%)	NPS[A]	Accomplishment of objectives in the rules on risk conduct with customers.
Shareholders (80%)	Risks - Cost of Credit Ratio (10%)	Appropriate management of risk appetite and excesses recognised. Adequate management of operational risk.
	Capital - Capital Ratio (CET1)[B] (20%)	Efficient capital management
	Return - RoTE: return on tangible equity[B] (50%)	Suitable business growth in respect of the previous year, considering the market and competitors. Sustainable and robust earnings. Progress against the 11 public commitments for responsible banking included in the responsible banking report. Efficient cost management and achievement of efficiency goals.

A. Net promoter score.
B. For this purpose, these metrics may be adjusted upwards or downwards by the board,following a proposal from the remuneration committee, when inorganic transactions, material changes to the Group's composition or size or other extraordinary circumstances (such as impairments, legal changes or restructuring procedures) have occurred which affect the suitability of the metric and achievement scale established in each case and resulting in an impact not related to the performance of the executive directors and executives being evaluated.

Lastly, as additional conditions for determining the incentive, the following circumstances must be confirmed to set variable pay:

- If the group's ONP for 2021 were 50% less than in 2020, variable pay would in no case exceed 50% of the benchmark incentive for 2021.
- If the group's ONP were negative, the incentive would be zero.

When setting individual bonuses, the board will also consider restrictions to the dividend policy imposed by supervisors.

C) Forms of payment of the incentive

Variable remuneration is 50% in cash and 50% in shares. One portion is paid in 2022 and the other is deferred for five years and subject to long-term metrics:

a) 40% of variable pay is paid in 2022, net of tax, with half in cash and half in shares.

b) 60% paid, if applicable, in five equal parts in 2023, 2024, 2025, 2026 and 2027, net of tax, with half in cash and half in shares, under the conditions stipulated in section D).

The final three payments will also be subject to long-term objectives described in section D) below.

The portion paid in shares cannot be sold until one year has elapsed since they were delivered.

D) Deferred variable pay subject to long-term objectives

As indicated above, the amounts deferred in 2025, 2026 and 2027 will be paid on the condition that the group achieves its long-term targets for 2021-2023, in addition to the terms described in section E).

The long term metrics and related targets are:

a. Banco Santander's consolidated underlying EPS growth target in 2023 vs 2020. The EPS ratio for this target is obtained as follows:

EPS growth in 2023 (% vs. 2020)	'EPS Ratio'
≥ 125%	1.5
≥ 100% but < 125%	1 – 1.5[A]
≥ 70% but < 100%	0 - 1[A]
< 70%	0

A. Straight-line increase in the EPS ratio based on the underlying EPS growth rate in 2023 in respect of 2020 within this bracket of the scale.

To verify compliance with this objective, the board, following a proposal from the remuneration committee, may adjust it to remove the effects of any regulatory change to its calculation rules or any extraordinary circumstances (such as impairments, corporate transactions or restructuring procedures) that have occurred which affect the suitability of the metric and achievement scale established in each case and resulting in an impact not related to the performance of the executive directors and executives being evaluated.

(b) Relative performance of Banco Santander's total shareholder return **(TSR)** in 2021-2023 in respect of the weighted TSR of a peer group comprising 9 credit institutions, with the appropriate TSR ratio based on the group's TSR among its peers.

Ranking of Santander TSR	'TRS Ratio'
Above the 66th percentile	1
Between the 33rd and 66th percentile (both inclusive)	0 – 1[A]
Below the 33rd percentile	0

A. Increase in the TSR ratio proportional to the number of positions moved up in the ranking.

TSR measures the return on shareholders' investment. It is the sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) shareholders can receive during the period.
The peer group comprises the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotiabank and Unicredit.

(c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2023. The CET1 ratio relating to this target is obtained as described below:

CET1 in 2023	CET1 ratio
≥ 12%	1
≥ 11% pero < 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, the CET1 ratio deriving from share capital increases (other than those implemented under the Santander Dividendo Elección scrip dividend scheme) will be disregarded. Moreover, the CET1 ratio at 31 December 2023 may be adjusted by the board, following a proposal of the remuneration committee, to remove the effects of any regulatory change to its calculation rules or any extraordinary circumstance (such as impairments, corporate transactions or restructuring procedures) not related to the performance of the executive directors and executives being evaluated, that may arise in relation to its calculation until such date.

The following formula will be used to set the annual amount of performance-based deferred variable remuneration in 2025, 2026 and 2027 ('Final annuity'), without prejudice to any adjustment deriving from the application of the malus policy (see section 6.3 B vi):

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

where:

- 'Amt.' is one third of variable remuneration deferred conditional on performance (i.e. Amt. will be 12% of the total incentive set in early 2022).
- 'A' is the EPS ratio according to the scale in the table above, based on EPS growth in 2023 vs 2020.
- 'B' is the TSR ratio according to the scale in the table above, according to the relative performance of Banco Santander's TSR within its peer group in 2021-2023.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2023 described in section (c) above.
- In any event, 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

Directors will be paid deferred amounts (including those linked to long-term targets) if they remain in the group and none of the circumstances triggering malus clauses arise (as per the malus and clawback section in the group's remuneration policy) under terms similar to those indicated for 2020. Furthermore, the group can claw back paid incentives under the scenarios, period and terms and conditions set out in the remuneration policy.

Hedging 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.

Selling shares is also prohibited for at least one year since they are received.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances owing to internal or external factors, such as requirements, orders or recommendations issued by regulatory or supervisory bodies. Such adjustments will be described in detail in the report on the remuneration committee and the annual report on directors' remuneration put to a non-binding vote at the annual general meeting.

iv. Shareholdings

As described in section 6.3.E, in addition to the regulatory obligation not to sell shares they receive as remuneration for a year since from their award date, in order to comply with recommendation 62 of the Spanish Corporate Governance Code, the policy on shareholdings has been updated to include the obligation for executive directors not to sell the shares they receive as variable remuneration for a period of three years from their award date, unless the executive director already holds Banco Santander shares for an amount equivalent to twice his/her annual salary.

v. Principle of equal pay

Executive directors, as well as any other Santander employee, are subject to the principle of equal pay included in Santander Group's Remuneration Policy, which does not allow for any kind of discrimination, and fosters for remuneration management to assure equal pay for men and women.

Directors' remuneration for 2022 and 2023

A. Directors' remuneration

For 2022 and 2023, no changes to directors' remuneration are planned in respect of the remuneration described for 2021, although shareholders at the 2022 or 2023 annual general meeting could approve an amount higher than the six million euros currently in force, or the board could approve an alternative allocation of that amount to directors.

B. Directors' remuneration for the performance of executive duties

Executive directors' remuneration will conform to principles similar to those applied in 2021, with the following changes.

i. Fixed components of remuneration

A. Gross annual salary

Executive directors' annual gross fixed pay may be adjusted each year based on the criteria approved by the remuneration committee at any given time. For 2022 and 2023, it may not increase above 5% of their annual gross salary in the previous year. It could also increase owing to adjustments made to the fixed remuneration mix based on standards approved by the remuneration committee, as long as it will not increase the Group's costs.

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

This should not increase executive directors' total remuneration. Otherwise, it must be disclosed in the report on the remuneration committee and the annual report on director's remuneration put to a non-binding vote at annual general meeting.

B) Other fixed remuneration components

No changes planned in respect of the terms for 2021.

ii) Variable remuneration components

The policy on executive directors' variable remuneration for 2022 and 2023 will be based on the same principles as in 2021, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

A) Setting variable remuneration

Executive directors' variable remuneration for 2022 and 2023 will be set based on the corporate bonus pool and a benchmark approved for each year which takes into account:

- a set of short-term quantitative metrics measured against annual objectives and aligned with the group's strategic plan. These metrics will also cover, at least, shareholder return targets, capital and customers. They can be measured at group level and, where applicable, at division level, for a specific business division headed by an executive director. The results of each metric can be contrasted with the budget for the financial year, as well as with growth from the previous year.

- a qualitative assessment that cannot raise or lower the quantitative result by more than 25%. It will be conducted for the same categories as the quantitative metrics, including shareholder returns, risk and capital management and customers.

- an exceptional adjustment that must be duly substantiated and may involve changes owing to control and/or risk shortfalls, negative assessments from supervisors or unexpected material events.

The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure main objectives are considered from the perspective of the various stakeholders and that the importance of risk and capital management is factored in.

Once the corporate bonus pool is fixed according to the criteria above, the board of directors, further to a proposal from the remunerations committee, decides on the individual bonus, taking into consideration the level of achievement of their individual objectives, which in general terms coincide with the bonus pool metrics (60%) and their compliance with corporate values (40%).

Lastly, the following circumstances must be confirmed to set variable remuneration:

- If ONP does not reach a certain compliance threshold, the incentive cannot exceed 50% of the year's incentive benchmark.

- If the group's ONP were negative, the incentive would be zero.

- When setting individual variable pay, the board will also consider restrictions to the dividend policy imposed by supervisors.

B. Forms of payment of the incentive

No changes to pay forms are planned in respect of the terms in place for 2021.

C. Deferred variable remuneration subject to long-term objectives

The last three annual payments of each deferred variable remuneration amount will be made in accordance with the terms described under section E) above and if the group fulfils long-term objectives for at least three years. This may only confirm or reduce payment amounts and number of deferred shares.

Long-term metrics will, at least, cover value creation and shareholder returns as well as capital and sustainability over a minimum period of three years. They will be aligned with the group's strategic plan and main priorities towards its stakeholders. They can be measured for the entire group or by country or business, when appropriate, and subsequently compared to a group of peers.

The portion paid in shares cannot be sold until one year has elapsed since they were delivered.

D. Other terms of the incentive

No changes to the continuity, malus and clawback clauses of the remuneration policy for 2021 described in section E are expected. Furthermore, no changes are planned in respect of the clauses on hedging shares or the deferred amounts in cash adjusted for inflation.

iii) Shareholdings

The policy on shareholdings approved in 2016, with the amendment introduced in 2020 relating to not selling the shares they receive as variable remuneration for a period of three years detailed in section 6.3.E above will apply in 2022 and 2023, unless the remuneration committee proposes it be amended to the board in light of exceptional circumstances (regulations, orders or recommendations from regulators or supervisors). Such amendments would be described in detail in the report on the remuneration committee and the annual report on director's remuneration put to a non-binding vote at the annual general meeting.

iv) Principle of equal pay

The same principle of equal pay that applies for executive directors and any other Santander employee described in respect of 2021 applies for 2022 and 2023.

Terms and conditions of executive directors' contracts

Executive directors' terms of service are governed by board-approved contracts they sign with Banco Santander. The basic terms and conditions, besides those relating to the remuneration mentioned above, are the ones described herebelow.

A. Exclusivity and non-competition

Executive directors may not contract with other companies or entities to perform services, unless expressly authorised by the board of directors. In all cases, they are bound by a duty of non-competition in relation to companies and activities similar in nature to Banco Santander and its consolidated group.

In addition, executive director contracts impose prohibitions on competing and attracting customers, employees and suppliers, which can be enforced for two years after their termination in their executive duties for reasons other than a breach by Banco Santander. In regard to Ana Botín and José Antonio Álvarez, the compensation to be paid by Banco Santander 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.

However, it is envisaged that in 2021, subject to approval at the 2021 AGM, their contracts shall be amended so that the compensation for the duty of non-competition shall be twice the amount of the fixed remuneration.

B. Code of Conduct

Executive directors are obliged to adhere strictly to the group's General Code and the Code of Conduct in Securities Markets, especially in terms of confidentiality, professional ethics and conflicts of interest.

C. Termination

The length of executive directors' contract

s is indefinite. Contracts do not provide for any severance payment upon termination apart from what the law provides.

If Ana Botín's contract is terminated by Banco Santander, she must remain available to the group for four months in order to ensure proper transition (6 months from the moment pre-retirement provisions are taken out). During this period, she would continue to receive her gross annual salary.

D. Pre-retirement and benefit plans

The board of directors has approved, subject to the condition that the remuneration policy be approved at the annual general shareholders' meeting, an amendment to the contracts of the executive directors whereby:

- Ana Botín ceases to have the right to pre-retire if she leaves Banco Santander out of her own volition, keeping this right in case of termination by Banco Santander until 31 August 2022. After this date, she does not have the right to pre-retire. While she keeps this right 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 is subject to the malus and clawback provisions in place for a period of five years.

- José Antonio Álvarez ceases to have the right to pre-retire in case of termination of his contract.

They both participate in the defined contribution scheme created in 2012, which covers the contingencies of retirement, disability and death. Banco Santander makes annual contributions to executive directors' benefit plans schemes. Annual contributions are calculated in proportion to executive directors' pensionable bases, and the group will continue to make them until the executive directors' leave the group or until their early retirement within the group, their death or disability (including during pre-retirement). The pensionable base of executive directors' annual contributions is their fixed remuneration plus 30% of the average of their last three variable remuneration amounts. Contributions will be 22% of pensionable bases.

The pension amount that corresponds to contributions linked to variable remuneration will be invested in Santander shares for five years from the earlier of the date of retirement or cessation. It will be paid in cash after the five years have elapsed or on the retirement date (if later). Moreover, the malus and clawback clauses for variable remuneration contributions will apply for the same period as the related bonus or incentive.

This benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. Executive directors' economic rights under the scheme belong to them even if they are not active in the group at the time of their retirement, death or disability. Their contracts do not provide for any severance pay upon termination apart from what the law provides and in the case of pre-retirement, the aforementioned annual allotment.

E. Insurance and other remuneration and benefits in kind

Ana Botín and José Antonio Álvarez will receive the supplement to their fixed remuneration approved when the supplementary life and health benefits were eliminated in 2018. It will be paid in 2021, 2022 and 2023 in the same amount and continue to be paid until they reach retirement age (even if they are still active).

The group has life and health insurance policies taken out for directors. Insurance premiums for 2021 include standard life insurance and the life insurance cover with the supplement to their fixed remuneration mentioned above. In 2022 and 2023, premiums could vary if directors' fixed pay or actuarial circumstances change.

Furthermore, executive directors are covered by Banco Santander's civil liability insurance policy and may receive other benefits in kind (such as employee loans) pursuant to the group's general policy and subject to the corresponding tax treatment.

F. Confidentiality and return of documents

Directors are bound to a strict duty of confidentiality during their relationship and subsequent to termination. Executive directors are required to return any documents and items relating to their activities and in their possession to Banco Santander.

G. Other terms and conditions

Executive directors' contracts stipulate the following notice periods:

	By decision of the Banco Santander (months)	By decision of the director (months)
Ms Ana Botín-Sanz de Sautuola y O'Shea	6*	4
Mr José Antonio Álvarez Álvarez	6	—

* From the moment she ceases to have the right to pre-retire

Contracts do not provide pay in lieu of notice clauses.

Terms and conditions of Sergio Rial's contracts

The contract between Sergio Rial and Banco Santander, S.A. for his role as Santander Regional Head of South America, whose EUR 750 thousand remuneration is being submitted to the approval of the 2021 AGM as part of this remuneration policy, includes his confirmation that this role is compatible with his role as CEO and vice-president of Santander Brasil, and is subject to an indefinite term, and to customary exclusivity and non-competition, code of conduct, termination (without including any payment for termination) and confidentiality and return of documents conditions.

Likewise, the terms and conditions of the remuneration he receives in his condition as CEO and vicechairman of Santander Brasil are fixed by this subsidiary, in accordance with Group policies, the subsidiary's policies, and applicable local regulations.

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.

Directors' total remuneration for executive duties cannot exceed the highest remuneration received by the group's current executive directors under the remuneration policy approved by shareholders. The same rules apply if a director assumes new duties or becomes an executive director.

If a director takes up executive functions in a specific division or local unit, the board of directors, on the remuneration committee's recommendation, can adapt the metrics for setting and paying incentives to take that division or local unit into account in addition to the group.

Remuneration paid to directors in that capacity will be included within the maximum amount set by shareholders to be distributed by the board of directors in the terms described above.

A new director coming from an entity outside Santander Group could be paid a buyout to offset any variable remuneration foregone for having accepted a contract with the group; and/or a sign-on bonus for leaving to join Banco Santander.

This compensation could be paid fully or partly in shares, depending on the delivery limits approved at the annual general shareholders' meeting. Authorisation is expected to be sought at the next general shareholders' meeting in order to deliver a maximum number of shares to any new executive directors or employees to whom buyout regulations apply. Furthermore, 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.

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 2020', (the report on the remuneration committee) states:

- Pursuant to Banco Santander's bylaws and the Rules and regulations of the board of directors, the duties relating to the remuneration of directors performed by the remuneration committee.
- How the remuneration committee is composed on the date the report is approved.
- The number of meetings it had in 2020, including joint sessions with the risk, compliance and regulation supervision committee.
- The date of the meeting in which the report was approved.
- The 2019 annual report on directors' remuneration was approved by the board of directors and put to a binding vote at the April 2020 AGM, with 93.77% of the votes in favour. The tally of the votes was:

	Number	% of total[A]
Votes cast	10,429,789,366	96.55 %

	Number	% of total[A]
Votes against	649,059,435	6.01 %
Votes in favour	9,777,014,101	90.51 %
Abstentions	372,790,860	3.45 %

A. Percentage on total valid votes and abstentions.

6.6 Remuneration of non-director members of senior management

Variable remuneration was approved by the board of directors on 2 February 2021 in view of the recommendation the remuneration committee had voted to submit on 26 January 2021. It was set according to Banco Santander's general remuneration policy as well as specific details pertaining to senior management. In general, senior management variable remuneration packages were calculated with the quantitative metrics and qualitative assessment used for executive directors (see section 6.3 B ii).

As detailed in 6.3.ii above, the underlying business performance resulted in a final bonus calculation of 71.08% of the target bonus. The board of directors, upon recommendation from the remuneration committee, exercised its discretion to reduce this target bonus to 67.32%, which was the original target submitted to the board in December 2020 and resolved that the amounts saved be contributed to support the fight against covid-19. This resulted in an amount of EUR 1,570 thousand for the top two executive segments in the Group's Corporate Headquarters (c.80 employees).

Some senior managers' contracts were amended in 2018 in the same manner described under 6.3.C and D in respect of Ana Botín and José Antonio Alvarez, with a pension scheme of 22% of their pensionable bases, the elimination of supplementary benefits, an increase of the insured sum of life insurance and a supplement to fixed remuneration in cash which is included under "Other remuneration".

The following table shows the amounts of short term remuneration (immediately payable) and deferred remuneration (not linked to multi year targets) for senior management as of 31 December 2020 and 2019, excluding those of executive directors:

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]
2020	18	21,642	11,479	4,941	6,039	6,312	50,413
2019	18	22,904	15,337	6,673	6,282	15,337	66,532

A. The amount immediately payable in shares in 2020 was 2,136 thousand Santander shares (2,091 thousand Santander shares in 2019).
B. The amount of deferred shares in 2020 was 919 thousand Santander shares (910 thousand Santander shares in 2019).
C. Includes life insurance premiums, health insurance and relocation packages and other remuneration items.

This table breaks down remuneration linked to multi-year targets for senior management at 31 December 2020 and 2019, which they will only receive if they meet the terms of continued service; non-applicability of malus clauses; and long-term goals are met during deferral periods.

Thousands of euros

Year	Number of people	Deferred variable remuneration subject to long-term metrics[A] (50% in shares)[B]
2020	18	5,188
2019	18	7,007

A. In 2020, this corresponds to the fair value of maximum annual payments for 2024, 2025 and 2026 in the fifth cycle of the plan for deferred variable remuneration linked to multi-year targets. In 2019, this corresponds to the estimated fair value of maximum annual payments for 2023, 2024 and 2025 in the fourth cycle of the plan for deferred variable pay linked to multi-year targets. Fair value in the plan was determined on the authorisation date based on the valuation report of independent expert Willis Towers Watson. Based on the plan for 2020 and success levels of similar plans at peer entities, the expert found a range of 60%-80% reasonable to estimate the initial success ratio. Therefore, fair value was considered to be 70% of the maximum value.
B. The number of shares in Santander as deferred variable pay subject to long-term metrics shown in the table above was 965 thousand in 2020 (955 thousand shares in Santander in 2019).

The long-term goals are the same as those for executive directors. They are described in section 6.3 B iv).

Senior executives who stepped down from their roles in 2020 consolidated salary remuneration and other remuneration relating to the cessation of their duties for a total amount of EUR 5.984 thousand during the year (EUR 6,789 thousand for those who stepped down from their roles in 2019). They also have the right to receive, in total,133 thousand euros in variable pay subject to long-term targets (EUR 922 thousand for those who stepped down from their roles in 2019).

At our April 2020 AGM, shareholders approved the 2020 Digital Transformation Incentive, a variable remuneration scheme that delivers Santander shares and share options if the group hits major milestones on its digital roadmap.

3 senior executives are included within this plan (aimed at a group of up to 250 employees whose functions are deemed essential to Santander Group's growth and digital transformation) and, thus, can receive a total of EUR 1,700 thousand to be paid in thirds on the third, fourth and fifth anniversary of the authorisation date (2024, 2025 and 2026). This amount is implemented in 316,574 Santander shares and 944,445 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (EUR 0.90).

Of the EUR 30,000 thousand approved by our April 2020 AGM as maximum amount for the 2020 Digital Transformation Award, a total overall cost of EUR 17,800 thousand has been approved, based on the final number of participants and the level of achievement of milestones.

The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries.

The 2019 Digital Transformation Incentive, which terms are substantially the same as those of the 2020 one, included three senior executives, who may receive a total of EUR 2,100 thousand.

See Note 46 to the 2020 Group's consolidated financial statements for further information on the Digital Transformation Incentive.

In 2020, the ratio of variable to fixed pay components was 80% of the total for senior managers, well within the maximum limit of 200% set by shareholders.

See note 5 of the group's 2020 consolidated financial statements for further details.

6.7 Prudentially significant disclosures document

On the remuneration committee's recommendation, the board approves the key remuneration elements 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 Banco Santander's board of directors form the so called 'Identified Staff' or 'Material Risk Takers')

Every year, the remuneration committee reviews and, if applicable, updates identified staff in order to include individuals within the organisation who qualify as such. The Remuneration Policies chapter in the 2020 Pillar III disclosures report[4] of Banco Santander, S.A. explains the criteria and regulations followed to identify such staff.

At the end of 2020, 1,394 group executives (including executive directors and non-director senior managers) were considered identified staff (1,359 in 2019), which accounts for 0.73% of the total workforce (0.69% in 2019).

Identified staff have the same remuneration standards as executive directors (see sections 6.1 and 6.3), but not:

- Category-based deferral percentages and terms.
- The possibility of certain manager categories of only having deferred variable pay subject to malus and clawback clauses (and not to long-term targets).
- The portion of variable remuneration paid or deferred as shares for group executives in Brazil, Chile, Mexico, Poland and Santander Consumer US can be delivered in shares or similar instruments of their own listed entities (as in previous years).

In 2021, the board will maintain its flexibility in determining total or partial payment in shares or similar instruments of Banco Santander and/or subsidiaries in the proportion it considers appropriate in accordance with the maximum number of Santander shares to be delivered set by shareholders at the annual general shareholders' meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of variable remuneration for identified staff in 2020, the amounts deferred in cash and shares, and the ratio of the variable to fixed remuneration components are explained in the remuneration policies chapter of Banco Santander's Pillar III disclosures report for 2020.

[4] The 2020 Pillar III disclosures report can be found on our corporate website.

7. Group structure and internal governance

Grupo Santander is structured into legally independent subsidiaries whose parent company is Banco Santander, S.A. Its registered office is in Santander (Cantabria, Spain), while its corporate centre is located in Boadilla del Monte (Madrid, Spain). It has a Group-Subsidiary Governance Model (GSGM) and good governance practices in place for its core subsidiaries. Any references to subsidiaries in this section are to the group's most prominent entities.

The key features of the GSGM are:

- The subsidiaries' governing bodies must ensure their rigorous and prudent management and economic solvency while pursuing the interests of their shareholders and other stakeholders.
- The subsidiaries are managed locally by teams that possess extensive knowledge on, and experience with, their customers and markets, while benefiting from the synergies and advantages of belonging to the Group.
- The subsidiaries are subject to local authority regulation and supervision, although the ECB supervises the Group overall.
- Customer funds are secured by the deposit guarantee schemes in the subsidiaries' countries and are subject to local laws.

The subsidiaries finance their own capital and liquidity. The group's capital and liquidity are coordinated by corporate committees. Intra-group risk transactions are limited, transparent and carried out under market conditions. Grupo Santander retains a controlling interest in subsidiaries listed in certain countries.

Each subsidiary runs independently and has its own recovery plan, limiting the contagion of risk between them and reducing systemic risk.

7.1 Corporate Centre

Banco Santander's GSGM is supported by a corporate centre, which brings control and support units together with functions such as strategy, risk, compliance, auditing, finance, accounting, technology and operations, human resources, legal services, internal governance, communications and marketing. It adds value to the Group by:

- Enhancing governance under robust corporate frameworks, models, policies and procedures to implement strategies and ensure effective Group oversight.
- Making the group's units more efficient through cost management synergies, economies of scale and a common brand.
- Sharing best practices in global connectivity, commercial initiatives and digitalization.

7.2 Internal governance

Grupo Santander's internal governance model outlines a set of principles that regulate three types of relationships with its subsidiaries:

- The subsidiaries' governing bodies are subject to the group's rules and procedures for structuring, forming and running boards of directors and audit, nomination, remuneration and risk committees, according to international standards and good governance practices. This includes embedding other group rules and regulations on the suitability, appointment, remuneration and succession plans of governing body members, which fully comply with local regulations and supervisory standards.
- The relationship between regional and country heads and the group CEO.
- The relationship between local and global heads of key control positions, following a three lines of defence model: chief officers for risk (CRO), compliance (CCO), audit (CAE), finance (CFO) and accounting (CAO), as well as other key support and business functions (Technology and Operations, HR, General Counsel, Legal Services, Marketing, Communications, Strategy, SCIB, Wealth Management & Insurance, Digitalization and Innovation).

The group has three regional heads who report to the group CEO and are responsible for consolidating and streamlining the management and coordination of its core countries in the three geographic areas where it operates: Europe, South America and North America. Their key responsibilities must be undertaken in compliance with European Union and country-specific laws and regulations, ensuring that the country heads' role and accountability (including regulatory responsibilities) are not compromised.

In 2020, the Europe region (Spain, Portugal, Poland and the UK) received a mandate to execute a pan-European operating model to deliver benefits of scale and efficiency that leverage common product and regional management structures in the countries. Specific coordination elements and organizational structures were defined to ensure the effective discharge of the Europe regional head's responsibilities, fully respecting local governance. Business and functional roles were also created to support and control those responsibilities.

The GSGM dictates rules for appointing those officers, setting their objectives (weighted 50% local and 50% group/regional) and variable pay, assessing their performance and planning their succession. It also explains how group officers should coordinate and interact with their subsidiary counterparts.

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

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

Banco Santander board of directors approves the GSGM and corporate frameworks for the subsidiary governing bodies to formally adhere to them. They take local requirements for subsidiaries into account, and are revised each year by the group's board and adapted to new legislation and international best practices.

The functions draw on corporate frameworks to prepare internal regulatory documents that are given to subsidiaries as a reference for implementing those frameworks effectively, cohesively and in compliance with local laws and supervisory requirements. This approach ensures consistency throughout the Group.

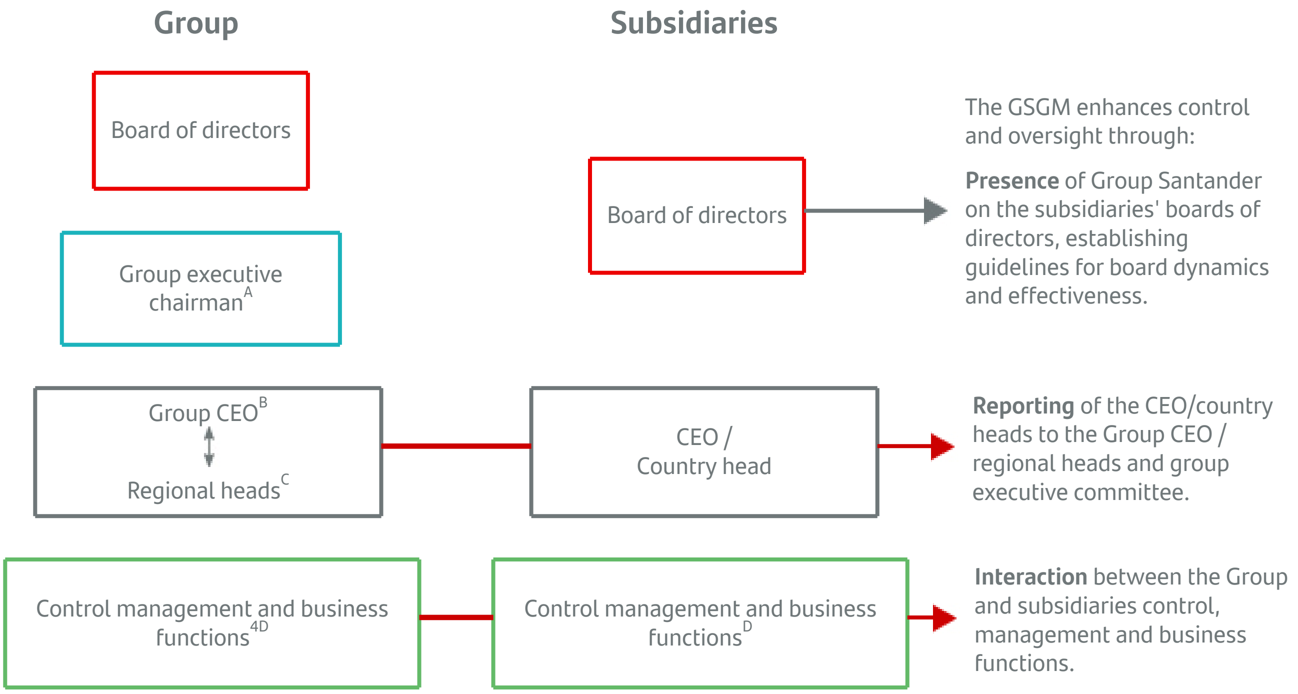
The group's internal governance office and subsidiary general counsels are responsible for embedding the governance model and corporate frameworks. Every year, the group assesses their performance in reports sent to governing bodies.

In 2019, a new policy for the governance of non-GSGM subsidiaries was approved, completing and enhancing the governance and control system that has been applied to those companies thus far.

In 2020, a new governance model was approved for PagoNxt, a wholly-owned subsidiary of Banco Santander that is structured as a dedicated holding company with a set of key initiatives on digitalizing the group's financial services, with payments at the core. This model defines an organizational and governance framework for PagoNxt and its subsidiaries in the context of the group-wide arrangements. It specifically covers the scope, principles, roles and responsibilities, key processes and governance bodies that should be in place to ensure that PagoNxt is managed in alignment with group, legal and supervisory expectations.

Also in 2020, new governance models for Santander Corporate and Investment Banking (SCIB) and Wealth Management and Insurance were developed to ensure proper, group-wide oversight of those businesses, as set out in the GSGM.

The following charts show the three levels of the GSGM, as well as the main actions to ensure an effective relationship and solid internal governance system for the Group.



A. First executive.
B. Second executive.
C. Europe, North America and South America, reporting to Group CEO.
D. Audit, Risk, Compliance, Finance, Financial Accounting & Control, IT & Operations, Human Resources, General Secretariat, Marketing, Communications, Strategy, Santander Corporate & Investment Banking, Wealth Management & Insurance, Digital & Innovation and Global Platforms.

Best practices and talent sharing across the whole Group and between subsidiaries is key to our success.

Multiple point of entry structure that has proved to be a **key resilience instrument** and is a result of our diversification strategy.

Continuous collaboration and daily interaction between local and corporate teams.

A common set of corporate frameworks and policies across the Group adapted to local market conditions.

Enabling the **identification of synergies and economies of scale** across the Group.

Definition and implementation of new group-wide and local initiatives to keep developing our management and control model.

8. Internal control over financial reporting (ICFR)

This section describes the key aspects of Grupo Santander's internal control and risk management systems in respect of financial reporting, including:

- Control activities and control environment.
- Risk assessment in financial reporting.
- Reporting and communication.
- System monitoring.
- The external auditor's report.

8.1 Control environment

Governance and control bodies

The board of directors approves the financial reports Banco Santander must publicly disclose as a listed company. It is the body that oversees and guarantees the integrity of the Group's systems for internal communication, operational and financial control, accounting, financial reporting and legal compliance.

The board of directors has an audit committee that assists with supervising the group's financial reporting and internal control systems (see section 4.5 'Audit committee activities in 2020').

The audit committee works with the external auditor to address material deficiencies in the internal control system detected in audits. It also makes sure the external auditor issues a report on the group's system for ICFR.

Responsibilities, General Code of Conduct, whistleblowing channel and training

Responsibility functions

Grupo Santander, through its corporate organization functions, in countries and businesses, defines, implements and maintains the unit's organizational structures, catalogue of roles and size. The corporate organization function defines and documents the corporate model for managing structures and templates which is used as a reference across the group.

The organizational units are in charge of identifying and defining the main functions under the responsibility of each structural unit, ensuring that the organization has a solid ICFRS model.

Grupo Santander has a responsibility scheme to identify potential risks and their mitigating controls under a three-pronged defence model that establishes lines of authority and accountibility including:

The head of the financial accounting and control function (the CAO), which has the following functions, amongst others:

- Integrating the group's corporate policies into its management and adapting them to local needs.
- Ensuring that appropriate organizational structures are in place to carry out the tasks assigned, as well as suitable hierarchical-functional structure.
- Running critical procedures (control models), based on corporate technology.
- Implementing the corporate accounting and management information systems and adapting them to the specific needs of each unit.

In order to preserve its independence, each controller reports hierarchically to the head of the entity or country in which it exercises its responsibilities (country head) and functionally to the head of the group's Financial Accounting and Control division.

The non-financial risk control function is responsible for:

- Establishing and circulating the methodology for documenting the group's Internal Control Model (ICM) and ICM evaluation and certification, which covers the ICFRS, amongst other regulatory and regulatory requirements. Grupo Santander's ICM means the process carried out by the board of directors, senior managers and other group staff to provide reasonable assurance that their objectives will be achieved.
- Encouraging documentation maintenance to adapt it to organizational and regulatory changes and, along with the Financial Accounting and Control division, and, where applicable, representatives of the divisions and/or companies involved, to present the ICM evaluation outcome to the audit committee. Similar functions in each unit that reports to the corporate non-financial risk control area.

General Code of Conduct (GCC)

The group's GCC sets out the guidelines, principles and rules approved by the board of directors to govern Grupo Santander employees' conduct and ethics. Furthermore, it dictates guidelines in relation to accounting standards and financial reporting. The GCC can be viewed on our corporate website.

All of the group's employees, including members of its governance bodies, sign the Code of Conduct, even though some are also bound to the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work. Employees have access to e-learning courses on the Code and can consult the compliance and conduct function to address any queries about its application.

The GCC is a fundamental resource of the compliance function. It explains the duties of the group's governance bodies, units and areas required to implement it together with the compliance function.

If anyone violates the code, the human resources function adopts disciplinary measures and recommends corrective action (including work sanctions), irrespective of any related administrative or criminal sanctions.

Whistleblowing channel

Banco Santander's whistleblowing channel is called *Canal Abierto*. It is a confidential and anonymous means for employees to report unlawful acts, violations of the GCC and other behaviour contrary to corporate values. We adapted the channel in 2020 to enable communications by other people related to Banco Santander other than employees, such as shareholders, customers, suppliers and other third parties, ensuring that they are treated confidentially and anonymously.

It can also be used to report claims of accounting or auditing irregularities under SOX to the compliance and conduct function, which will elevate them to the audit committee for appropriate measures to be taken.

The channel does not require whistleblowers to give personal information in order to keep reports confidential before they the audit committee can review them. Only certain compliance and conduct function officers analyse reports to determine if matters pertain to accounting or auditing in order to submit them to the audit committee.

Canal Abierto is supervised jointly by the audit committee and the risk supervision, regulation and compliance committee depending on the subject of the complaint. The SOX attributes the authority to supervise the whistleblowing channel in matters that fall under the remit of the audit committee (specifically financial and accounting, including those related to the audit), while the supervision of reports of breaches of regulatory requirements for corporate behaviours or the internal governance system are the responsibility of the risk, regulation and compliance committee. The channell can be viewed on our corporate website.
For more information on the number of complaints filed on the channel and their typology, see section 'A talented and engaged team' in the Responsible banking chapter, for additional information.

Training

Group employees who help prepare or analyse financial information take part in training programmes and regular refresher courses specifically designed to teach them the concepts and skills they require to discharge their duties properly.

The Financial Accounting and Control division promotes, designs and oversees these programmes and courses. It has with support from the corporate learning and career development unit under the Human Resources division.

Training takes the form of both e-learning and on-site sessions monitored and overseen by the corporate learning and career development unit to guarantee that employees duly complete them and assimilate concepts properly.

Training programmes and refresher courses taught in 2020 wwfocused on matters directly and indirectly related to the financial reporting. These subjects include: (i) risk analysis and management; (ii) accounting and financial statement analysis; (iii) the business, banking and the financial environment; (iv) financial management, costs and budgeting; (v) numerical skills; and (vi) calculations and statistics.

30,246 employees in the all of the group's markets were involved in training programmes. Over 615,000 training hours were spent at the corporate centre in Spain and remotely via e-learning. Furthermore, local units develop their own training programmes based on the parent's.

8.2 Risk assessment in financial reporting

The Group has a specific process to identify the companies that must be included in its scope of consolidation. The Financial Accounting and Control division and the General Secretariat and Human Resources division oversee this approach.

This process enables us to identify the entities the Grupo Santander controls through the voting rights that grant direct or indirect ownership of its capital and other entities controlled by others such as mutual funds, securitization funds and structured entities; analyses whether the group has control over an entity, whether it has rights to the variable returns of the entity or is exposed to them, and whether it can influence the amount of such variable returns. If the group is considered to have control, the entity is included in the scope of consolidation and is consolidated using the global integration method.

Otherwise, we analyse whether there is significant influence or joint control. If so, the entity is also included in the scope of consolidation and it is measured using the equity method.

For entities with the greatest impact on the preparation of the group's financial information, we implement an ICM using a homogeneous methodology to make sure that relevant controls are included and all significant risks to financial reporting are covered.

The group's ICM complies with the strictest international standards, particularly the guidelines of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) within its last published framework in 2013 which covers control targets for the effective and efficient operations, reliable financial reporting and regulatory compliance.

The risk identification process takes into account all the group's activities, the scope of which is greater than all the risks directly related to the preparation of the group's financial information.

The identification of potential risks that must necessarily be covered by the ICM is based on management's knowledge and understanding of the business and its operations relative to the importance and qualitative criteria associated with the type, complexity or structure of the business.

Banco Santander ensures there are controls to cover risks of errors and fraud in financial reporting, such as (i) the existence of assets, liabilities and transactions at the relevant date; (ii) the items are assets or rights or liabilities and obligations of the group; (iii) timely and correct recording and adequate valuation of assets, liabilities and transactions; and (iv) correct application of accounting principles and rules, as well as appropriate breakdowns.

The main features of the group's ICM are as follows:

- It is a corporate model that involves the entire organizational structure through a direct set of individual responsibilities.
- Management of the ICM documents is decentralized to the various units, while coordination and monitoring falls to the non-financial risk control area, which provides general criteria and guidelines to standardize procedure documents, control assessment, criteria for classifying potential deficiencies and regulatory adaptations.
- It is a global model primarily aimed at documenting activities to produce consolidated financial information and other procedures carried out by each entity's support areas that, without having a direct impact on the accounts, could lead to possible losses or contingencies in the event of incidents, errors, breaches of regulations and/or fraud.
- It is dynamic and constantly updated in order to reflect the reality of the group's business, risks and controls to mitigate them.
- It produces comprehensive documents on the processes within its scope and includes detailed descriptions of operations, assessment criteria and reviews.

All ICM documents of the Group's companies are compiled on a corporate IT application that is used by employees of different levels of responsibility in the assessment and certification of the group's internal control system.

The audit committee is responsible for supervising Banco Santander and the group's regulated financial information procedures and the internal control systems.

8.3 Control activities

Revision and approval of financial information

The audit committee and the board of directors oversee the preparation and submission of the financial information required of Banco Santander and the Group, which includes the non-financial information and its integrity. They also review compliance with regulatory requirements, the scope of consolidation and the correct application of accounting criteria, ensuring that this information is permanently updated on the Banco Santander corporate's website.

The production, revision and approval of financial information and the description of ICFR is documented in a corporate tool that integrates the control model into risk management, including a description of activities, risks, tasks and controls associated with all operations that may have a significant effect on the financial statements. This documentation covers recurrent banking operations and one-off transactions (sale of investments, fixed assets transactions, etc.) and aspects related to judgements and estimates, to correctly record, evaluate, present and breakdown financial information.

The audit committee is responsible for reporting to the board on the financial information that the group must regularly publish, ensuring that it is prepared in accordance with the same principles and practices as the annual accounts and is as equally reliable as the financial statements for the board to adopt the corresponding resolutions.

The most significant aspects when closing and reviewing relevant judgements, estimates, measurements and projections are:

- Impairment losses on certain assets.
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and other obligations.
- The useful life of tangible and intangible fixed assets.
- The valuation of consolidation goodwill.
- The calculation of provisions and of contingent liabilities.
- The fair value of certain unquoted assets and liabilities.
- The recoverability of the tax assets.
- The fair value of acquired identifiable assets and the liabilities assumed in business combinations.

The group CAO presents the financial information to the audit committee for validation at least quarterly, giving explanations of the main criteria used to make estimates, assessments and significant judgements.

The information provided to directors prior to meetings, including relevant judgements, estimates and projections is specifically prepared for these sessions.

The group also has a corporate accounting and financial management information committee, which is responsible for governing and supervising accounting, financial management and control, and ensuring that these matters are disclosed in accordance with law and such disclosure is fair, accurate and not misleading.

To verify that the ICM operates correctly, the group conducts an annual pyramid assessment and certification, identifying and analysing the criticality of risks and the effectiveness of controls. This begins with an assessment of control activities by those responsible for them, which is then challenged and ratified through the organization's different hierarchy, so that, the CEO, the CFO and the CAO can certify the effectiveness of the ICM.

The Non-Financial Risk Control area prepares a report that includes the main conclusions from the units' certifications reflecting the main deficiencies identified during the year and indicating whether they have been appropriately resolved or what plans are in place for satisfactory resolution as well as supporting evidence for the signatures of the CEO, CFO and CAO.

The Non-Financial Risk Control area presents the conclusions of these assessments to the audit committee alongside with the Financial Accounting and Control division and, where applicable, the representatives of the divisions and/or companies in question, prior to submission to the risk supervision, regulation and compliance committee.

In 2020, the group created a new meeting within its governance structure called the Internal Control Monitoring Meeting, in which the main participants in the group's ICM, monitored the progress of the main internal control weaknesses and the ICM strategy and performance.

Internal control policies and procedures for IT systems

The Technology and Operations division draws up the group's corporate policies on IT systems involved directly or indirectly with the financial statements. These systems implement special internal controls to prepare and post financial information correctly.

The internal control policies on the following aspects are of particular importance:

- Updated and divulged internal policies and procedures for system security and access to applications and computer systems according to functions and ratings of each unit/ role.
- The group's methodology, under which new applications are developed and existing applications are maintained or adapted through a circuit that formulates, develops and tests them so as to treat financial information reliably.
    - Once applications are developed according to regularly defined requirements (detailed documentation of processes to be implemented), they are run through comprehensive tests by a specialist development laboratory.
    - Before they are rolled out, a complete software testing cycle is run in a pre-production computerized environment that simulates real situations. Testing includes technical and functional tests, performance tests, user-acceptance tests and pilot and prototype tests, which are defined by the entities.
- The group's continuity plans for key functions in disasters or other events that could suspend or disrupt operations, as well as highly automated back-up systems that support critical systems and require little manual intervention owing to redundant systems, high availability systems and redundant communication lines.

Internal control policies and procedures for outsourced activities and valuation services from independent experts

The group's action framework and specific policies and procedures fittingly cover outsourcing risks. All group companies must adhere to this framework, which meets the EBA's requirements for outsourcing and risk management with third parties. It consists of:

- Tasks to initiate, record, process, settle, report and accounting for transactions and asset valuations.
- IT support in terms of software development, infrastructure maintenance, incident management, security and processing.
- Other material support services not directly related to financial reporting, such as supplier management, property management, HR management, etc.

Key control procedures include:

- Documenting relations between group companies with comprehensive service agreements.
- Documentation and validation by the group's service providers of processes and controls for the services they perform.
- The external suppliers must undergo an approval process to ensure that the relevant risks associated with the services they provide remain within acceptable levels, in accordance with the group's risk appetite.

The group reviews estimates internally according to its control model guidelines. It will hire the services of a third party to help with specific matters upon confirming their expertise and independence and approving their methods and rationale of its assumptions though relevant procedures.

Furthermore, the group's controls make sure information for external suppliers of services that could affect the financial statements is accurately and comprehensively detailed in service level agreements.

8.4 Information and communication

Responsible for accounting policies

The Financial Accounting and Control division has an area called 'accounting policies', whose manager reports directly to the head of the division, and has the following exclusive responsibilities:

- To define the accounting treatment of the transactions that constitute Banco Santander's activity, in accordance with their economic nature and the regulations governing the financial system.

- To define and keep up-to-date the group's accounting policies and resolve any doubts or conflicts arising from their interpretation.
- Improve and standardize the group's accounting practices.

The corporate accounting and financial reporting and management framework sets out the principles and guidelines to prepare accounting, financial and management information that must apply to all Grupo Santander entities as a key element of their good governance. The group's structure makes it necessary to establish these principles and standard guidelines for their application, and for each of the group entities to have effective consolidation methods and employ homogeneous accounting policies. The framework's principles described in this framework are adequately reflected in the group's accounting policies.

Accounting policies should be understood as a complement to local financial and accounting rules. Their overarching aims are (i) that statements and financial information made available to the management bodies, supervisors or other third parties, provide accurate and reliable information for decision-making in relation to the group, and (ii) timely compliance by all group entities with their legal obligations.

Accounting policies are revised at least once a year and when relevant regulations are amended.

Every month, the Accounting Policies area publishes an internal bulletin on new accounting regulation and their most significant interpretations.

The Group entities, through their operations or accounting heads, maintain open communication with the financial regulation and accounting processes area, as well as with the other areas of the Financial Accounting and Control division.

8.5 Monitoring

2020 ICFR monitoring activities and results

The board of directors approved an Internal Audit framework for Grupo Santander that defines the function and how it should conduct its work.

Internal Audit is a permanent, independent function that guarantees the quality and effectiveness of internal control, risk management (current or emerging) and governance processes and systems, thus contributing to the protection of the organization's value, solvency and reputation as well as the board of directors and senior managers. The internal audit function reports to the audit committee and periodically, at least twice a year, to the board of directors. As an independent unit, it also has direct access to the board when required.

Internal audit assesses:

- The efficiency and effectiveness of the processes and systems referred to above.
- The compliance with applicable regulations and supervisory requirements.
- The reliability and integrity of financial and operational information.
- Asset integrity.
- Internal audit is the third line of defence, independent of the other two. Its scope of action includes:
- All entities over which the group exercises effective control.
- Separated assets (for example, mutual funds) managed by the entities mentioned in the previous section.
- Any entity (or separated assets) not included in the above points, with which the group has entered into an agreement to provide Internal Audit functions.

This subjective scope includes, in any case, the activities, businesses and processes carried out (either directly or through outsourcing), the organization and, where applicable, commercial networks. Internal Audit may also conduct audits for other investees that are not included in the preceding points when the group has reserved this right as a shareholder, as well as on outsourced activities in accordance with the established agreements.

The audit committee supervises the group's internal audit function. See section 4.5 'Audit committee activities in 2020'.

As at 2020 year-end, Internal Audit had 1,264 employees, all exclusively dedicated to this service. Of these, 279 were based at Corporate Centre and 985 in the local units located in the main geographies where the group is present, all with exclusive dedication.

Every year, Internal Audit prepares an audit plan based on a risk self-assessment and is solely responsible for executing the plan. Reviews may lead to audit recommendations, which are prioritized in accordance with their relative importance, and are continuously monitored until fully implemented.

At its meeting of 19 February 2021, the audit committee reviewed the 2021 audit plan, which was reported to and approved by the board at its meeting of 22 February 2021.

Internal audit reports mainly aimed to:

- Verify compliance with the provisions contained in sections 302, 404, 406, 407 and 806 of the SOX Act.
- Check corporate governance with regard to information relating to the internal control system for financial reporting.
- Review the functions performed by the internal control departments and by other departments, areas or divisions involved in ensuring compliance with the SOX Act.
- Make sure the supporting documentation relating to the SOX Act is up to date.
- Confirm the effectiveness of a sample of controls based on an internal audit risk assessment methodology.
- Assess the accuracy of the unit's certifications, especially their consistency of the certifications with respect to the

observations and recommendations made by Internal Audit, the external auditors of the annual accounts or supervisors.

- Ratify the implementation of recommendations made in the audit plan.

In 2020, the audit committee and the board of directors were informed of the Internal Audit unit's work, in accordance with its annual plan, and of other matters related to this function. See Section 4.5. 'Audit committee activities in 2020'.

Detection and management of deficiencies

The audit committee oversees to supervise the financial reporting process and the internal control systems. It is responsible for any control deficiencies that could affect the reliability and accuracy of the annual accounts. It may refer to the areas of the Group involved in the process to obtain the necessary information and clarifications. The committee also assesses the potential impact of any errors detected in the financial information.

The audit committee is responsible for discussing any significant weaknesses detected in the audit with the external auditor.

As part of its oversight, the audit committee assesses the results of the work of the internal audit unit, and may take the necessary measures to correct any deficiencies identified in the financial information.

In 2020, the audit committee was informed of the ICM evaluation and certification for the 2019 financial year. See section 4.5 'Audit committee activities in 2020'.

8.6 External auditor report

The external auditor 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 following pages.

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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 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, 2020.

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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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, 2020, 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, 2020 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, 2020, 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 of the CNMV, and subsequent amendments, the most recent being Circular 1/2020, of October 6, of the CNMV for the purposes of describing 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 23, 2021 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 23, 2021

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9. Other corporate governance information

CNMV Circular 2/2018 of 12 June 2018 allows the annual corporate governance and directors' remuneration reports Spanish listed companies must submit to be drafted in a free format, which is what we selected for our corporate governance and directors' remuneration reports since 2018.

The CNMV requires any issuer opting for a free format to provide certain information in a format it dictates 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 or explain', and (ii) for remuneration matters, under section 9.5 'Statistical information on remuneration required by the CNMV'.

Some shareholders or other stakeholders may be used to the formats of the corporate governance and directors' remuneration reports set the by the CNMV. Therefore, each section under this format in sections 9.1 'Reconciliation with the CNMV's corporate governance report model' and 9.4 'Reconciliation to the CNMV's remuneration report model'include a cross reference indicating where this information may be found in the 2020 annual corporate governance report (drafted in a free format) and elsewhere in this annual report.

We have normally completed the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code to clearly show the ones we complied with, and explain the ones we partially complied or failed to comply with. In section 9.3 'Table on compliance with or explanations of recommendations in corporate governance', we have included a chart with cross-references showing where information supporting each response can be found in this corporate governance chapter and 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 sections 2.1 'Share capital' and 3.2 'Shareholder rights'.
A.2	Yes	See section 2.3 'Significant shareholders' where we explain there are no significant shareholders on their own account.
A.3	Yes	See 'Tenure and equity ownership' in section 4.2 and sections 6 'Remuneration' and 9.2 'Statistical information on corporate governance as required by the CNMV'.
A.4	No	See section 2.3 'Significant shareholders' 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 'Significant shareholders' 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 'Significant shareholders' where we explain there are no significant shareholders on their own account so this section does not apply.
A.7	Yes	See sections 2.4 'Shareholders' agreements'. and 9.2 'Statistical information on corporate governance as required by the CNMV'.
A.8	Yes	Not applicable.
A.9	Yes	See section 2.5 'Treasury shares' and 9.2 'Statistical information on corporate governance as required by the CNMV'.
A.10	No	See section 2.5 'Treasury shares'.
A.11	Yes	See section 9.2 'Statistical information on corporate governance as required by the CNMV'.
A.12	No	See section 3.2 'Shareholder rights'.
A.13	No	See section 3.2 'Shareholder rights'.
A.14	Yes	See section 2.6 'Stock market information'.

Section in the CNMV model	Included in statistical report	Comments
B. GENERAL SHAREHOLDERS' MEETING		
B.1	No	See 'Quorum and majorities for passing resolutions at general meeting' in section 3.2.
B.2	No	See 'Quorum and majorities for passing resolutions at general meeting' in section 3.2.
B.3	No	See 'Rules for amending our Bylaws' in section 3.2.
B.4	Yes	See 'Quorum and attendance' in sections 3.4 and 3.5, in relation to financial year 2020, and section 9.2 'Statistical information on corporate governance as required by the CNMV', in relation to the remaining financial years .
B.5	Yes	See 'Voting results and resolutions' in sections 3.4 and 3.5.
B.6	Yes	See 'Shareholder participation at general meetings' in section 3.2 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
B.7	No	See 'Quorum and majorities for passing resolutions at general meeting' 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 and equity ownership' in section 4.2, 'Duties and activities in 2020' in section 4.6 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.3	Yes	See sections 2.4 'Shareholders' agreements', 4.1 'Our directors', 'Composition by type of director' in section 4.2, 'Duties and activities in 2020' in section 4.6 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.4	Yes	See 'Diversity' and 'Board skills and diversity matrix' in section 4.2, in relation to financial year 2020, and section 9.2 'Statistical information on corporate governance as required by the CNMV', in relation to the remaining financial years.
C.1.5	No	See 'Diversity' in section 4.2 and 'Duties and activities in 2020' in section 4.6.
C.1.6	No	See 'Strong succession plans' in section 1.5, 'Diversity' in section 4.2, 'Duties and activities in 2020' in section 4.6 and, regarding top executive positions, see 'Responsible banking' chapter.
C.1.7	No	See 'Diversity' in section 4.2. and 'Duties and activities in 2020' in section 4.6.
C.1.8	No	Not applicable, since there are no proprietary directors. See 'Composition by type of director' in section 4.2.
C.1.9	No	See 'Group executive chairman and chief executive officer' in section 4.3 and 'Functions' in section 4.4.
C.1.10	No	See section 4.1 'Our directors'.
C.1.11	Yes	See sections 4.1 'Our directors' and 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.12	Yes	See 'Board and committees attendance' in section 4.3.
C.1.13	Yes	See sections 6 'Remuneration' and 9.2 'Statistical information on corporate governance as required by the CNMV'. Additionally, see note 5 c) to our 'consolidated financial statements'.
C.1.14	Yes	See sections 5 'Management team' and 9.2 'Statistical information on corporate governance as required by the CNMV'.
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 'Board assessment in 2020' in section 4.3 and 'Duties and activities in 2020' in section 4.6.
C.1.18	No	See 'Board assessment in in 2020' in section 4.3.
C.1.19	No	See 'Director election, renewal and succession' in section 4.2.
C.1.20	No	See 'Board meetings' 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 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.24	No	See 'Board meetings' in section 4.3.
C.1.25	Yes	See 'Lead independent director' and 'Board and committees attendance' in section 4.3, 'Duties and activities in 2020' in sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.26	Yes	See 'Board and committees attendance' in section 4.3. and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.27	Yes	See section 9.2 'Statistical information on corporate governance as required by the CNMV'.

Section in the CNMV model	Included in statistical report	Comments
C.1.28	No	See 'Duties and activities in 2020' in section 4.5.
C.1.29	Yes	See section 4.1 'Our directors' and section 'Secretary of the board' in section 4.3.
C.1.30	No	See section 3.1 'Shareholders' engagement' and 'Duties and activities in 2020' in section 4.5
C.1.31	Yes	See 'External auditor' in section 4.5 and section 9.2 'Statistical information on corporate governance as required by the CNMV's.
C.1.32	Yes	See 'Duties and activities in 2020' in section 4.5 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.33	Yes	Not applicable.
C.1.34	Yes	See section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.1.35	Yes	See 'Board meetings' and 'Committee meetings' 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. See 'Duties and activities in 2020' in section 4.6.
C.1.38	No	Not applicable.
C.1.39	Yes	See sections 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote', 6.7 'Prudentially significant disclosure document' and 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.2 Board committees		
C.2.1	Yes	See 'Committee structure' and 'Committee meetings' in section 4.3, 'Duties and activities in 2020' in sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10 and section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.2.2	Yes	See section 9.2 'Statistical information on corporate governance as required by the CNMV'.
C.2.3	No	See 'Committee structure' and 'Committee meetings' in section 4.3 and 'Duties and activities in 2020" in 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. See 'Related-party transactions' in section 4.12.
D.3	Yes	Not applicable. See 'Related-party transactions' in section 4.12.
D.4	Yes	See section 9.2 'Statistical information on corporate governance as required by the CNMV'.
D.5	Yes	Not applicable. See 'Related-party transactions' in section 4.12.
D.6	No	See 'Conflicts of interests' in section 4.12
D.7	Yes	Not applicable. See section 2.3 'Significant shareholders' and 'Conflicts of interests' in section 4.12.
E. CONTROL AND RISK MANAGEMENT SYSTEMS		
E.1	No	See chapter 'Risk management and compliance', in particular section 2.'Risk management and control model' and sections 'A strong and inclusive culture: The Santander Way' and 'Tax contribution' in the Responsible banking chapter.
E.2	No	See note 53 to our consolidated financial statements, section 2.3 'Risk governance' in the Risk management and compliance chapter, and sections 'A strong and inclusive culture: The Santander Way' and 'Tax contribution' in the Responsible banking chapter.
E.3	No	See sections 2.2'Risk factors', 3. 'Credit risk', 4. 'Market, structural and liquidity risk', 5. 'Credit risk', 6. 'Operational risk', 7. 'Compliance and conduct risk', 8 'Model risk' and 9. 'Strategic risk' in the Risk management and compliance chapter. See also the 'Responsible banking' chapter and, for our capital needs, see section 3.5 'Capital management and adequacy. Solvency ratios' of the Economic and financial review chapter.
E.4	No	See section 2.4. 'Management processes and tools' in the Risk management and compliance chapter and sections 'A strong and inclusive culture: The Santander Way' and 'Tax contribution' in the Responsible banking chapter.
E.5	No	See 3. 'Credit risk', 4. 'Market, structural and liquidity risk', 5. 'Credit risk', 6. 'Operational risk', 7 'Compliance and conduct risk', 8 'Model risk' and 9 'Strategic risk' in the Risk management and compliance chapter. Additionally, see note 25e) to our consolidated financial statements.
E.6	No	See sections 2.'Risk management and control model', 3. 'Credit risk', 4. 'Market, structural and liquidity risk', 5. 'Credit risk', 6. 'Operational risk', 7. 'Compliance and conduct risk', 8. 'Model risk' and 9. 'Strategic risk' in the Risk management and compliance chapter.
F. ICFRS		
F.1	No	See section 8.1 'Control environment'.
F.2	No	See section 8.2 'Risk assessment in financial reporting'.
F.3	No	See section 8.3 'Control activities'.
F.4	No	See section 8.4 'Information and communication'.

Section in the CNMV model	Included in statistical report	Comments
F.5	No	See section 8.5 'Monitoring'.
F.6	No	Not applicable.
F7	No	See section 8.6 'External auditor report'.
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 'Table on compliance with or explanations of recommendations on corporate governance'.
H. OTHER INFORMATION OF INTEREST		
H	No	See sections 'Tax contribution' and 'Governance and priorities', in particular, 'Joint initiatives to promote our agenda', in the Responsible banking chapter.

9.2 Statistical information on corporate governance required by the CNMV

Unless otherwise indicated all data as of 31 December 2020.

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
03/12/2020	8,670,320,651	17,340,641,302	17,340,641,302

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
Ana Botín-Sanz de Sautuola y O'Shea	0.00	0.17	0.00	0.00	0.17	0.00	0.00
José Antonio Álvarez Álvarez	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Bruce Carnegie-Brown	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Homaira Akbari	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Javier Botín-Sanz de Sautuola y O'Shea	0.03	0.55	0.00	0.00	0.58	0.00	0.00
Álvaro Cardoso de Souza	0.00	0.00	0.00	0.00	0.00	0.00	0.00
R. Martin Chávez Márquez	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sol Daurella Comadrán	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Henrique de Castro	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gina Díez Barroso	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Luis Isasi Fernández de Bobadilla	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ramiro Mato García-Ansorena	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Sergio Rial	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Belén Romana García	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	0.76 %

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
Javier Botín-Sanz de Sautuola y O'Shea (directly and indirectly through Agropecuaria El Castaño, S.L.U.) Emilio Botín-Sanz de Sautuola y O'Shea, Puente San Miguel, S.L.U. Ana Botín-Sanz de Sautuola y O'Shea, CRONJE, S.L.U. Nueva Azil, S.L. Carmen Botín-Sanz de Sautuola y O'Shea Paloma Botín-Sanz de Sautuola y O'Shea Bright Sky 2012, S.L.	0.58%	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
Javier Botín-Sanz de Sautuola y O'Shea (directly and indirectly through Agropecuaria El Castaño, S.L.U.) Emilio Botín-Sanz de Sautuola y O'Shea, Puente San Miguel, S.L.U. Ana Botín-Sanz de Sautuola y O'Shea, CRONJE, S.L.U. Nueva Azil, S.L. Carmen Botín-Sanz de Sautuola y O'Shea Paloma Botín-Sanz de Sautuola y O'Shea Bright Sky 2012, S.L.	0.58%	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	28,439,022	0.16%

(*)Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	26,700,000
Banco Santander Río, S.A.	981,853
Banco Santander México, S.A.	757,169
Total:	**28,439,022**

A.11 Estimated free float:

	%
Estimated free float	93.64%

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: Electronic means	% remote voting: Other	Total
23/03/2018	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: Electronic means	% remote voting: Other	Total
12/04/2019	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: Electronic means	% remote voting: Other	Total
23/07/2019	0.65%	41.82%	0.30%	16.45%	59.22%
of which free float:	0.58%	41.82%	0.30%	16.45%	58.15%

Date of General Meeting	Attendance data: % attending in person	% by proxy	% remote voting: Electronic means	% remote voting: Other	Total
03/04/2020	0.09%	62.60%	1.71%	0.60%	65.00%
of which free float:	0.01%	61.58%	1.71%	0.60%	63.90%

Date of General Meeting	Attendance data: % attending in person	% by proxy	% remote voting: Electronic means	% remote voting: Other	Total
27/10/2020	0.17%	43.29%	0.59%	16.30%	60.34%
of which free float:	0.11%	42.16%	0.59%	16.30%	59.16%

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
Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04/02/1989	03/04/2020	Vote in general shareholders' meeting
José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25/11/2014	12/04/2019	Vote in general shareholders' meeting
Bruce Carnegie-Brown	N/A	Non-executive independent	Lead independent director	25/11/2014	12/04/2019	Vote in general shareholders' meeting
Homaira Akbari	N/A	Non-executive independent	Director	27/09/2016	23/03/2018	Vote in general shareholders' meeting
Javier Botín-Sanz de Sautuola y O'Shea	N/A	Other external	Director	25/07/2004	12/04/2019	Vote in general shareholders' meeting
Álvaro Cardoso de Souza	N/A	Non-executive independent	Director	01/04/2018	01/04/2018	Vote in general shareholders' meeting
R. Martin Chávez Márquez	N/A	Non-executive independent	Director	27/10/2020	27/10/2020	Vote in general shareholders' meeting
Sol Daurella Comadrán	N/A	Non-executive independent	Director	25/11/2014	03/04/2020	Vote in general shareholders' meeting
Henrique de Castro	N/A	Non-executive independent	Director	07/07/2019	07/07/2019	Vote in general shareholders' meeting
Gina Díez Barroso	N/A	Non-executive independent	Director	22/12/2020	22/12/2020	Co-option
Luis Isasi Fernández de Bobadilla	N/A	Other external	Director	19/05/2020	19/05/2020	Vote in general shareholders' meeting
Ramiro Mato García-Ansorena	N/A	Non-executive independent	Director	28/11/2017	12/04/2019	Vote in general shareholders´ meeting
Sergio Rial	N/A	Executive	Director	30/5/2020	30/05/2020	Vote in general shareholders' meeting
Belén Romana García	N/A	Non-executive independent	Director	22/12/2015	12/04/2019	Vote in general shareholders' meeting
Pamela Walkden	N/A	Non-executive independent	Director	29/10/2019	03/04/2020	Vote in general shareholders' meeting

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 or by agreement of the general meeting 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
Ignacio Benjumea Cabeza de Vaca	Other external	23/03/2018	07/05/2020	Executive committee, Remuneration committee, Risk supervision, regulation and compliance committee, Responsible banking, sustainability and culture committee and Innovation and technology committee	NO
Guillermo de la Dehesa Romero	Other external	23/03/2018	03/04/2020	Executive committee, Nomination committee and Innovation technology committee	YES
Esther Giménez-Salinas i Colomer	Non-executive independent	03/04/2020	27/10/2020	Nomination committee, Risk supervision, regulation and compliance committee and Responsible banking, sustainability and culture committee	YES
Rodrigo Echenique Gordillo	Other external	03/04/2020	22/12/2020	Nomination 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
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.
José Antonio Álvarez Álvarez	CEO	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Sergio Rial	Santander Head Regional for South America	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.

Total number of executive directors	3
% of the Board	20.00%

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
Bruce Carnegie-Brown	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Homaira Akbari	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Álvaro Cardoso de Souza	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
R. Martín Chávez Márquez	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Sol Daurella Comadrán	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Henrique de Castro	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Gina Díez Barroso	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Ramiro Mato García-Ansorena	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Belén Romana Garcia	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.
Pamela Walkden	See section 4.1 'Our directors' in the 'Corporate governance' chapter in the annual report.

Total number of independent directors	10
% of the Board	66.67%

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 principal 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) will be included.

Name or corporate name of director	Description of the relationship	Reasoned statement
Homaira Akbari	Business	When conducting the annual verification of the independence of directors of this status, the nomination committee analysed the business relationships between Grupo Santander and the companies in which they are or have previously been principal shareholders, directors or senior managers. The committee concluded that the business relationships maintained between Grupo Santander and the company in which Homaira Akbari was a director in 2020 were not significant because, among other reasons, they did not reach certain comparable materiality thresholds used in other jurisdictions, e.g. NYSE and Nasdaq.
Sol Daurella	Financing	When conducting the annual verification of the independence of directors of this status, the nomination committee analysed the business relationships between Grupo Santander and the companies in which they are or have previously been principal shareholders, directors or senior managers. The committee concluded that the funding Grupo Santander granted to companies in which Sol Daurella was a principal shareholder or director in 2020 was not significant because, among other reasons: (i) it did not generate economic dependence on the companies involved in view of the substitutability of this funding by other sources, whether banks or others, (ii) it aligned with Grupo Santander's share in the corresponding market, and (iii) it did not reach certain comparable materiality thresholds used in other jurisdictions, e.g. NYSE, Nasdaq and the Canadian Bank Act.
Henrique de Castro	Business	When conducting the annual verification of the independence of directors of this status, the nomination committee analysed the business relationships between Grupo Santander and the companies in which they are or have previously been principal shareholders, directors or senior managers. The committee concluded that the business relationships maintained between Grupo Santander and the company in which Henrique de Castro was a director in 2020 were not significant because, among other reasons, they did not reach certain comparable materiality thresholds used in other jurisdictions, e.g. NYSE and Nasdaq.
Gina Díez	Financing	When conducting the annual verification of the independence of directors of this status, the nomination committee analysed the business relationships between Grupo Santander and the companies in which they are or have previously been principal shareholders, directors or senior managers. The committee concluded that the funding granted by Grupo Santander to the company in which Gina Díez was a principal shareholder and director in 2020 was not significant because, among other reasons: (i) it did not generate a situation of economic dependence on the company involved in view of the substitutability of this funding by other sources, whether banks or others, (ii) it aligned with Grupo Santander's share in the corresponding market, and (iii) it did not reach certain comparable materiality thresholds used in other jurisdictions, e.g. NYSE, Nasdaq and the Canadian Bank Act.
Belén Romana	Business	When conducting the annual verification of the independence of directors of this status, the nomination committee analysed the business relationships between Grupo Santander and the companies in which they are or have previously been principal shareholders, directors or senior managers. The committee concluded that the business relationships maintained between Grupo Santander and the companies in which Belén Romana was a director in 2020 were not significant because, among other reasons, they did not reach 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
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.
Luis Isasi Fernández de Bobadilla	Because the requirements established in paragraphs 2 to 4 of article 529 *duodecies* LSC are not met.	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			2
% of the Board			13.33%

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
N/A			

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 2020	FY 2019	FY 2018	FY 2017	FY 2020	FY 2019	FY 2018	FY 2017
Executive	1	1	1	1	33.33 %	50.00 %	33.33 %	33.33 %
Proprietary	—	—	—	—	0.00 %	0.00 %	0.00 %	0.00 %
Independent	5	5	4	4	50.00 %	55.55 %	44.44 %	50.00 %
Other external	—	—	—	—	0.00 %	0.00 %	0.00 %	0.00 %
Total:	6	6	5	5	40.00 %	40.00 %	33.33 %	35.71 %

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 regulated 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
Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	Director
Homaira Akbari	Landstar System, Inc.	Director
	Temenos AG	Director
Sol Daurella Comadrán	Coca-Cola European Partners plc.	Chairman
Henrique de Castro	Fiserv Inc.	Director
Luis Isasi Fernández de Bobadilla	Compañía de Distribución Integral Logista, S.A.U.	Director
Sergio Rial	Delta Airlines Inc	Director
Belén Romana García	Aviva plc.	Director
	Six Group AG (SIX)	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)	19,066
Amount of accumulated pension rights of current directors (EUR thousand)	67,526
Amount of accumulated pension rights of former directors (EUR thousand)	51,723

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)
Rami Aboukhair Hurtado	Country head - Santander Spain
Lindsey Tyler Argalas	Head of Santander Digital
Alexandra Brandão	Head of Human Resources
Juan Manuel Cendoya Méndez de Vigo	Group head of Communications, Corporate Marketing and Research
José Fransisco Doncel Razola	Group head of Accounting and Financial Control
Keiran Paul Foad	Group Chief Risk Officer
José Antonio García Cantera	Group Chief Financial Officer
Juan Guitard Marín	Group Chief Audit Executive
José Maria Linares Perou	Global head of Corporate & Investment Banking
Mónica Lopez-Mónís Gallego	Group head of Supervisory and Regulatory Relations
Javier Maldonado Trinchant	Group head of Costs
Dirk Marzluf	Group head of Technology and Operations
Víctor Matarranz Sanz de Madrid	Global head of Wealth Management
José Luis de Mora Gil-Gallardo	Group head of Strategy and Corporate Development and Head of Consumer Finance (Santander Consumer Finance)
Jaime Pérez Renovales	Group head of General Secretariat and Human Resources
Javier San Félix García	Head of Santander Global Payments Services
Antonio Simões	Head regional of Europe
Marjolein van Hellemondt-Gerdingh	Group Chief Compliance Officer

Number of women in senior management	4
Percentage of total senior management	22.22%
Total remuneration accrued by the senior management (EUR thousand)	52,113

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	20
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	15
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 nomination committee	13
Number of meetings of the remuneration committee	13
Number of meetings of the risk supervision, regulation and compliance committee	13
Number of meetings of the executive committee	46

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	20
% of votes cast by members present over total votes in the fiscal year	98.56%
Number of board meetings with all directors being present (or represented having given specific instructions)	18
% of votes cast by members present at the meeting or represented with specific instructions over total votes in the fiscal year	99.27%

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
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
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 express this amount as a 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)	487	1,513	2,000
Amount of non-audit work as a % of amount of audit work	0.5%	1.4%	1.9%

C.1.33 Indicate whether the audit report on the previous year's financial statements contains a qualified opinion or 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 qualified opinion or reservations.

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	5	5

	Company	Group
Number of years audited by current audit firm/Number of years the company's or its Group financial statements have been audited (%)	13.15%	13.15%

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	19
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
Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
José Antonio Álvarez Álvarez	Member	Executive director
Bruce Carnegie-Brown	Member	External independent director
Luis Isasi Fernández de Bobadilla	Member	Other external director
Ramiro Mato García-Ansorena	Member	External independent director
Belén Romana García	Member	External independent director

% of executive directors	33.33%
% of proprietary directors	0.00%
% of independent directors	50.00%
% of other non-executive directors	16.67%

Audit committee

Name	Position	Type
Pamela Walkden	Chairman	External independent director
Homaira Akbari	Member	External independent director
Henrique de Castro	Member	External independent director
Ramiro Mato García-Ansorena	Member	External independent director
Belén Romana García	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	Pamela Walkden Belén Romana García Homaira Akbari Ramiro Mato García-Ansorena Henrique de Castro
Date of appointment of the committee Chairman for that position	26 April 2020

Nomination committee

Name	Position	Type
Bruce Carnegie-Brown	Chairman	External independent director
R. Martin Chávez Márquez	Member	External independent director
Sol Daurella Comadrán	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other executive directors	0%

Remuneration committee

Name	Position	Type
Bruce Carnegie-Brown	Chairman	External independent director
R. Martin Chávez Márquez	Member	External independent director
Sol Daurella Comadrán	Member	External independent director
Henrique de Castro	Member	External independent director
Luis Isasi Fernández de Bobadilla	Member	Other external director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	80%
% of other external directors	20%

Risk supervision, regulation and compliance committee

Name	Position	Type
Álvaro Cardoso de Souza	Chairman	External independent director
R. Martin Chávez Márquez	Member	External independent director
Luis Isasi Fernández de Bobadilla	Member	Other external director
Ramiro Mato García-Ansorena	Member	External independent director
Belén Romana García	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	80%
% of other external directors	20%

Responsible banking, sustainability and culture committee

Name	Position	Type
Ramiro Mato García-Ansorena	Chairman	External independent director
Homaira Akbari	Member	External independent director
Álvaro Cardoso de Souza	Member	External independent director
Sol Daurella Comadrán	Member	External independent director
Belén Romana García	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other external directors	0%

Innovation and technology committee

Name	Position	Type
R. Martín Chávez Márquez	Chairman	External independent director
Ana Botín-Sanz de Sautuola y O'Shea	Member	Executive director
José Antonio Álvarez Álvarez	Member	Executive director
Bruce Carnegie-Brown	Member	External independent director
Homaira Akbari	Member	External independent director
Henrique de Castro	Member	External independent director
Belén Romana García	Member	External independent director

% of executive directors	28.58%
% of proprietary directors	0.00%
% of independent directors	71.42%
% of other external directors	0.00%

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 2020		FY 2019		FY 2018		FY 2017	
	Number	%	Number	%	Number	%	Number	%
Audit committee	3	60.00%	3	60.00%	2	50.00%	2	50.00%
Responsible banking, sustainability and culture committee	3	60.00%	5	62.50%	5	62.50%	—	0.00%
Innovation and technology committee	3	42.85%	3	37.50%	3	42.85%	4	44.40%
Nomination committee	1	33.33%	2	40.00%	1	25.00%	1	20.00%
Remuneration committee	1	20.00%	1	20.00%	1	20.00%	1	20.00%
Risk supervision, regulation and compliance committee	1	20.00%	2	40.00%	2	33.30%	2	33.30%
Executive committee	2	33.33%	2	28.50%	2	25.00%	1	14.29%

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 2020 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 2020 Consolidated financial statements for more information on offshore 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 125 million in the Bank and covered the following transactions: - 68 Non Delivery Forwards. - 207 Swaps. - 71 Cross Currency Swaps. - 5 Options. - 111 Forex.	84,870
	The amount shown on the right corresponds to negative results relating to deposits with the New York branch of Banco Santander, S.A. (liability) which were cancelled at 31 December 2020.	1,503
	The amount shown on the right corresponds to positive results relating to deposits with the London branch of Banco Santander, S.A. (asset) which were cancelled at 31 December 2020.	769
	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 2.057 million as at 31 December 2020.	146,552
	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 2020.	85

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.

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 the listed company is controlled, pursuant to the meaning established in Article 42 of the Commercial Code, by another listed or non-listed entity, and has, directly or through its subsidiaries, business relationships with that entity or any of its subsidiaries (other than those of the listed company) or carries out activities related to the activities of any of them, this is reported publicly, with specific information about:

a) The respective areas of activity and possible business relationships between, on the one hand, the listed company or its subsidiaries and, on the other, the parent company or its subsidiaries.

b) The mechanisms established to resolve any conflicts of interest that may arise.

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 define and promote a policy for communication and contact with shareholders and institutional investors within the framework of their involvement in the company, as well as with proxy advisors, that complies in full with the rules on market abuse and gives equal treatment to shareholders who are in the same position. The company should make said policy public through its website, including information regarding the way in which it has been implemented and the parties involved or those responsible its implementation.

Further, without prejudice to the legal obligations of disclosure of inside information and other regulated information, the company should also have a general policy for the communication of economic-financial, non-financial and corporate information through the channels it considers appropriate (media, social media or other channels) that helps maximise the dissemination and quality of the information available to the market, investors and other stakeholders.

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 April 2020 AGM authorised the board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 10% of the share capital. 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).

Banco Santander 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 nomination and remuneration committees.

c) Audit committee report on third-party transactions.

Complies ☑ Partially complies ☐ Explain ☐

7. The company should broadcast its general meetings live on the corporate website.

The company should have mechanisms that allow the delegation and exercise of votes by electronic means and even, in the case of large-cap companies and, to the extent that it is proportionate, attendance and active participation in the general shareholders' meeting.

Complies ☑ Explain ☐

8. The audit committee should strive to ensure that the financial statements that the board of directors presents to the general shareholders' meeting are drawn up in accordance to accounting legislation. And in those cases

where the auditors includes any qualification in its report, the chairman of the audit committee should give a clear explanation at the general meeting of their opinion regarding the scope and content, making a summary of that opinion available to the shareholders at the time of the publication of the notice of the meeting, along with the rest of proposals and reports of the board.

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 policy aimed at promoting an appro-priate composition of the board that:

a) is concrete and verifiable;

b) ensures that appointment or re-election proposals are based on a prior analysis of the competences required by the board; and

c) favours diversity of knowledge, experience, age and gender. Therefore, measures that encourage the company to have a significant number of female senior managers are considered to favour gender diversity.

The results of the prior analysis of competences required by the board should be written up in the nomination committee's explanatory report, to be pub-lished when the general shareholders' meeting is convened that will ratify the appointment and re-election of each director.

The nomination committee should run an annual check on compliance with this 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.

Further, the number of female directors should account for at least 40% of the members of the board of directors before the end of 2022 and thereafter, and not less than 30% previous to that.

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 nomination 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 nomination 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 circum-stance that might harm the organisation's name or reputation, related or not to their actions within the company, and 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.

When the board is informed or becomes aware of any of the situations men-tioned in the previous paragraph, the board of directors should examine the case as soon as possible and, attending to the particular circumstances, de-cide, based on a report from the nomination and remuneration committee, whether or not to adopt any measures such as opening of an internal investigation, calling on the director to resign or proposing his or her dismissal. The board should give a reasoned account of all such determinations in the annual corporate governance report, unless there are special circumstances that justify otherwise, which must be recorded in the minutes. This is without prejudice to the information that the company must disclose, if appropriate, at the time it adopts the corresponding measures.

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 give up their position before their tenure expires, through resignation or resolution of the general meeting, should state the reasons for this decision, or in the case of non-executive directors, their opinion of the reasons for the general meeting resolution, in a letter to be sent to all members of the board.

This should all be reported in the annual corporate governance report, and if it is relevant for investors, the company should publish an announcement of the departure as rapidly as possible, with sufficient reference to the reasons or circumstances provided by the director.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

25. The nomination 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 nomination 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 nomination 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 there is an executive committee, there should be at least two non-executive members, at least one of whom should be independent; and its secretary should be the secretary of the board of directors.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

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, both financial and non-financial.

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, for approval by this committee or the board, inform it directly of any incidents or scope limitations arising during its implementation, the results and monitoring of its recommendations, 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 and evaluate the preparation process and the integrity of the financial and non-financial information, as well as the con-trol and management systems for financial and non-financial risks related to the company and, where appropriate, to the group – including operating, technological, legal, social, environmental, political and reputational risks or those related to corruption – reviewing compliance with regulatory requirements, the accurate demarcation of the consolidation perimeter, and the correct ap-plication of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment and removal of the head of the internal audit service; propose the service's budget; approve or make a proposal for approval to the board of the prior-ities and annual work programme of the internal audit unit, ensur-ing that it focuses primarily on the main risks the company is ex-posed to (including reputational risk); 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 that allows employees and other persons related to the company, such as directors, sharehold-ers, suppliers, contractors or subcontractors, to report irregulari-ties of potential significance, including financial and accounting irregularities, or those of any other nature, related to the company, that they notice within the company or its group. This mechanism must guarantee confidentiality and enable communications to be made anonymously, respecting the rights of both the complainant and the accused party.

d) In general, ensure that the internal control policies and systems established are applied effectively in practice.

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 through the CNMV, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

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. Risk control and management policy should identify or establish at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks, and risks relating to corruption), with the inclusion under financial or economic risks of con-tingent liabilities and other off-balance-sheet risks.

b) A risk control and management model based on different levels, of which a specialised risk committee will form part when sector regula-tions provide or the company deems it appropriate.

c) The level of risk that the company considers acceptable.

d) The measures in place to mitigate the impact of identified risk events should they occur.

e) The internal control and reporting 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 nomination and remuneration committee-or of the nomination 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 nomination and remuneration committees.

Complies ☑ Explain ☐ Not applicable ☐

49. The nomination 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 nomination 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 the policies and rules of the company in the environmental, social and corporate governance areas, and internal rules of conduct, should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, a committee specialised in sustainability or corporate social responsibility, or a dedicated committee established by the board under its powers of self-organisation. Such a committee should be made up solely of non-executive directors, the majority being independent and specifically assigned the following minimum functions.

Complies ☑ Partially complies ☐ Explain ☐

54. The minimum functions referred to in the previous recommendation are as follows:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules, and ensure that the corporate culture is aligned with its purpose and values.

b) Monitor the implementation of the general policy regarding the disclosure of economic-financial, non-financial and corporate information, as well as communication with shareholders and investors, proxy advisors and other stakeholders. Similarly, the way in which the entity communicates and relates with small and medium-sized shareholders should be monitored.

c) Periodically evaluate the effectiveness of the company's corporate governance system and environmental and social policy, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Ensure the company's environmental and social practices are in accordance with the established strategy and policy.

e) Monitor and evaluate the company's interaction with its stakeholder groups.

Complies ☑ Partially complies ☐ Explain ☐

55. Environmental and social sustainability policies should identify and include at least:

a) The principles, commitments, objectives and strategy regarding shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of corruption and other illegal conducts.

b) The methods or systems for monitoring compliance with policies, associated risks and their management.

c) The mechanisms for supervising non-financial risk, including that related to ethical aspects and business conduct.

d) Channels for stakeholder communication, participation and dialogue.

e) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

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. The payment of the variable components of remuneration is subject to sufficient verification that previously established performance, or other, conditions have been effectively met. Entities should include in their annual directors' remuneration report the criteria relating to the time required and methods for such verification, depending on the nature and characteristics of each variable component.

Additionally, entities should consider establishing a reduction clause ('malus') based on deferral for a sufficient period of the payment of part of the variable components that implies total or partial loss of this remuneration in the event that prior to the time of payment an event occurs that makes this advisable.

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, options or financial instruments corresponding to the remuneration schemes, executive directors should not be able to transfer their ownership or exercise them until a period of at least three years has elapsed.

Except for the case in which the director maintains, at the time of the transfer or exercise, a net economic exposure to the variation in the price of the shares for a market value equivalent to an amount of at least twice his or her fixed annual remuneration through the ownership of shares, options or other financial instruments.

The foregoing shall not apply to the shares that the director needs to dispose of to meet the costs related to their acquisition or, upon favourable assessment of the nomination and remuneration committee to address an extraordinary situation.

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.

For the purposes of this recommendation, payments for contractual termination include any payments whose accrual or payment obligation arises as a consequence of or on the occasion of the termination of the contractual relationship that linked the director with the company, including previously unconsolidated amounts for long-term savings schemes and the amounts paid under post-contractual non-compete agreements.

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 'Shareholder rights'.
2	Not applicable	See 'Conflicts of interest' in section 4.12. and section 2.3 'Significant shareholders'.
3	Comply	See section 3.1 'Shareholder engagement'.
4	Comply	See section 3.1 'Shareholder engagement'.
5	Partially comply	At our April 2020 AGM, the board was authorised to increase share capital without pre-emptive rights for shareholders, with a limit of 10% of the share capital then in issue. However, this limit on issuing shares without pre-emptive rights do not apply to capital increases to convert contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET1 ratio falls below a pre-established threshold). Banco Santander 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	Comply	See sections 4.5 'Audit committee activities in 2020', 4.6 'Nomination committee activities in 2020', 4.7 'Remuneration committee activities in 2020', 4.8 'Risk supervision, regulation and compliance committee activities in 2020', 4.9 'Responsible banking, sustainability and culture committee activities in 2020', 4.10 'Innovation and technology committee activities in 2020' and 4.12 'Related-party transactions and conflicts of interest'.
7	Comply	See 'Engagement with shareholders in 2020' in section 3.1, 'Shareholder participation at general meetings' in section 3.2 and section 3.6 'Our coming 2021 AGM'.
8	Comply	See 'Rules and regulations of the board' in section 4.3 and section 4.5 'Audit committee activities in 2020'.
9	Comply	See 'Participation of shareholders at the general meeting' in section 3.2.
10	Comply	See 'Supplement to the annual general meeting notice' in section 3.2.
11	Not applicable	See section 3.6 'Our coming 2021 AGM'.
12	Comply	See section 4.3 'Board functioning and effectiveness'.
13	Comply	See 'Size' in section 4.2.
14	Comply	See 'Diversity' and 'Election, renewal and succession of directors' in section 4.2, 'Rules and regulations of the board' in section 4.3, 'Duties and activities in 2020' in section 4.6, section 5 'Management team' and 'Responsible banking' chapter.
15	Comply	See section 4.2 'Board composition'.
16	Comply	See 'Composition by type of director' in section 4.2.
17	Comply	See 'Composition by type of director' and 'Election, renewal and succession of directors' in section 4.2.
18	Comply	See 'Corporate website' in section 3.1 and section 4.1 'Our directors'.
19	Not applicable	See 'Composition by type of director' and 'Tenure 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, 'Rules and regulations of the board' in section 4.3 and 'Duties and activities in 2020' in section 4.6.
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, 'Rules and regulations of the board' in section 4.3 and 'Duties and activities in 2020' in section 4.6.
25	Comply	See 'Board and committees attendance' in section 4.3 and 'Duties and activities in 2020' in section 4.6.
26	Comply	See 'Board meetings' and 'Board and committee attendance' in section 4.3.
27	Comply	See 'Board meetings' and 'Board and committee attendance' in section 4.3.
28	Comply	See 'Board meetings' in section 4.3.
29	Comply	See 'Board meetings' in section 4.3.
30	Comply	See 'Training of directors and induction programmes for new directors' in section 4.3.
31	Comply	See 'Board meetings' in section 4.3.
32	Comply	See section 3.1 'Shareholder engagement' and 'Duties and activities in 2020' in section 4.6.
33	Comply	See section 4.3 'Board functioning and effectiveness'.

Recommendation	Comply / Explain	Information
34	Comply	See 'Lead independent director' in section 4.3.
35	Comply	See 'Secretary of the board' in section 4.3.
36	Comply	See 'Board assessment in 2020' in section 4.3.
37	Comply	See 'Rules and regulations of the board' in section 4.3 and 'Composition' in section 4.4.
38	Comply	See 'Committee meetings' in section 4.3 and section 4.4 'Executive committee activities in 2020'.
39	Comply	See 'Rules and regulations of the board' in section 4.3 and 'Composition' in section 4.5.
40	Comply	See 'Duties and activities in 2020' in section 4.5 and section 8.5 'Monitoring'.
41	Comply	See 'Rules and regulations of the board' in section 4.3 and 'Duties and activities in 2020' in section 4.5.
42	Comply	See 'Rules and regulations of the board' in section 4.3 and 'Duties and activities in 2020' in section 4.5.
43	Comply	See 'Committee meetings' in section 4.3.
44	Comply	See 'Duties and activities in 2020' in section 4.5.
45	Comply	See 'Rules and regulations of the board' in section 4.3, 'Duties and activities in 2020' in section 4.5, 'Duties and activities in 2020' in section 4.8 and the 'Risk management and compliance' chapter.
46	Comply	See 'Duties and activities in 2020' in section 4.5,'Duties and activities in 2020' in section 4.8 and the 'Risk management and compliance' chapter.
47	Comply	See 'Composition' in section 4.6 and 'Composition' in section 4.7.
48	Comply	See 'Structure of board committees' in section 4.3.
49	Comply	See 'Duties and activities in 2020' in section 4.6.
50	Comply	See 'Duties and activities in 2020' in section 4.7.
51	Comply	See 'Duties and activities in 2020' in section 4.7.
52	Comply	See 'Rules and regulations of the board' and 'Committee meetings' in section 4.3 and sections 4.8 'Risk supervision, regulation and compliance committee activities in 2020' and 4.9 'Responsible banking, sustainability and culture committee activities in 2020'.
53	Comply	See 'Rules and regulations of the board' in section 4.3, 'Duties and activities in 2020' in section 4.6, 'Duties and activities in 2020' in section 4.8 and 'Duties and activities in 2020' in section 4.9.
54	Comply	See 'Rules and regulations of the board' in section 4.3, 'Duties and activities in 2020' in section 4.6, 'Duties and activities in 2020' in section 4.8 and 'Duties and activities in 2020' in section 4.9.
55	Comply	See 'Duties and activities in 2020' in section 4.9 and 'Responsible Banking' chapter.
56	Comply	See sections 6.2 'Remuneration of directors for supervisory and collective decision-making duties: policy applied in 2020', 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
57	Comply	See sections 6.2 'Remuneration of directors for supervisory and collective decision-making duties: policy applied in 2020', 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
58	Comply	See section 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
59	Comply	See section 6.3 'Remuneration of directors for executive duties'.
60	Comply	See section 6.3 'Remuneration of directors for executive duties'.
61	Comply	See section 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
62	Comply	See 'Duties and activities in 2020' in section 4.7, section 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
63	Comply	See section 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.
64	Comply	See 'Duties and activities in 2020' in section 4.7 and sections 6.1 'Principles of the remuneration policy', 6.3 'Remuneration of directors for executive duties' and 6.4 'Directors' remuneration policy for 2021, 2022 and 2023 submitted to a binding shareholder vote'.

9.4 Reconciliation to the CNMV's remuneration report model

Section in the CNMV model	Included in statistical report	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 non-binding 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	10,429,789,366	96.55 %

	Number	% of total
Votes against	649,059,435	6.01 %
Votes in favour	9,777,014,101	90.51 %
Abstentions	372,790,860	3.45 %

C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Directors	Type	Period of accrual in year 2020
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive	From 01/01/2020 to 31/12/2020
Mr José Antonio Álvarez Álvarez	Executive	From 01/01/2020 to 31/12/2020
Mr Bruce Carnegie-Brown	Independent	From 01/01/2020 to 31/12/2020
Ms Homaira Akbari	Independent	From 01/01/2020 to 31/12/2020
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	Other external	From 01/01/2020 to 31/12/2020
Mr Álvaro Antonio Cardoso de Souza	Independent	From 01/01/2020 to 31/12/2020
Mr Ramón Martín Chávez Márquez	Independent	From 27/10/2020 to 31/12/2020
Ms Sol Daurella Comadrán	Independent	From 01/01/2020 to 31/12/2020
Mr Henrique Manuel Drummond Borges Cirne de Castro	Independent	From 01/01/2020 to 31/12/2020
Ms Gina Díez Barroso	Independent	From 22/12/2020 to 31/12/2020
Mr Luis Isasi Fernández de Bobadilla	Independent	From 19/05/2020 to 31/12/2020
Mr Ramiro Mato García-Ansorena	Independent	From 01/01/2020 to 31/12/2020
Mr Sergio Rial	Executive	From 30/05/2020 to 31/12/2020
Ms Belén Romana García	Independent	From 01/01/2020 to 31/12/2020
Mrs Pamela Ann Walkden	Independent	From 01/01/2020 to 31/12/2020
Mr Rodrigo Echenique Gordillo	Other external	From 01/01/2020 to 22/12/2020
Mr Ignacio Benjumea Cabeza de Vaca	Other external	From 01/01/2020 to 05/05/2020
Mr Guillermo de la Dehesa Romero	Other external	From 01/01/2020 to 03/04/2020
Ms Esther Giménez-Salinas i Colomer	Independent	From 01/01/2020 to 27/10/2020

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 1	Severance pay	Other grounds	Total year 2020	Total year 2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	77	55	157	3,176	534	828	—	525	5,352	6,119
Mr José Antonio Álvarez Álvarez	77	49	144	2,541	290	559	—	710	4,370	4,957
Mr Bruce Carnegie-Brown	326	82	187	—	—	—	—	—	595	700
Ms Homaira Akbari	77	79	46	—	—	—	—	—	202	226
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	77	45	—	—	—	—	—	—	122	137
Mr Álvaro Antonio Cardoso de Souza	136	60	47	—	—	—	—	—	243	276
Mr Ramón Martín Chávez Márquez	8	15	14	—	—	—	—	—	37	—
Ms Sol Daurella Comadrán	77	82	55	—	—	—	—	—	214	240
Mr Henrique Manuel Drummond Borges Cirne de Castro	77	85	55	—	—	—	—	—	217	86
Ms Gina Díez Barroso	2	2	—	—	—	—	—	—	4	—
Mr Luis Isasi Fernández de Bobadilla	44	43	116	—	—	—	—	740	943	—
Mr Ramiro Mato García-Ansorena	119	86	225	—	—	—	—	—	430	500
Mr Sergio Rial	42	21	—	—	—	—	—	—	63	—
Ms Belén Romana García	98	94	225	—	—	—	—	—	417	525
Mrs Pamela Ann Walkden	114	66	34	—	—	—	—	—	214	34
Mr Rodrigo Echenique Gordillo	75	60	20	—	—	414	1,800	—	2,369	3,926
Mr Ignacio Benjumea Cabeza de Vaca	35	43	95	—	—	—	—	102	275	524
Mr Guillermo de la Dehesa Romero	23	28	57	—	—	—	—	—	108	399
Ms Esther Giménez-Salinas i Colomer	64	71	56	—	—	—	—	—	191	228
Mr Carlos Fernández González	—	—	—	—	—	—	—	—	—	214

Comments
1. Includes deferred amounts from the 2016 deferred and conditional variable remuneration plan subject to long term metrics for Ana Botín, José Antonio Álvarez and Rodrigo Echenique, of which only a third was paid in 2020.

II) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

		Financial instruments at start of year 2020		Financial instruments granted at start of year 2020		Financial instruments consolidated during 2020				Instruments matured but not exercised	Financial instruments at end of year 2020	
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)	216,308	216,308	—	—	165,043	165,043	2.685	443	51,265	—	—
	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)	319,390	319,390	—	—	—	—	—	—	—	319,390	319,390
	5th cycle of deferred variable remuneration plan linked to multi-year targets (2020)	—	—	310,615	310,615	198,792	198,792	2.685	534	—	111,823	111,823

		Financial instruments at start of year 2020		Financial instruments granted at start of year 2020		Financial instruments consolidated during 2020				Instruments matured but not exercised	Financial instruments at end of year 2020	
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	—	—	111,396	111,396	2.685	299	34,602	—	—
	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)	213,449	213,449	—	—	—	—	—	—	—	213,449	213,449
	5th cycle of deferred variable remuneration plan linked to multi-year targets (2020)	—	—	168,715	168,715	107,976	107,976	2.685	290	—	60,739	60,739

Name	Name of Plan	Financial instruments at start of year 2020		Financial instruments granted at start of year 2020		Financial instruments consolidated during 2020				Instruments matured but not exercised	Financial instruments at end of year 2020	
		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	—	—	82,506	82,506	2.685	222	25,628	—	—
	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)	98,092	98,092	—	—	—	—	—	—	—	98,092	98,092

Comments
After reviewing the results of the 1st cycle of the deferred variable remuneration plan linked to multi-year targets (2016), the board of directors confirmed in 2020, upon recommendation from the remunerations committee, a 76.3% achievement of the long-term metrics of the plan, and the amounts of the pending deliveries for each executive director, payable in February 2020, 2021 and 2022 in connection with this plan.

III) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,155
Mr José Antonio Álvarez Álvarez	864

Name	Contribution over the year from the company (EUR thousand)				Amount of accumulated funds (EUR thousand)			
	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights		2020		2019	
	2020	2019	2020	2019	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	1,155	1,145	—	—	49,444	—	48,104	—
Mr José Antonio Álvarez Álvarez	864	858	—	—	18,082	—	17,404	—
Mr Rodrigo Echenique Gordillo	—	—	—	—	—	—	13,268	—

iv) Details of other items (Thousands of EUR)

Name	Item	Amount remunerated
Ms Ana Botín-Sanz de Sautuola y O'Shea	Life and accident insurance and fixed remuneration supplement insurance	584
	Other remuneration	22

Name	Item	Amount remunerated
Mr José Antonio Álvarez Álvarez	Life and accident insurance and fixed remuneration supplement insurance	1,045
	Other remuneration	9

b) Remuneration of the company directors for seats on the boards of other group companies:

i) Remuneration in cash (Thousands of EUR)

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 2020	Total year 2019
Ms Homaira Akbari	184	—	—	—	—	—	—	—	184	—
Mr Álvaro Antonio Cardoso de Souza	310	—	—	—	—	—	—	25	335	325
Mr Ramón Martín Chávez Márquez	17	—	—	—	—	—	—	—	17	—
Mr Henrique Manuel Drummond Borges Cirne de Castro	17	—	—	—	—	—	—	—	17	—
Ms Gina Díez Barroso	14	—	—	—	—	—	—	—	14	—
Mr Sergio Rial	—	—	—	2,175	1,664	—	—	181	4,020	—

ii) Table of changes in share/based remunerations schemes and gross profit from consolidated shares of financial instruments

		Financial instruments at start of year 2020		Financial instruments granted at start of year 2020		Financial instruments consolidated during 2020				Instruments matured but not exercised	Financial instruments at end of year 2020	
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 financial instruments (EUR thousand)	No. of instruments	No. of instruments	No of equivalent shares
Mr Sergio Rial	5th cycle of deferred variable remuneration plan linked to multi-year targets (2020)	—	—	355,263	355,263	227,367	227,367	7.32	1,664	—	127,896	127,896

iii) Long term saving systems

Name	Remuneration from consolidation of rights to savings system
Mr Sergio Rial	693

	Contribution over the year from the company (EUR thousand)				Amount of accumulated funds (EUR thousand)			
	Savings systems with consolidated economic rights		Savings systems with unconsolidated economic rights		2020		2019	
Name	2020	2019	2020	2019	Systems with consolidated economic rights	Systems with unconsolidated economic rights	Systems with consolidated economic rights	Systems with unconsolidated economic rights
Mr Sergio Rial	693	—	—	—	—	—	—	—

iv) Detail of other items (Thousands of EUR)

Name	Item	Amount Remunerated 2020
Mr Sergio Rial	Fundo de Pensão do Governo	174
	Other remuneration	7

c) Summary of remuneration (Thousands of EUR)

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.

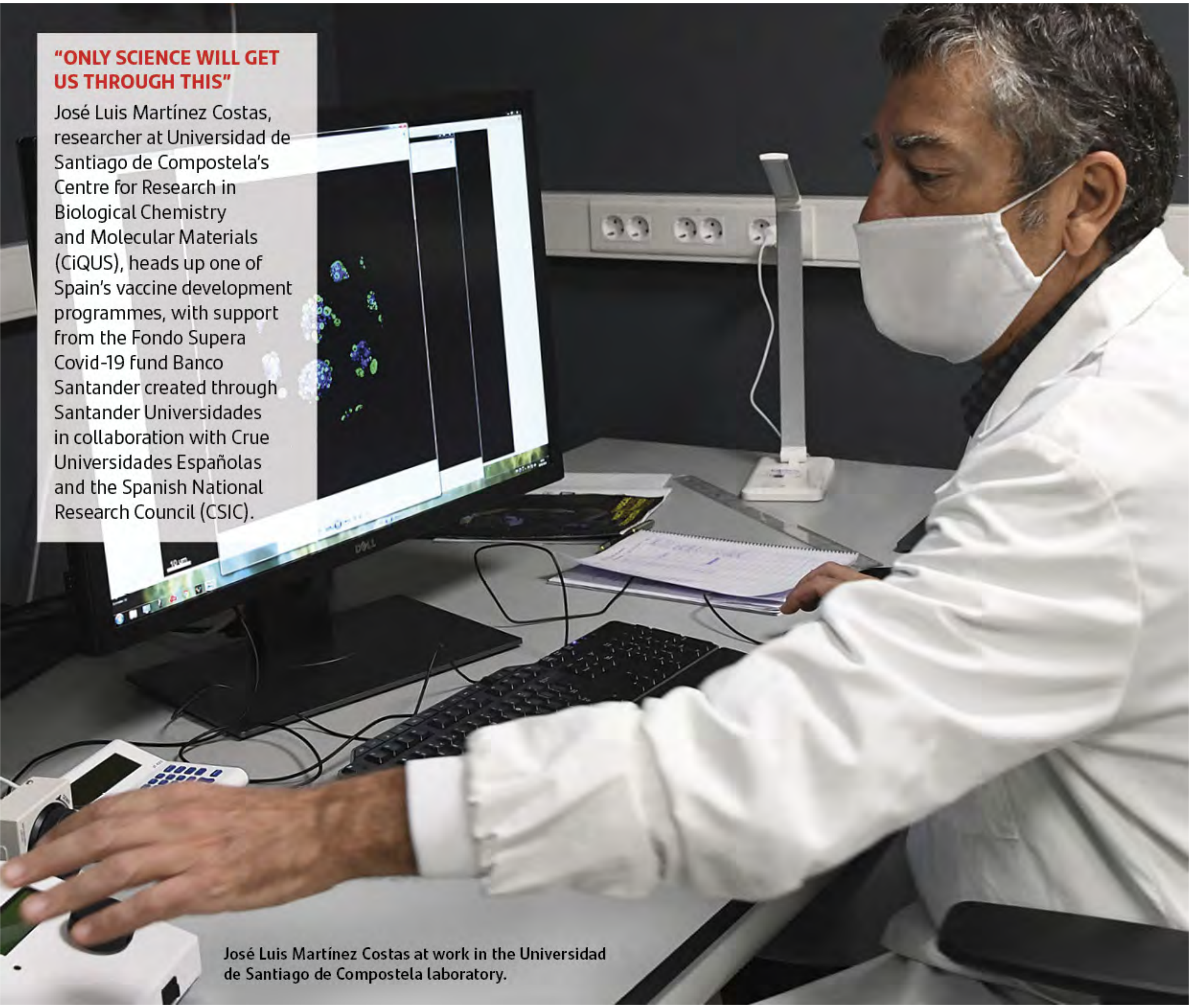
	Remuneration accrued in the company						Remuneration accrued in group companies					
Name	Total cash remuneration	Gross profit on consolidated shares or financial instruments[1]	Contributions to the long-term savings plan	Remuneration for other items	Total 2020	Total 2019	Total cash remuneration	Gross profit on consolidated shares or financial instruments	Contributions to the long-term savings plan	Remuneration for other items	Total 2020	Total 2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	5,352	977	1,155	606	8,090	9,954	—	—	—	—	—	—
Mr José Antonio Álvarez Álvarez	4,370	589	864	1,054	6,877	8,270	—	—	—	—	—	—
Mr Bruce Carnegie-Brown	595	—	—	—	595	700	—	—	—	—	—	—
Ms Homaira Akbari	202	—	—	—	202	226	184	—	—	—	184	—
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	122	—	—	—	122	137	—	—	—	—	—	—
Mr Álvaro Antonio Cardoso de Souza	243	—	—	—	243	276	335	—	—	—	335	325
Mr Ramón Martín Chávez Márquez	37	—	—	—	37	—	17	—	—	—	17	—
Ms Sol Daurella Comadrán	214	—	—	—	214	240	—	—	—	—	—	—
Mr Henrique Manuel Drummond Borges Cirne de Castro	217	—	—	—	217	86	17	—	—	—	17	—
Ms Gina Díez Barroso	4	—	—	—	4	—	14	—	—	—	14	—
Mr Luis Isasi Fernández de Bobadilla	943	—	—	—	943	—	—	—	—	—	—	—
Mr Ramiro Mato García-Ansorena	430	—	—	—	430	500	—	—	—	—	—	—
Mr Sergio Rial	63	—	—	—	63	—	4,020	1,664	693	181	6,558	—
Ms Belén Romana García	417	—	—	—	417	525	—	—	—	—	—	—
Mrs Pamela Ann Walkden	214	—	—	—	214	34	—	—	—	—	—	—
Mr Rodrigo Echenique Gordillo	2,369	222	—	4	2,595	4,874	—	—	—	—	—	—
Mr Ignacio Benjumea Cabeza de Vaca	275	—	—	—	275	524	—					—
Mr Guillermo de la Dehesa Romero	108	—	—	—	108	399	—					—
Ms Esther Giménez-Salinas i Colomer	191	—	—	—	191	228	—					—
Mr Carlos Fernández González	—	—	—	—	—	214	—	—	—	—	—	—
Total	**16,366**	**1,788**	**2,019**	**1,664**	**21,837**	**27,187**	**4,587**	**1,664**	**693**	**181**	**7,125**	**325**

Comments
1. Includes deferred amounts from the 2016 deferred and conditional variable remuneration plan subject to long term metrics for Ana Botín, José Antonio Álvarez and Rodrigo Echenique, of which only a third was paid in 2020.

This annual report on remuneration has been approved by the board of directors of the company, at its meeting on 22 February 2021.

State if any directors have voted against or abstained from approving this report.

Yes ☐ No ☑



"ONLY SCIENCE WILL GET US THROUGH THIS"

José Luis Martínez Costas, researcher at Universidad de Santiago de Compostela's Centre for Research in Biological Chemistry and Molecular Materials (CiQUS), heads up one of Spain's vaccine development programmes, with support from the Fondo Supera Covid-19 fund Banco Santander created through Santander Universidades in collaboration with Crue Universidades Españolas and the Spanish National Research Council (CSIC).

José Luis Martínez Costas at work in the Universidad de Santiago de Compostela laboratory.

Author: Santi Alvite

Economic and financial review

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1. Economic, regulatory and competitive context

In 2020, Santander operated in an extraordinarily complex environment characterized by the pandemic and the measures to alleviate its economic impact. The crisis has been global, severe and abrupt, and has generated enormous uncertainty given the impossibility of predicting its scope and duration. Most of the economies in which the bank operates responded with tough policies and notable coordination between their fiscal, financial and monetary counterparts to limit permanent damage from lockdown measures. Nonetheless, hopes raised by better treatments, more targeted outbreak responses and the effective vaccines announced in the final months of the year contained the situation towards the end of the year and led to better expectations that were reflected in financial markets.

Economic performance by geography was as follows:

- **Eurozone** (GDP: -6.8% estimated in 2020). The economic contraction led to a strong policy response. The European Central Bank (ECB) eased funding conditions through expansionary measures, complemented with temporary regulatory and supervisory measures to boost lending. The European Union (EU) supported countries adopting expansionary fiscal policies and set up funds to provide liquidity.

- **Spain** (GDP: -11 in 2020). The recession in Spain was more severe compared against the euro area average, owing to its greater exposure to the tourist industry and the stronger impact of the first wave of the pandemic. Unemployment rose to 16.1% in Q4'20. Inflation was negative at the end of the year (-0.5% year-on-year in December), due to contracting demand and lower energy prices.

- **United Kingdom** (GDP: -9.9% in 2020). The pandemic hit the British economy hard (particularly the service sector), which for some time overshadowed post-Brexit relationships with the EU. Inflation was low (0.6% in December) and unemployment (5% in October) remained under control thanks to government employment protection schemes. The UK's official interest rate has been 0.1% since March.

- **Portugal** (GDP: -7.6% in 2020). The covid-19 crisis affected the service sector the most, which had a direct impact on tourism. Unemployment (7.1% in Q4'20) will continue to rise. There was no inflation, standing at -0.2% in December. Portugal's fiscal deficit amounted to 3.6% of GDP through Q3'20.

- **Poland** (GDP: -2.8% in 2020). The recession was less severe than in surrounding countries due to better private consumption and external demand. Unemployment rose to 3.4% in Q3'20, although inflation remained high (2.4% in December). Poland's official interest rate has been at 0.1% since May.

- **United States** (GDP: -3.5% in 2020). Overall fiscal stimulus packages and softer restrictions caused the economy to shrink less than in other regions. As a result, after peaking at 14.7%, recovery enabled unemployment to fall to 6.7% in December. The shock exerted downward pressure on inflation. After cutting interest rates to 0-0.25%, the Federal Reserve activated a range of facilities to stabilize markets and encourage lending.

- **Mexico** (GDP: -8.5% preliminary in 2020). The pandemic and ensuing restrictions led to a sharp slump in the Mexican economy. Recovery began in Q3'20 on the back of manufacturing and exports, despite weak domestic demand. After a temporary rebound, inflation moderated at year-end (3.2%). Mexico's central bank lowered the official interest interest rate to 4.25% (from 7.25% at the end of 2019).

- **Brazil** (GDP: -4.1% estimated in 2020). The fall in economic activity stemming from the pandemic was more moderate elsewhere in the region due to fiscal support measures that mitigated the fall in Q2'20 and boosted recovery in Q3'20. Inflation rebounded at the end of the year (4.5% in December) while underlying inflation remained low (2.8%). Brazil's central bank cut the official interest rate by 250 bps to a record low of 2.0%.

- **Chile** (GDP: -6.0% estimated in 2020). The lockdowns and the economic shutdown lasted longer than in other countries, resulting in a late recovery. External demand, measures to boost liquidity and further fiscal stimulus have increased dynamism in recent months. The year ended with inflation at 3% and Chile's central bank cut interest rates by 125 bps to 0.5%.

- **Argentina** (GDP: -10.4% estimated in 2020). Argentina successfully restructured its foreign debt (99% acceptance), extending maturities and reducing the interest burden. GDP contracted for the third consecutive year. Inflation, which had slowed down in mid-2020, rebounded at year end to monthly rates greater than 3.5%.

The table below shows exchange rates against the euro of our main currencies in 2020 and 2019:

Exchange rates: 1 euro / currency parity

	Average		Period-end	
	2020	2019	2020	2019
US dollar	1.140	1.119	1.227	1.123
Pound sterling	0.889	0.877	0.898	0.851
Brazilian real	5.814	4.410	6.373	4.516
Mexican peso	24.364	21.549	24.438	21.220
Chilean peso	902.072	785.558	871.819	845.673
Argentine peso	79.555	52.572	103.159	67.258
Polish zloty	4.441	4.297	4.559	4.257

Though **financial markets** saw several risk averse episodes that coincided with periods of greater uncertainty, they ended 2020 on a more positive note.

As covid-19 spread globally, governments began closing their economies to promote social distancing and combat the pandemic. This spurred on a worldwide recession, which initially caused **volatility to skyrocket** across all asset classes.

Central banks reacted swiftly. The US Federal Reserve stepped in to support capital markets with interest rate cuts and balance-sheet expansion programmes, providing the liquidity needed to support the system, while bringing long-term government bond yields to historic lows. In Europe, the ECB also adopted monetary stimulus measures and relaxed its collateral policy, reducing peripheral sovereign risk. Meanwhile, Member State governments used **fiscal policy** to simultaneously deploy unprecedented amounts of liquidity to prop up economies.

The combination and scale of those measures laid the foundation for a **gradual return of risk appetite**, while the resolution of the US presidential election and, most importantly, news about effective covid-19 vaccines helped invigorate financial markets.

The **international banking environment** was also affected by the pandemic. The banking sector has been part of the solution, as banks have been channelling significant amounts of support from government policies while adopting measures to help households and businesses cope with the impact to their income.

Several stress exercises carried out by international organizations indicate that international banks' strong solvency and liquidity should prevent a banking crisis even if economic conditions worsen. Banks will have the added challenge of a foreseeable increase in defaults.

In fact, **profitability** was already lagging in 2020 owing to higher provisions. Increasing profitability amid lower-for-longer interest rates, high indebtedness and non-performing loans remains a difficult task, particularly in Europe, where institutional progress and regulatory harmonization is important in order to increase the sector's efficiency and improve current market valuations.

In developing countries, profitability remains high and bank solvency is at historically high levels. Nevertheless, a sharp macroeconomic deterioration could affect the banking sector.

During the pandemic, the **digital transformation** has accelerated with a sharp increase in customer interaction through digital channels. Competition and efficiency continue to demand high levels of investment. In addition, the banking sector needs to adapt to the ageing of developed economies and should use new technologies to their advantage to increase access to banking services to the growing middle classes in emerging economies.

Regarding **the regulatory framework** in 2020, of note was:

A. 2020 prudential framework: key aspects on solvency and resolution.

The financial institutions must meet a set of minimum capital and liquidity requirements. These minimum requirements are regulated by the European capital requirements regulation, better known as CRR, and in the Capital Requirements Directive (CRD). In June 2019 these regulations were significantly modified, so that references to CRR2 and CRDV are understood as such regulations with the latest modifications incorporated respectively.

Among the amendments to the CRR2, it is worth highlighting the introduction of the minimum requirement of TLAC (Total Loss Absorbing Capacity) applicable only to entities of global systemic importance (G-SIBs). This requirement is a minimum requirement for own funds and eligible liabilities (in terms of a percentage of the total risk exposure amount, currently 16% and, after the transitional period, 18%; in terms of a percentage of the total exposure measure, currently 6% and, after the transitional period, 6.75%).

The CRDV, as a directive, must be transposed into the national legal system to be applicable in the Member States. In Spain, the transposition is expected to be developed during 2021. The CRDV includes relevant amendments such as the regulation of Pillar 2 Guidance requirements.

Regarding to the resolution regulations, financial institutions must have an adequate financing structure that allows them, in the event of financial difficulties, to recover their situation or to resolve it, ensuring the protection of depositors and the financial stability.

The directive that regulates the aforementioned resolution framework is the Restructuring and Resolution Directive, BRRD. Like CRR2 and CRDV, BRRD was amended in June 2019. BRRD2 refers BRRD as amended. The transposition of this directive in Spain is also planned for 2021.

The BRRD2 has introduced important modifications to the minimum requirement for own funds and eligible liabilities (MREL). Thus, for example, the aforementioned TLAC requirement is now considered a Pillar 1 resolution requirement for G-SIBs. For large banks (which are defined as those whose total assets exceed EUR 100 billion euros) or those that the resolution authority otherwise considers systemic, the BRRD2 establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the exposure of the leverage ratio, whichever is higher. Other entities' subordination requirement will be determined on a case-by-case basis by the resolution authority.

B. Regulatory response to the impacts of covid-19

The severe economic disruption caused by the covid-19 pandemic in 2020 has revealed the importance of institutions' funding functions in contributing to recovery. The competent authorities (national, European and international) have acted by reducing liquidity, capital and operational requirements so financial institutions can continue to provide financing to the economy, while ensuring that such institutions continue to act prudently as they can also be negatively affected by the deterioration of the economic situation.

As part of these measures, the European Central Bank issued a recommendation in March 2020 urging European banks to refrain from paying dividends against 2019 and 2020 financial years. On 27 July, the ECB extended that recommendation to 1 January 2021. On 15 December 2020, the ECB issued its recommendation 2020/35, repealing previous referred recommendations, and by which it recommended that banks under the scope of its direct supervision exercise extreme prudence on dividends and share buy-backs. The ECB asks the banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions until 30 September 2021. Given the persisting uncertainty over the economic impact of the covid-19 pandemic, the ECB also considers that it would not be prudent for credit institutions to consider making a distribution and share buy-backs amounting to more than 15% of their accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the CET1 ratio, whichever is lower.

For further details, see section 3.3 'Dividends' in the 'Corporate Governance' chapter.

The national governments have taken measures to address the economic and social impact of covid-19, specifically in the form of legislative moratoria that were aimed at containing non-performing loans (NPLs) and helping the population to meet liquidity needs. Throughout 2020, the European Banking Authority (EBA) adopted a series of guidelines, including the Guidelines on legislative and non-legislative moratoria applied in the context of the covid-19 crisis on 2 April 2020. These guidelines clarify the requirements for public and private moratoria to avoid classification of exposures affected by moratoria as forborne exposures.

Although these guidelines were initially expected to apply to moratoria granted before 30 June 2020, the EBA decided on 2 December 2020 that these guidelines would apply to moratoria requested before 31 March 2021.

Other measures adopted to provide flexibility in complying with these requirements have been the approval and entry into force of the 'quick fix' of the CRR (urgent and extraordinary regulatory measures aimed at making the regulatory framework more flexible in response to covid-19), which modifies CRR2. Among the amendments introduced by the quick fix, it is worth highlighting the extension of the transitional period granted before the pandemic due to the entry into force of IFRS 9, as a result of the sudden and significant increase in provisions for expected credit losses that must be recognized. Additionally, the application of certain provisions of CRR2 has been delayed, such as those relating to the leverage ratio buffer (whose application date is postponed until 1 January 2023), and includes the possibility to exclude from the calculation of such ratio exposures to central banks. Similarly, the date of application of other favourable provisions for entities, such as the support factor for small and medium enterprises (SMEs) and the support factor for infrastructure has been extended.

C. Other regulations: Sustainability

With regard to the integration of sustainable finance in the financial sector, the Taxonomy Regulation (Regulation 2020/852) has been published, which establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable and also lays down disclosure obligations for the financial services sector to be applied on 2022. This taxonomy supplements the rules on sustainability-related disclosures in the financial services sector laid down in Regulation (EU) 2019/2088. In addition, the ECB and Banco de España (Spain's central bank) supervisory expectations will gradually incorporate into the supervisory dialogue the management and disclosure of climate and environmental risks.

2. Group selected data

BALANCE SHEET (EUR million)	2020	2019	% 2020 vs 2019	2018
Total assets	**1,508,250**	1,522,695	(0.9)	1,459,271
Loans and advances to customers	**916,199**	942,218	(2.8)	882,921
Customer deposits	**849,310**	824,365	3.0	780,496
Total funds [A]	**1,056,127**	1,050,765	0.5	980,562
Total equity	**91,322**	110,659	(17.5)	107,361

INCOME STATEMENT (EUR million)	2020	2019	% 2020 vs 2019 [B]	2018
Net interest income	**31,994**	35,283	(9.3)	34,341
Total income	**44,279**	49,229	(10.1)	48,424
Net operating income	**23,149**	25,949	(10.8)	25,645
Profit before tax	**(2,076)**	12,543	—	14,201
Attributable profit to the parent	**(8,771)**	6,515	—	7,810

EPS, PROFITABILITY AND EFFICIENCY (%)	2020	2019	% 2020 vs 2019	2018
EPS (euro) [C]	**(0.538)**	0.347	—	0.430
RoE	**(9.80)**	6.62		8.21
RoTE	**1.95**	11.44		11.63
RoA	**(0.50)**	0.54		0.64
RoRWA	**(1.33)**	1.33		1.55
Efficiency ratio [D]	**47.0**	47.0		47.0

UNDERLYING INCOME STATEMENT [D] (EUR million)	2020	2019	% 2020 vs 2019 [E]	2018
Net interest income	**31,994**	35,283	(9.3)	34,341
Total income	**44,600**	49,494	(9.9)	48,424
Net operating income	**23,633**	26,214	(9.8)	25,645
Profit before tax	**9,674**	14,929	(35.2)	14,776
Attributable profit to the parent	**5,081**	8,252	(38.4)	8,064

UNDERLYING EPS AND PROFITABILITY [D] (%)	2020	2019	% 2020 vs 2019	2018
Underlying EPS (euro) [C]	**0.262**	0.449	(41.7)	0.446
Underlying RoE	**5.68**	8.38		8.48
Underlying RoTE	**7.44**	11.79		12.08
Underlying RoA	**0.40**	0.65		0.66
Underlying RoRWA	**1.06**	1.61		1.59

SOLVENCY AND NPLs (%)	2020	2019	2018
Phased-in CET1 [F]	**12.34**	11.65	11.47
Phased-in total capital ratio [F]	**16.18**	15.05	14.98
NPL ratio	**3.21**	3.32	3.73
Coverage ratio	**76**	68	67

THE SHARE, MARKET CAPITALIZATION AND DIVIDEND	2020	2019	% 2020 vs 2019	2018
Number of shareholders	**4,018,817**	3,986,093	0.8	4,131,489
Shares (millions)	**17,341**	16,618	4.3	16,237
Share price (euros) [C]	**2.538**	3.575	(29.0)	3.807
Market capitalization (EUR million)	**44,011**	61,986	(29.0)	64,508
Dividend per share (euros) [C G]	**0.0275**	0.1917	(85.7)	0.2204
Tangible book value per share (euros) [C]	**3.79**	4.18		4.01
Price / Tangible book value per share (X)	**0.67**	0.86		0.95

CUSTOMERS (thousands)	2020	2019	% 2020 vs 2019	2018
Total customers	**148,256**	144,795	2.4	139,450
Loyal customers [H]	**22,838**	21,556	5.9	19,832
Loyal retail customers	**20,901**	19,762	5.8	18,095
Loyal SME & corporate customers	**1,938**	1,794	8.0	1,736
Digital customers [I]	**42,362**	36,817	15.1	32,014

OPERATING DATA	2020	2019	% 2020 vs 2019	2018
Number of employees	**191,189**	196,419	(2.7)	202,713
Number of branches	**11,236**	11,952	(6.0)	13,217

A. Includes customer deposits, mutual funds, pension funds and managed portfolios.

B. In constant euros: Net interest income: +1.3%; Total income: +0.2%; Net operating income: +1.5%; Attributable profit: +/-.

C. 2018 and 2019 data adjusted for the capital increase in December 2020.

D. In addition to IFRS measures, we present non-IFRS measures including those 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 of our business which are grouped in the 'net capital gains and provisions' line and are further detailed at the end of section 3.2 'Results' and in section 8 'Alternative Performance Measures' – of this chapter.

E. In constant euros: Net interest income: +1.3%; Total income: +0.3%; Net operating income: +2.5%; Attributable profit: -29.5%.

F. The phased-in ratio includes the transitory treatment of IFRS 9, calculated in accordance with article 473 bis of the Regulation on Capital Requirements (CRR) and subsequent amendments introduced by Regulation 2020/873 of the European Union. Additionally, the total phased-in capital ratio includes the transitory treatment according to chapter 2, title 1, part 10 of the aforementioned CRR.

G. The board of directors intends for the final remuneration charged to 2020 to be EUR 0.0275 per share in cash. This is the maximum allowed according to the limits established by the European Central Bank (ECB) in its recommendation 2020/63 on 15 December.

H. 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.

I. Every physical or legal person, that, being part of a commercial bank, has logged in its personal area of internet banking ormobile phone or both in the last 30 days.

3. Group financial performance

Grupo Santander follows IFRS to report our results (see note 1.b to the consolidated financial statements). While the results generally guide the overview of our financial situation provided in this consolidated directors' report, we also use non-IFRS measures and Alternative Performance Measures (APMs) to asses our performance (see section 8 'Alternative Performance Measures' of this chapter). Thus, main adjustments to our IFRS results consist of:

- **Underlying results measures.** We present what we call underlying results measures which, in our view, provide a better year-on-year comparison because they exclude items outside the ordinary performance of our business that are grouped in the net capital gains and provisions line, and are further detailed at the end of section 3.2 'Results' of this chapter.

  We also present results by business area in section 4 'Financial information by segment' on an underlying basis in accordance with IFRS 8 and reconcile them in aggregate terms to our IFRS consolidated results in note 51.c to the consolidated financial statements.

- **Local currency measures.** We use certain non-IFRS financial indicators in local currency to asses the ongoing operating performance of our business, which includes the results from our subsidiary banks outside the eurozone (excluding the FX impact). Because changes in exchange rates have a non-operating impact on results, we believe that evaluating performance in local currency provides an additional and meaningful assessment of performance to both management and investors. Section 8 'Alternative Performance Measures' of this chapter explains how we exclude the exchange rate impact from financial measures in local currency.

We have rounded certain figures in this consolidated directors' report to present them more clearly. Accordingly, in certain instances, the amounts given in the totals columns and rows of tables 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 of December 2020, we had EUR 1,508,250 million of assets and EUR 1,056,127 million of total funds. Our market capitalization had reached EUR 44,011 million.

Our purpose is to help people and businesses prosper in a way that is Simple, Personal and Fair. We do not merely meet our legal and regulatory obligations, but also aspire to exceed expectations. We focus on areas where our activity can have the greatest impact, helping economic growth in an inclusive and sustainable way.

We engage in all types of typical banking activities, operations and services. Our scale, business model and diversification drive our 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).

In 2020, against the backdrop of the pandemic, our commitment to our stakeholders was even stronger:

- Our priority was to safeguard the health and safety of our 191,189 employees, by implementing measures such as redefining our way of working, with more than 100,000 employees working from home at the peak of the pandemic, and gradual returns to the workplaces amid de-escalation. We followed local governments' recommendations at all times and based our procedures on three pillars: developing and implementing of health and safety protocols, prioritizing the health of our employees, and tracking and tracing (through health apps).

- For our 148 million customers, we strengthened our proposition, and implemented support measures to ensure the necessary financial assistance through pre-approved lines of credit, payment deferrals and special policies, as well as facilitating the granting of state-guaranteed business loans in all countries.

- For our shareholders, we kept all channels open to increase their trust, which was reflected in an increase of more than 30,000 shareholders in the year to 4,018,817.

- In line with our commitment, we contributed to the well-being of society. We implemented actions and mobilized resources together with governments and institutions to help combat the health crisis, with more than EUR 105 million dedicated to solidarity initiatives.

As the global pandemic intensified, we accelerated our digital transformation, focusing on our multi-channel strategy and digitalization of processes and businesses.

As a result, loyal and digital customers and activity continued to grow. The number of loyal customers reached 23 million (+6% in the year), picking up in individuals and corporates. Digital customers rose 15% to more than 42 million.

On average, our customers accessed digital touchpoints close to 190 million times per week and 44% of total sales were digital (36% in 2019). We also aim to be one of the top three banks for customer satisfaction in our main markets.

Besides digital channels, we interact with our customers through our global network of 11,236 branches, which we are optimizing and adapting to our customers' needs including universal offices and specialist centres for certain customer segments. We also have new collaborative spaces with increased digital capabilities (Work Café, SmartBank and Ágil branches).

Additionally, we have contact centres which have won several awards for their service quality.

Santander has also 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 attends to corporate and institutional customers who require a tailored service and value-added wholesale products that suit their complexity and sophistication. This highly profitable business model yields returns through the economic cycle. Our long-term strategy remains focused on becoming our clients' strategic advisor of choice.

Furthermore, SCIB aims to maintain its leadership position in South America and also to turn the US franchise into a fierce competitor in North America.

WM&I consists of asset management, private banking and insurance businesses and is a very capital efficient business with significant growth potential and high returns. As a part of our strategy to become the best responsible wealth manager in Europe and Latin America, we are implementing several private banking, asset management and insurance initiatives.

In the year, both businesses performed strongly, growing revenue, net operating income and profit. Both businesses together accounted for 46% of Grupo Santander's total net fee income and 38% of profit.

We launched **three strategic initiatives** in 2020 to reinvent the bank and deliver sustainable and profitable growth based on greater customer loyalty:

1. **One Santander**: We want to create a better bank for our customers that delivers sustainable value for shareholders, through a global project that we first launched in Europe, by:

- better serving our customers and simplifying our mass market value proposition to continue to enhance customer experience;
- making progress with our omnichannel strategy, redefining how we interact with our customers, accelerating our digital agenda and maintaining strong personal relationships through our teams;
- creating a common operating model in each region, to serve the business with shared technology platforms and automated operations, leveraging shared services opportunities.

This transformation should deliver faster and more profitable growth, as well as higher productivity.

The first focus of **One Santander's** strategy is **Europe**, where we announced a new organization in September, based on a pan-European operating model with a regional, business-centric management structure, which will enable us to boost innovation, reduce costs and simplify our operations. Our medium-term strategy will build on three drivers:

- focusing on capital-efficient growth opportunities;
- leveraging PagoNxt global solutions with particular focus on SMEs and merchants;
- redesigning our branch network through the expansion of Santander Personal, deploying common mobile apps and increasing the number of Work Cafés.

We will see the first steps of this deep transformation in 2021. Particular focus will be on changing how we manage our business with the creation of the new regional business owners role, responsible for managing region-wide businesses, defining the vision and end-to-end value proposition for each customer area and delivering through agile teams in all countries.

We also want deploy this model in our other two regions:

In **North America**:

- increase collaboration to Commercial Banking, Auto and other retail segments; and
- continue to build shared services in both countries,

In **South America**:

- expand Getnet and Superdigital
- implement a common operating model for Consumer Finance; and
- focus on revenue growth opportunities (e.g. Agribusiness).

2. Digital Consumer Bank: our vision is to build a global digital consumer lender on the shoulders of the existing Santander Consumer Finance footprint and the technology of Openbank's digital platform. This approach will be a win-win from three perspectives: customer, technology and financial.

- Customers: consumer finance acquires millions of new customers each year through car and consumer loans. Openbank has a full set of banking services, with a single, highly scalable and efficient software stack. Combining these gives our consumer finance customer base access to a full suite of additional banking services.
- Technology: Openbank's technology gives instant access to API services to offer payments and lending (or leasing) capabilities directly to their customers and provides a common data platform to access the rich set of data unique to online consumer models.
- Financial: Openbank accounts and robo-wealth management services will be the backbone to generate a greater deposit base to fund Santander Consumer Finance's (SCF) lending activities.

3. PagoNxt: combining our most disruptive payments businesses into a single, autonomous company, providing world-class technology solutions for our banks and new open market customers. This new area is an upgrade to Santander Global Platform and is made up of three global businesses:

- Global merchant solutions: merchant solutions offered under our Getnet brand, which is already a market leader in Brazil and one of the top 3 acquirers in Latin America. We rolled it out in several countries in 2020, and platform developments continued to incorporate additional functionalities. We also acquired Wirecard assets.
- Global trade solutions: solutions for SMEs and corporates to trade internationally. We have leveraged our experience in trade services to develop a new global technology platform that incorporates innovative new services, bringing Santander's international flows into a single platform and operating under the global brand of OneTrade. In 2020 we connected the platform to our customers in six countries, whilst completing acquisitions of majority stakes in two companies, Mercury and Ebury, which help strengthen our trade offering.
- Consumer digital services: simple and accessible digital payments solutions for individuals, building on our Superdigital proposition, our solution in Latin America which targets the underbanked; and PagoFX, our open market international money transfer service. These consumer solutions will serve to create two-sided payments networks of merchants and individuals which will boost customer growth. In 2020, we further developed our global Superdigital platform and PagoFX completed the construction of its international payments platform.

3.2 Results

2020 Highlights

- **Grupo Santander's results in the year were affected by the health crisis caused by the spread of covid-19, which is reflected in a weaker economic environment, lower interest rates and a sharp depreciation of some currencies.**
- **Total income fell in the year from lower activity and exchange rates. Excluding their impact, total income remained in line with 2019, as the decrease in activity and lower interest rates were offset by higher volumes, sound market volatility management and the lower cost of deposits.**
- **Cost reduction through the optimization plans implemented in recent years, along with additional savings measures adopted since the start of the crisis. This was reflected in the fall in real terms in the majority of our markets.**
- **Greater loan-loss provisions due to credit growth and the worsening of economic conditions arising from the pandemic and the consequent expected impact on credit quality. Cost of credit ended the year at 1.28%, in line with our expectations.**
- **We adjusted the goodwill ascribed to some units and to deferred tax assets in the second quarter as a result of the worsening economic outlook, totalling EUR 12,600 million, resulting in an attributable profit to the Group of -EUR 8,771 million in 2020.**
- **Excluding the above adjustments and other costs and provisions that are outside the ordinary course of our business, underlying attributable profit to the parent was EUR 5,081 million, with net operating income of EUR 23,633 million, 2% more in constant euros than in 2019.**

Summarized income statement

EUR million

			Change			
	2020	2019	te	%	% excl. FX	2018
Net interest income	31,994	35,283	(3,289)	(9.3)	1.3	34,341
Net fee income (commission income minus commission expense)	10,015	11,779	(1,764)	(15.0)	(4.5)	11,485
Gains or losses on financial assets and liabilities and exchange differences (net)	2,187	1,531	656	42.8	55.9	1,797
Dividend income	391	533	(142)	(26.6)	(26.1)	370
Share of results of entities accounted for using the equity method	(96)	324	(420)	—	—	737
Other operating income / expenses	(212)	(221)	9	(4.1)	125.1	(306)
Total income	**44,279**	**49,229**	**(4,950)**	**(10.1)**	**0.2**	**48,424**
Operating expenses	(21,130)	(23,280)	2,150	(9.2)	(1.2)	(22,779)
Administrative expenses	(18,320)	(20,279)	1,959	(9.7)	(1.6)	(20,354)
Staff costs	*(10,783)*	*(12,141)*	*1,358*	*(11.2)*	*(4.1)*	*(11,865)*
Other general administrative expenses	*(7,537)*	*(8,138)*	*601*	*(7.4)*	*2.2*	*(8,489)*
Depreciation and amortization	(2,810)	(3,001)	191	(6.4)	1.6	(2,425)
Provisions or reversal of provisions	(2,378)	(3,490)	1,112	(31.9)	(26.5)	(2,223)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(12,382)	(9,352)	(3,030)	32.4	49.2	(8,986)
Impairment on other assets (net)	(10,416)	(1,623)	(8,793)	—	—	(207)
Gain or losses on non-financial assets and investments (net)	114	1,291	(1,177)	(91.2)	(91.2)	28
Negative goodwill recognized in results	8	—	8	—	—	67
Gains or losses on non-current assets held for sale not classified as discontinued operations	(171)	(232)	61	(26.3)	(28.6)	(123)
Profit or loss before tax from continuing operations	**(2,076)**	**12,543**	**(14,619)**	**—**	**—**	**14,201**
Tax expense or income from continuing operations	(5,632)	(4,427)	(1,205)	27.2	45.6	(4,886)
Profit from the period from continuing operations	**(7,708)**	**8,116**	**(15,824)**	**—**	**—**	**9,315**
Profit or loss after tax from discontinued operations	—	—	—	—	—	—
Profit for the period	**(7,708)**	**8,116**	**(15,824)**	**—**	**—**	**9,315**
Attributable profit to non-controlling interests	(1,063)	(1,601)	538	(33.6)	(25.5)	(1,505)
Attributable profit to the parent	**(8,771)**	**6,515**	**(15,286)**	**—**	**—**	**7,810**

Main income statement items

Total income

Total income amounted to EUR 44,279 million in 2020, down 10% year-on-year. If the FX impact is removed, total income remained resilient, in line with last year, due to the strength of our geographical and business diversification. Net interest income and net fee income accounted for 95% of total income.

By line:

Net interest income

Net interest income amounted to EUR 31,994 million, 9% less than in 2019. The following tables show the average balances for each year, calculated as the monthly average over 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 our average balances and average interest rates obtained in 2020 and 2019, based on the domicile of the entities at which the relevant assets or liabilities are accounted for. Domestic balances relate to our entities domiciled in Spain, reflecting our domestic activity. International balances relate to those entities domiciled outside of Spain (reflecting our foreign activity), divided into mature markets - Europe (except Spain and Poland) and the US-, and developing markets - South America, Mexico and Poland.

The balance of interest-earning assets in 2020 averaged 2% higher than in 2019, driven by 4% growth in domestic and mature markets (mainly loans and advances to customers). Developing markets dropped 5% affected by exchange rates, as local currency volumes increased in almost all countries.

Average balance sheet - assets and interest income

EUR million

	2020			2019		
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[A]	**223,096**	**2,232**	**1.00%**	**203,809**	**3,920**	**1.92%**
Domestic	97,511	650	0.67%	84,412	598	0.71%
International - Mature markets	79,703	512	0.64%	66,093	910	1.38%
International - Developing markets	45,882	1,070	2.33%	53,304	2,412	4.52%
Loans and advances to customers	**930,563**	**38,788**	**4.17%**	**910,327**	**46,180**	**5.07%**
Domestic	251,536	4,913	1.95%	236,132	5,420	2.30%
International - Mature markets	509,016	17,136	3.37%	491,479	18,426	3.75%
International - Developing markets	170,011	16,739	9.85%	182,716	22,334	12.22%
Debt securities	**172,940**	**5,022**	**2.90%**	**190,128**	**6,378**	**3.35%**
Domestic	46,390	341	0.74%	61,498	599	0.97%
International - Mature markets	49,667	619	1.25%	56,935	829	1.46%
International - Developing markets	76,883	4,062	5.28%	71,695	4,950	6.90%
Hedging income		**(343)**			**232**	
Domestic		21			59	
International - Mature markets		(116)			161	
International - Developing markets		(248)			12	
Other interest		**42**			**75**	
Domestic		10			23	
International - Mature markets		21			31	
International - Developing markets		11			21	
Total interest-earning assets	**1,326,599**	**45,741**	**3.45%**	**1,304,264**	**56,785**	**4.35%**
Domestic	395,437	5,935	1.50%	382,042	6,699	1.75%
International - Mature markets	638,386	18,172	2.85%	614,507	20,357	3.31%
International - Developing markets	292,776	21,634	7.39%	307,715	29,729	9.66%
Other assets	**210,953**			**203,903**		
Assets from discontinued operations	**—**			**—**		
Average total assets	**1,537,552**	**45,741**		**1,508,167**	**56,785**	

A. Interest includes income from liabilities reported in "Deposits from Central Banks and credit institutions" related to funding from the European Central Bank.

The average return on interest-earning assets decreased from 4.35% in 2019 to 3.45% in 2020, with broad based decreases across markets (domestic: -25 bps, mature international: -46 bps; developing international: -227 bps) and balance sheet items (cash, demand deposits and loans and advances to central banks and credit institutions: -92 bps; loans and advances to customers: -90 bps; debt securities: -45 bps), primarily driven by lower interest rates across our regions.

The average balance of interest-bearing liabilities in 2020 was 2% higher year-on-year, also spurred by domestic markets (+5%, from marketable debt securities and, to a lesser degree, customer deposits) and mature international activity (+3%, through customer deposits and central banks and credit institutions deposits). Developing markets fell 3%, dampened by the exchange rate impact in Latin American countries.

Average balance sheet - liabilities and interest expense

EUR million

	2020			2019		
Liabilities and stockholders' equity	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Deposits from central banks and credit institutions [A]	**187,128**	**2,147**	**1.15%**	**181,651**	**3,248**	**1.79%**
Domestic	90,747	394	0.43%	86,635	496	0.57%
International - Mature markets	61,877	445	0.72%	59,155	884	1.49%
International - Developing markets	34,504	1,308	3.79%	35,861	1,868	5.21%
Customer deposits	**837,397**	**5,599**	**0.67%**	**811,151**	**10,137**	**1.25%**
Domestic	269,979	332	0.12%	263,016	665	0.25%
International - Mature markets	385,956	1,662	0.43%	366,003	2,659	0.73%
International - Developing markets	181,462	3,605	1.99%	182,132	6,813	3.74%
Marketable debt securities [B]	**247,284**	**5,119**	**2.07%**	**246,133**	**6,679**	**2.71%**
Domestic	99,466	1,539	1.55%	84,217	1,580	1.88%
International - Mature markets	116,411	2,395	2.06%	125,022	3,011	2.41%
International - Developing markets	31,407	1,185	3.77%	36,894	2,088	5.66%
Other interest-bearing liabilities	**10,650**	**281**	**2.64%**	**13,293**	**418**	**3.14%**
Domestic	6,331	117	1.85%	8,774	213	2.43%
International - Mature markets	2,245	28	1.25%	2,131	25	1.17%
International - Developing markets	2,074	136	6.56%	2,388	180	7.54%
Hedging expenses		**(294)**			**0**	
Domestic		(37)			(21)	
International - Mature markets		(205)			25	
International - Developing markets		(52)			(4)	
Other interest		**895**			**1,020**	
Domestic		313			222	
International - Mature markets		95			150	
International - Developing markets		487			648	
Total interest-bearing liabilities	**1,282,459**	**13,747**	**1.07%**	**1,252,228**	**21,502**	**1.72%**
Domestic	**466,523**	**2,658**	**0.57%**	**442,642**	**3,155**	**0.71%**
International - Mature markets	**566,489**	**4,420**	**0.78%**	**552,311**	**6,754**	**1.22%**
International - Developing markets	**249,447**	**6,669**	**2.67%**	**257,275**	**11,593**	**4.51%**
Other liabilities	**155,714**			**146,386**		
Non-controlling interests	**9,920**			**11,096**		
Shareholders´ equity	**89,459**			**98,457**		
Liabilities from discontinued operations	—			—		
Average total liabilities and equity	**1,537,552**	**13,747**		**1,508,167**	**21,502**	

A. Interest includes expenses from assets reported in "Cash and deposits on demand and loans and advances to central banks and credit institutions" related to liquidity placed in the European Central Bank.

B. Does not include contingently convertible preference shares and perpetual subordinated notes because they do not accrue interests. We include them under “Other liabilities”.

The average cost of interest-bearing liabilities fell 65 bps to 1.07%, which reflected a general decrease across markets (domestic: -14 bps, mature international: -44 bps; developing international: -184 bps) and balance sheet item (central banks and credit institutions deposits: -68 bps; customer deposits: -58 bps; debt securities: -64 bps).

The change in interest income / (expense) shown in the table below was calculated as follows:

- The change in volumes is obtained by applying the interest rate of the previous period 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 of the previous year.

Lower interest rates led to less interest income and expense, despite a slightly positive impact from volumes. Broad-based decreases across markets, particularly in developing markets, due to the exchange rates.

Thus, net interest income was down 9% but increased slightly (+1%) stripping out the FX effect.

Volume and profitability analysis

EUR million

	2020 vs. 2019		
	Increase (decrease) due to changes		
Interest income	Volume	Rate	Net change
Cash and deposits on demand and loans and advances to central banks and credit institutions	**253**	**(1,941)**	**(1,688)**
Domestic	89	(37)	52
International - Mature markets	464	(862)	(398)
International - Developing markets	(300)	(1,042)	(1,342)
Loans and advances to customers	**628**	**(8,020)**	**(7,392)**
Domestic	338	(845)	(507)
International - Mature markets	1,763	(3,053)	(1,290)
International - Developing markets	(1,473)	(4,122)	(5,595)
Debt securities	**(221)**	**(1,135)**	**(1,356)**
Domestic	(170)	(88)	(258)
International - Mature markets	(149)	(61)	(210)
International - Developing markets	98	(986)	(888)
Hedging income	**(575)**	**—**	**(575)**
Domestic	(38)	—	(38)
International - Mature markets	(277)	—	(277)
International - Developing markets	(260)	—	(260)
Other interest	**(33)**	**—**	**(33)**
Domestic	(13)	—	(13)
International - Mature markets	(10)	—	(10)
International - Developing markets	(10)	—	(10)
Total interest-earning assets	**52**	**(11,096)**	**(11,044)**
Domestic	**206**	**(970)**	**(764)**
International - Mature markets	**1,791**	**(3,976)**	**(2,185)**
International - Developing markets	**(1,945)**	**(6,150)**	**(8,095)**

Volume and cost analysis

EUR million

	2020 vs. 2019		
	Increase (decrease) due to changes in		
Interest expense	Volume	Rate	Net change
Deposits from central banks and credit institutions	**62**	**(1,163)**	**(1,101)**
Domestic	23	(125)	(102)
International - Mature markets	107	(546)	(439)
International - Developing markets	(68)	(492)	(560)
Customer deposits	**339**	**(4,877)**	**(4,538)**
Domestic	17	(350)	(333)
International - Mature markets	347	(1,344)	(997)
International - Developing markets	(25)	(3,183)	(3,208)
Marketable debt securities	**(155)**	**(1,405)**	**(1,560)**
Domestic	261	(302)	(41)
International - Mature markets	(137)	(479)	(616)
International - Developing markets	(279)	(624)	(903)
Other interest-bearing liabilities	**(61)**	**(76)**	**(137)**
Domestic	(52)	(44)	(96)
International - Mature markets	13	(10)	3
International - Developing markets	(22)	(22)	(44)
Hedging expenses	**(294)**	**—**	**(294)**
Domestic	(16)	—	(16)
International - Mature markets	(230)	—	(230)
International - Developing markets	(48)	—	(48)
Other interest	**(125)**	**—**	**(125)**
Domestic	91	—	91
International - Mature markets	(55)	—	(55)
International - Developing markets	(161)	—	(161)
Total interest-bearing liabilities	**(234)**	**(7,521)**	**(7,755)**
Domestic	**324**	**(821)**	**(497)**
International - Mature markets	**45**	**(2,379)**	**(2,334)**
International - Developing markets	**(603)**	**(4,321)**	**(4,924)**

Net interest income. Summary of volume, profitability and cost analysis

EUR million

	2020 vs 2019		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest income	**52**	**(11,096)**	**(11,044)**
Domestic	206	(970)	(764)
International - Mature markets	1,791	(3,976)	(2,185)
International - Developing markets	(1,945)	(6,150)	(8,095)
Interest expense	**(234)**	**(7,521)**	**(7,755)**
Domestic	324	(821)	(497)
International - Mature markets	45	(2,379)	(2,334)
International - Developing markets	(603)	(4,321)	(4,924)
Net interest income	**286**	**(3,575)**	**(3,289)**
Domestic	**(118)**	**(149)**	**(267)**
International - Mature markets	**1,746**	**(1,597)**	**149**
International - Developing markets	**(1,342)**	**(1,829)**	**(3,171)**

This 1% increase in constant euros was due to the net effect of higher revenue from greater lending and deposit volumes and the lower cost of the latter, and the reduction dampened by lower interest rates and regulatory impacts (mainly Brazil and Poland).

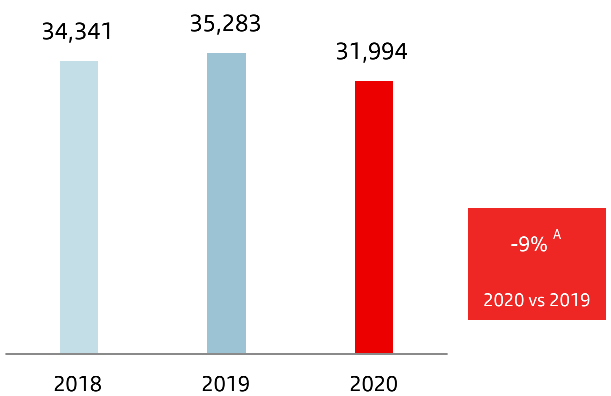
On a positive note, higher volumes led to growth in Mexico and SCF, Chile grew due to higher volumes and better funding costs, and Argentina due to the placement of excess liquidity.

There was a turnaround in the UK's trend, becoming positive thanks to the sharp reduction in the cost of deposits in the second half of the year. Spain increased slightly and the US and Brazil remained broadly stable.

The only decreases were recorded in Portugal and Poland, due to lower interest rates.

Net interest income

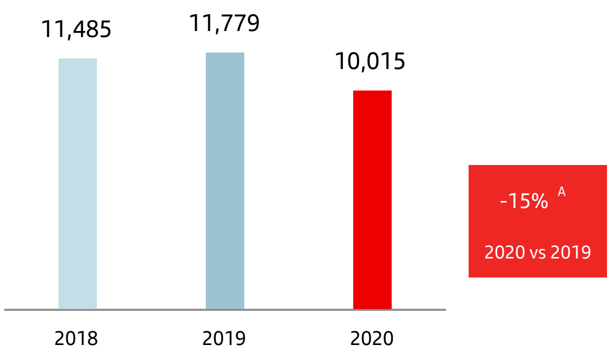
EUR million



A. Excluding exchange rate impact: +1%.

Net fee income

EUR million



A. Excluding exchange rate impact: -5%.

Net fee income

EUR million

	2020	2019	Change te	Change %	Change % excl. FX	2018
Asset management business, funds and insurance	3,416	3,815	(399)	(10.4)	(1.3)	3,654
Credit and debit cards	1,737	2,242	(505)	(22.5)	(8.8)	2,156
Securities and custody services	951	931	19	2.1	12.1	794
Account management and availability fees	1,649	1,675	(26)	(1.5)	11.7	1,662
Cheques and payment orders	594	633	(39)	(6.1)	9.7	613
Foreign exchange	500	612	(112)	(18.3)	(4.0)	546
Charges for past-due/unpaid balances and guarantees	295	522	(226)	(43.4)	(36.3)	672
Bill discounting	253	316	(63)	(20.0)	0.6	323
Other	620	1,033	(413)	(40.0)	(41.1)	1,066
Net fee income	**10,015**	**11,779**	**(1,764)**	**(15.0)**	**(4.5)**	**11,485**

Net fee income

Grupo Santander's net fee income decreased 15% versus 2019. Excluding the exchange rate effect it was down 5%, the line most affected by the health crisis, reflecting lower customer transactionality. Our strategy remains focused on increasing customer loyalty and growth in higher value-added services and products.

By business, of note was 12% growth in Santander Corporate & Investment Banking (Global Debt Financing and markets) while Wealth Management & Insurance (including those ceded to the branch network) was virtually flat. Overall, together businesses accounted for 46% of the Group's total (SCIB: 15%; WM&I: 31%).

By region, North America recorded no material change, affected by the fall in the US, as Mexico grew 5%, while South America fell 2%, and Europe -9%, with generalized declines in all markets (except Poland) due to lower activity, along with regulatory changes affecting net fee income in Santander Consumer Finance and the UK. On the other hand, 'Other Europe', which includes the wholesale banking business in the region, increased net fee income by 41%.

Gains / (losses) on financial assets and liabilities and exchange differences (net)

Gains / (losses) on financial assets and liabilities and exchange differences (net) accounts for 5% of total income and was 43% higher at EUR 2,187 million (+56% excluding the exchange rate impact) over the previous year. This was mainly because of the positive impact of FX hedging, portfolio sales and market volatility management.

Gains and losses on financial assets and liabilities result from valuing trading portfolio and marked-to-market derivative instruments, including spot market foreign exchange transactions, sales of investment securities and liquidation of our hedging and other derivative positions.

For further details, see note 43 to the consolidated financial statements.

Exchange rate differences primarily show gains and losses from foreign exchange and the differences that arise in the conversion of monetary items in foreign currencies to the functional currency, and from selling non-monetary assets denominated in foreign currency at the time of their disposal. Because Grupo Santander manages the currencies it is exposed to with derivative instruments, the changes in this line item should be analyzed together with Gains / (losses) on financial assets and liabilities.

For further details, see note 44 to the consolidated financial statements.

Dividend income

Dividend income was 27% lower year-on-year at EUR 391 million in 2020 (-26% excluding the exchange rate impact) affected by the delay or cancellation of dividend payments by several companies.

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 96 million in 2020 (EUR 324 million in 2019) owing to the lower contribution from group entities, mainly real estate equity in Spain.

Other operating income / (expenses)

No material change was recorded as the higher results from insurance were somewhat mitigated by the greater contribution to the Single Resolution Fund (SRF) in the second quarter and to the Deposit Guarantee Fund (DGF) in the fourth.

For further information, see note 45 to the consolidated financial statements.

Operating expenses

EUR million

	2020	2019	Change te	Change %	% excl. FX	2018
Staff costs	10,783	12,141	(1,358)	(11.2)	(4.1)	11,865
Other administrative expenses	*7,537*	*8,138*	*(601)*	*(7.4)*	*2.2*	*8,489*
Information technology	*2,075*	*2,161*	*(86)*	*(4.0)*	*3.1*	*1,550*
Communications	*473*	*518*	*(45)*	*(8.7)*	*2.4*	*527*
Advertising	*517*	*685*	*(168)*	*(24.5)*	*(16.7)*	*646*
Buildings and premises	*725*	*859*	*(134)*	*(15.6)*	*(8.1)*	*1,846*
Printed and office material	*100*	*116*	*(16)*	*(13.8)*	*(3.3)*	*122*
Taxes (other than tax on profits)	*534*	*522*	*12*	*2.3*	*13.4*	*557*
Other expenses	*2,980*	*3,277*	*(297)*	*(9.1)*	*0.3*	*3,240*
Administrative expenses	**18,320**	**20,279**	**(1,959)**	**(9.7)**	**(1.6)**	**20,354**
Depreciation and amortization	2,810	3,001	(191)	(6.4)	1.6	2,425
Operating expenses	**21,130**	**23,280**	**(2,150)**	**(9.2)**	**(1.2)**	**22,779**

Operating expenses

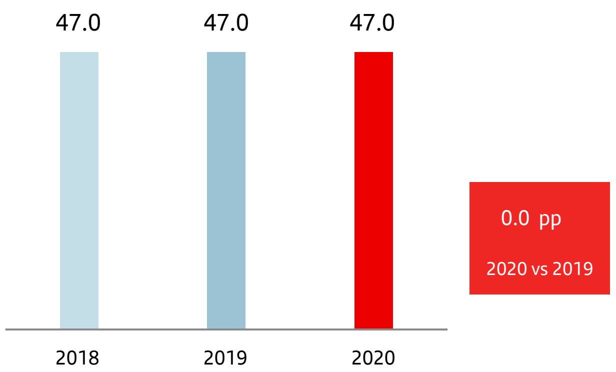
Operating expenses were 9% lower year-on-year. Excluding the exchange rate impact, costs fell 1%, because of our successful management over the last three years, as well as additional savings measures adopted since the beginning of the crisis feeding through.

We remained one of the most efficient global banks in the world in 2020, with an efficiency ratio of 47.0%, in line with last year.

Grupo Santander still aims to improve its operational capacity with efficient cost management and a strategy tailored to each region.

Efficiency ratio (cost to income)

EUR million



The trends by region and market were as follows:

- In **Europe**, costs strongly reflected the synergies from recent integrations and additional savings, decreasing 6%. There were decreases across all markets: Spain (-10%), Poland (-6%) and Portugal (-5%) due to optimization efforts, -6% in the UK due to the savings from our transformation programme, and -2% in Santander Consumer Finance driven by efficiency projects carried out in several countries.

  Our cost reduction plan greatly exceeded the total expected savings for the year in the region and the efficiency ratio improved 21 bps in the year to 52.4%.

- In **North America**, nominal costs fell 2% in nominal terms impacted by inflation. In the US, they dropped 5% through disciplined expense management while expenses in Mexico rose 5%, mainly from technology and amortizations, and higher inflation (in real terms, overall costs rose 2%). The efficiency ratio in the region improved 75 bps to 42.1%.

- Lastly, in **South America**, higher costs were significantly distorted by soaring inflation in Argentina. Without this, increase of 1.5% (Brazil +1% and Chile was flat). Efficiency improved in all markets, 35.8% for the region as a whole (36.1% in 2019).

We believe that this regional management together with the lessons learnt from the pandemic will lead to a faster transformation, allowing us to continue increasing productivity while improving customer experience.

Provisions or reversal of provisions

Provisions (net of provisions reversals) amounted to EUR 2,378 million (EUR 3,490 million in 2019) including restructuring costs.

For further details, see note 25 to the consolidated financial statements.

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (net) was EUR 12,382 million, up 32% year-on-year in euros and 49% in constant euros, mainly from additional provisions based on the IFRS 9 forward-looking view and the collective and individual assessments to reflect expected credit losses arising from covid-19, together with growth in volumes in local currency. Both impacts were seen across the board in all countries.

For further details, see section 3 'Credit risk' in the 'Risk management and compliance' chapter.

Impairment on other assets (net)

Every year, usually during the last quarter, the Grupo Santander evaluates whether an adjustment to the goodwill generated in the acquisition of the subsidiaries is necessary. The accounting rules require this analysis to be carried out earlier should any trigger events occur, which happened in the second quarter of this year, given that the global economic environment has been significantly affected by the covid-19 crisis.

Specifically, the trigger events for this exercise were:

- Changes in the economic environment where a decrease of the GDP is expected in all countries in the year and where recovery will take 2 or 3 years.
- A generalized reduction in interest rates, which is expected to last longer than anticipated pre-crisis.
- The increase of discount rates reflecting greater volatility and risk premiums.

This analysis resulted in a negative adjustment in the valuation of goodwill in the second quarter of 2020 of EUR 10,100 million (Santander UK: EUR 6,101 million; Santander US: EUR 2,330 million; Santander Bank Polska: EUR 1,192 million; Santander Consumer Nordics: EUR 277 million and Other: EUR 200 million). This does not affect cash generation and has no impact on the group's CET1 ratio or tangible net value per share (TNAV).

Consequently, the impairment of other assets (net) in 2020 amounted to EUR 10,416 million. In 2019, this line was EUR 1,623 million.

Gains or losses on non-financial assets and investments (net)

Net gains on non-financial assets and investments were EUR 114 million in 2020, compared to EUR 1,291 million in 2019, when capital gains from the sale of 51% of Prisma Medios de Pago S.A., and the revaluation of our remaining 49%, and capital gains from the agreement with Crédit Agricole S.A. to absorb custody businesses were recorded.

For further information, see note 48 to the consolidated financial statements.

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

EUR million

	2020	2019	2018
Financial assets at fair value through other comprehensive income	19	12	1
Financial assets at amortised cost	12,363	9,340	8,985
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains and losses from changes	**12,382**	**9,352**	**8,986**

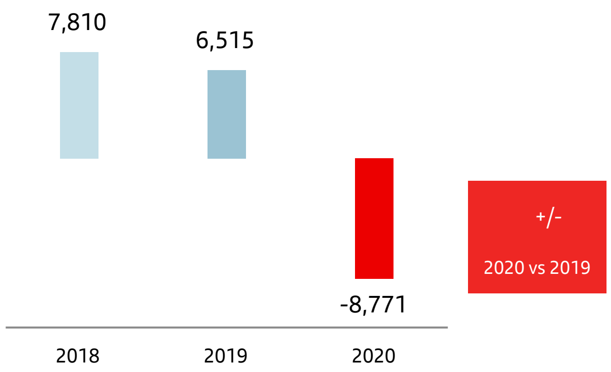
Impairment on other assets (net)

EUR million

	2020	2019	2018
Impairment of investments in subsidiaries, joint ventures and associates, net	**—**	**—**	**17**
Impairment on non-financial assets, net	**10,416**	**1,623**	**190**
Tangible assets	*174*	*45*	*83*
Intangible assets	*10,242*	*1,564*	*117*
Others	*—*	*14*	*(10)*
Impairment on other assets (net)	**10,416**	**1,623**	**207**

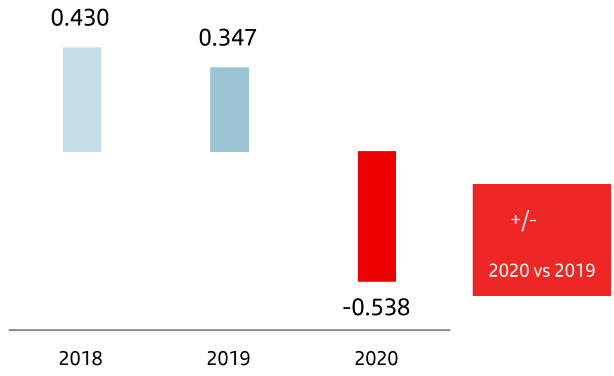
Attributable profit to the parent

EUR million



Earnings per share A

EUR



A. 2018 and 2019 data adjusted for the capital increase in December 2020.

Gains or losses on non-current assets held for sale not classified as discontinued operations

This item, which mainly includes impairment of foreclosed assets recorded and the sale of properties acquired upon foreclosure, totalled -EUR 171 million in 2020, compared to -EUR 232 million in 2019.

Profit before tax

Profit before tax was -EUR 2,076 million in 2020, affected by the adjustment in the valuation of goodwill, compared to EUR 12,543 million posted in 2019.

Income tax

As with goodwill, and due to the impact that the covid-19 crisis may have on the current and future performance of our businesses, an adjustment of -EUR 2,500 million was made to the deferred tax assets of the Spanish consolidated fiscal group in the second quarter of 2020. As a result, the total corporate income tax was EUR 5,632 million in 2020 compared to EUR 4,427 million in 2019.

Attributable profit to non-controlling interests

The attributable profit to non-controlling interests was down 34% year-on-year (-26% excluding the exchange rate impact), due to lower profit obtained by group companies, on top of the share buyback in Mexico last year and the increased stake in Santander Consumer USA in 2020.

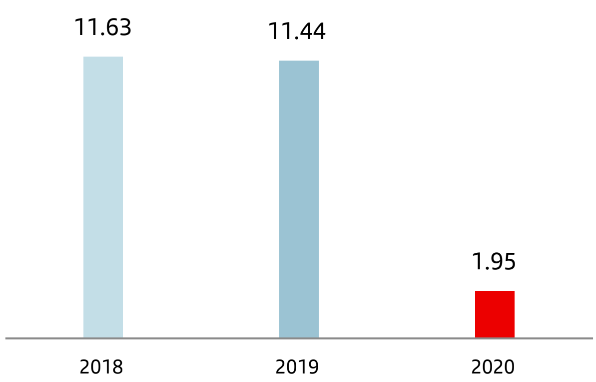
For further details, see note 28 to the consolidated financial statements.

Attributable profit to the parent

Profit attributable to the parent amounted to -EUR 8,771 million in 2020, compared with EUR 6,515 million in 2019. RoTE stood at 1.95%, RoRWA was -1.33% and earnings per share stood at -EUR 0.538.

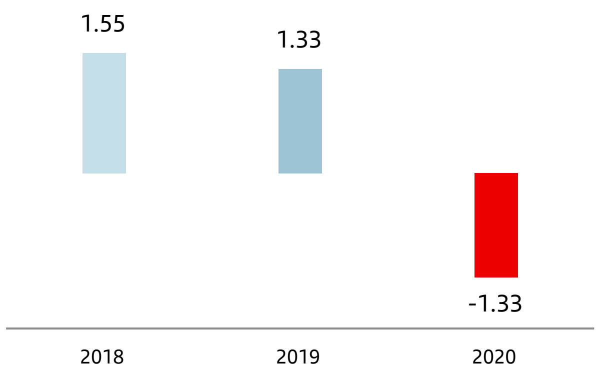
RoTE

%



RoRWA

%



Below is the summarized P&L adjusted to items beyond ordinary course of our business (included under the net capital gains and provisions line) as described in note 51.c of the consolidated financial statements, where the aggregate underlying consolidated results of our segments are reconciled to the statutory consolidated results.

Summarized underlying income statement

EUR million

			Change			
	2020	2019	Absolute	%	% excl. FX	2018
Net interest income	31,994	35,283	(3,289)	(9.3)	1.3	34,341
Net fee income	10,015	11,779	(1,764)	(15.0)	(4.5)	11,485
Gains (losses) on financial transactions and exchange differences	2,187	1,531	656	42.8	55.9	1,797
Other operating income	404	901	(497)	(55.2)	(58.4)	801
Total income	**44,600**	**49,494**	**(4,894)**	**(9.9)**	**0.3**	**48,424**
Administrative expenses and amortizations	(20,967)	(23,280)	2,313	(9.9)	(2.0)	(22,779)
Net operating income	**23,633**	**26,214**	**(2,581)**	**(9.8)**	**2.5**	**25,645**
Net loan-loss provisions	(12,173)	(9,321)	(2,852)	30.6	47.3	(8,873)
Other gains (losses) and provisions	(1,786)	(1,964)	178	(9.1)	1.8	(1,996)
Profit before tax	**9,674**	**14,929**	**(5,255)**	**(35.2)**	**(25.8)**	**14,776**
Tax on profit	(3,516)	(5,103)	1,587	(31.1)	(20.6)	(5,230)
Profit from continuing operations	**6,158**	**9,826**	**(3,668)**	**(37.3)**	**(28.6)**	**9,546**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**6,158**	**9,826**	**(3,668)**	**(37.3)**	**(28.6)**	**9,546**
Non-controlling interests	(1,077)	(1,574)	497	(31.6)	(23.8)	(1,482)
Management adjustments	(13,852)	(1,737)	(12,115)	697.5	608.2	(254)
Attributable profit to the parent	**(8,771)**	**6,515**	**(15,286)**	**—**	**—**	**7,810**
Underlying attributable profit to the parent [A]	**5,081**	**8,252**	**(3,171)**	**(38.4)**	**(29.5)**	**8,064**

A. Excluding net capital gains and provisions.

Underlying attributable profit to the parent

The attributable profit to the parent in 2020 and 2019 was affected by the following results (net of tax), that are outside the ordinary course of our business and distort the year-on-year comparison:

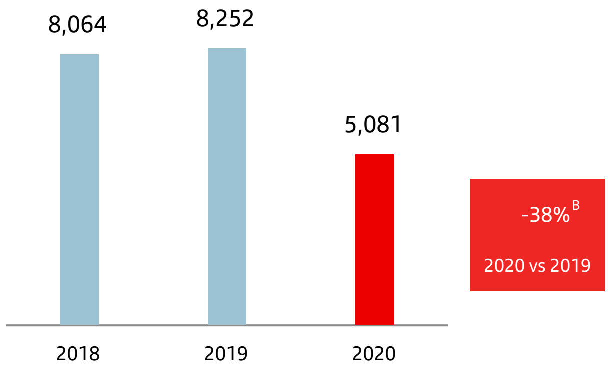
- In **2020**, -EUR 13,852 million: valuation adjustment of goodwill ascribed to various Group country units of -EUR 10,100 million in the second quarter, as previously detailed in Impairment on other assets (net), the valuation adjustment to deferred tax assets of the Spanish consolidated fiscal group with an impact of -EUR 2,500 million, restructuring costs of -EUR 1,114 million (mainly in Spain -EUR 700 million), and others (loss on a non-performing portfolio sale in Spain, cancellation of pension obligations, etc.) for a net charge of -EUR 138 million.
- In **2019**, the net result of net capital gains and provisions and restructuring costs incurred, led to a total amount of -EUR 1,737 million.

For further detail, see note 51.c to the consolidated financial statements.

If we eliminate these results from their P&L lines and add them separately to net capital gains and provisions, **the adjusted or underlying attributable profit to the parent was EUR 5,081 million in 2020 and EUR 8,252 million in 2019, 38% lower year-on-year (-29% excluding the FX impact)**.

Underlying attributable profit to the parent[A]

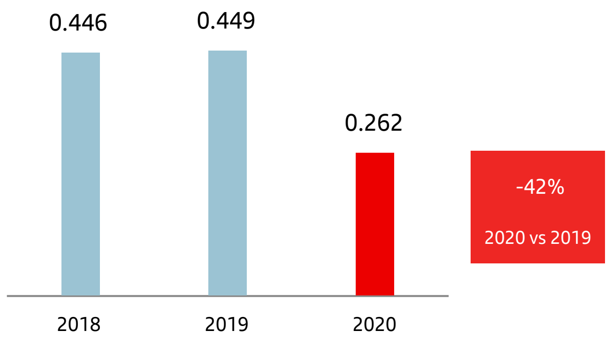
EUR million



A. Excluding management adjustments.
B. Excluding exchange rate impact: -29%.

Underlying earnings per share[A B]

EUR



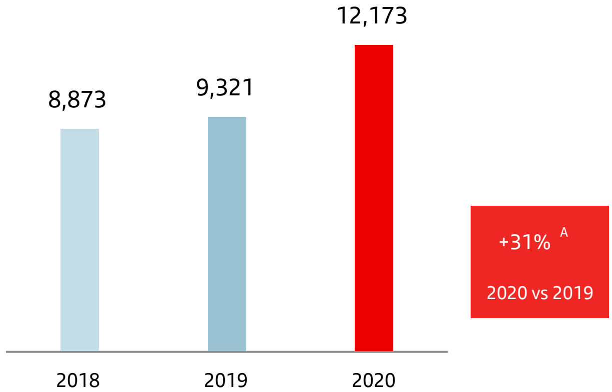
A. Excluding net capital gains and provisions.
B. 2018 and 2019 data adjusted for the capital increase in December 2020.

This performance was strongly conditioned by the rise in net loan-loss provisions, which amounted to EUR 12,173 million, up 31% compared to 2019. Excluding the exchange rate impact, growth was 47%, mainly from additional provisions based on the IFRS 9 forward-looking view and the collective and individual assessments to reflect expected credit losses arising from covid-19, together with growth in volumes. Both impacts were seen across the board in all countries.

The Group's cost of credit stood at 1.28%, in line with the expectations announced in the third quarter.

Net loan-loss provisions

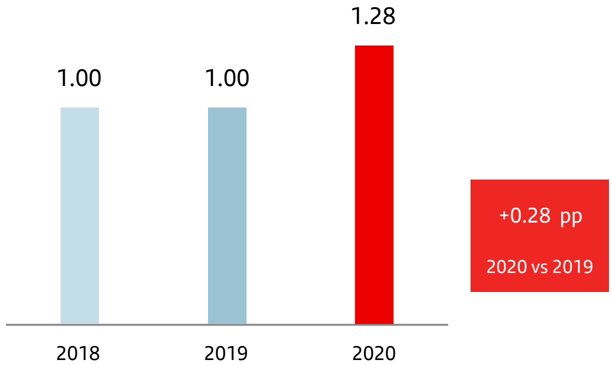
EUR million



A. Excluding exchange rate impact: +47%.

Cost of credit

%



Before recording loan-loss provisions, Grupo Santander's **net operating income (total income less operating expenses) was EUR 23,633 million**, 10% lower year-on-year, but a **2% increase excluding the FX impact**, as follows:

By line:

Total income remained unchanged as higher gains on financial transactions and the slight increase in net interest income (+1%) offset the fall in net fee income and other operating income (lower dividends and results of entities accounted for by the equity method and greater contribution to the SRF and DGF).

Costs were 2% lower, with declines across Europe and the US, and remained broadly stable in Brazil and Chile.

By region:

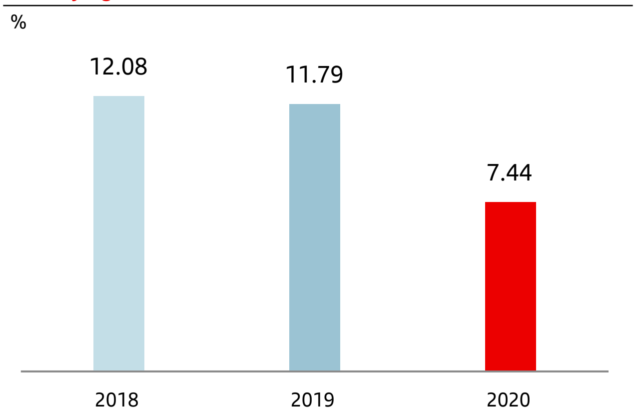
In Europe, operating income decreased 5% with falls in most markets (except SCF and 'Other Europe', mainly SCIB).

In North America, net operating income was 1% higher. By country, the US increased 1% and Mexico 2%.

In South America, 5% growth with rises of 3% in Brazil, 4% in Chile and 37% in Argentina.

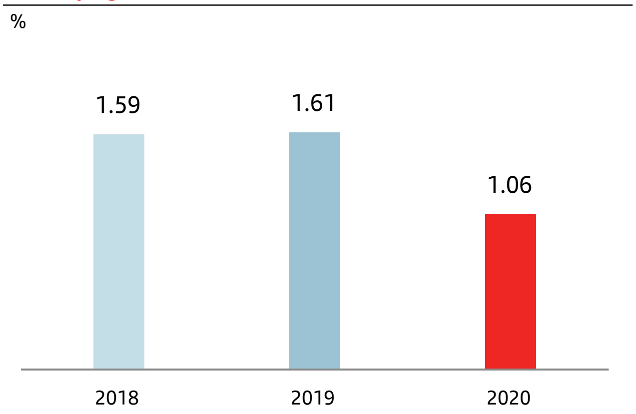
In 2020, the Grupo Santander's underlying RoTE was 7.44%, underlying RoRWA was 1.06% and underlying earnings per share EUR 0.262 (11.79%, 1.61% and EUR 0.449 respectively in 2019).

Underying RoTE[A]



A. Excluding net capital gains and provisions.

Underlying RoRWA[A]



A. Excluding net capital gains and provisions.

3.3 Balance sheet

Balance sheet

EUR million

Assets	2020	2019	Change e	Change %	2018
Cash, cash balances at central banks and other deposits on demand	153,839	101,067	52,772	52.2	113,663
Financial assets held for trading	114,945	108,230	6,715	6.2	92,879
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	4,911	(425)	(8.7)	10,730
Financial assets designated at fair value through profit or loss	48,717	62,069	(13,352)	(21.5)	57,460
Financial assets at fair value through other comprehensive income	120,953	125,708	(4,755)	(3.8)	121,091
Financial assets at amortized cost	958,378	995,482	(37,104)	(3.7)	946,099
Hedging derivatives	8,325	7,216	1,109	15.4	8,607
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980	1,702	278	16.3	1,088
Investments	7,622	8,772	(1,150)	(13.1)	7,588
Assets under insurance or reinsurance contracts	261	292	(31)	(10.6)	324
Tangible assets	32,735	35,235	(2,500)	(7.1)	26,157
Intangible assets	15,908	27,687	(11,779)	(42.5)	28,560
Tax assets	24,586	29,585	(4,999)	(16.9)	30,251
Other assets	11,070	10,138	932	9.2	9,348
Non-current assets held for sale	4,445	4,601	(156)	(3.4)	5,426
Total assets	**1,508,250**	**1,522,695**	**(14,445)**	**(0.9)**	**1,459,271**

Liabilities and equity	2020	2019	Change e	Change %	2018
Financial liabilities held for trading	81,167	77,139	4,028	5.2	70,343
Financial liabilities designated at fair value through profit or loss	48,038	60,995	(12,957)	(21.2)	68,058
Financial liabilities at amortized cost	1,248,188	1,230,745	17,443	1.4	1,171,630
Hedging derivatives	6,869	6,048	821	13.6	6,363
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	286	269	17	6.3	303
Liabilities under insurance or reinsurance contracts	910	739	171	23.1	765
Provisions	10,852	13,987	(3,135)	(22.4)	13,225
Tax liabilities	8,282	9,322	(1,040)	(11.2)	8,135
Other liabilities	12,336	12,792	(456)	(3.6)	13,088
Liabilities associated with non-current assets held for sale	—	—	—	—	—
Total liabilities	1,416,928	1,412,036	4,892	0.3	1,351,910
Shareholders' equity	114,620	124,239	(9,619)	(7.7)	120,597
Other comprehensive income	(33,144)	(24,168)	(8,976)	37.1	(24,125)
Non-controlling interests	9,846	10,588	(742)	(7.0)	10,889
Total equity	91,322	110,659	(19,337)	(17.5)	107,361
Total liabilities and equity	**1,508,250**	**1,522,695**	**(14,445)**	**(0.9)**	**1,459,271**

2020 Highlights

→ **Loans and advances to customers decreased 3% year-on-year. Grupo Santander uses gross loans excluding reverse repurchase agreements (repos) to analyze traditional retail banking loans.**

- **Traditional lending, excluding the exchange rate effect, rose 5% with growth in Europe (+4%) and North America (+2%). The largest increase was recorded in South America (+15%).**
- **The loan portfolio remained balanced: individuals (45%), consumer credit (17%), SMEs and corporates (25%) and SCIB (13%).**

→ **Customer deposits were 3% higher year-on-year. We use customer deposits, excluding repos, and mutual funds to analyze traditional retail banking funds:**

- **Customer funds, excluding the exchange rate impact, rose 9%, with our three regions and ten core markets growing. There were increases in demand deposits and, to a lesser extent, in mutual funds.**
- **Customer funds are well diversified by product: demand deposits (66%), time deposits (17%) and investment funds (17%).**

→ **The net loan-to-deposit ratio was 108% (114% in 2019) a sign of the retail nature of our balance sheet.**

Loans and advances to customers totalled EUR 916,199 million in December 2020, a 3% decrease compared to December 2019.

Grupo Santander uses gross loans excluding reverse repurchase agreements (repos) to analyze traditional retail banking loans. To better assess management in the period, the comments below do not take into account the exchange rate impact, as usual.

Gross loans and advances to customers, excluding the exchange rate effect and reverse repos, increased 5%, with the following performance by region:

- In **Europe**, 4% growth with all markets increasing. Portugal rose 8%, notably in corporates and mortgages, the UK grew 3%, driven by strong residential mortgage activity and the government programmes for corporates. Spain increased 5% strongly backed by the *Instituto de Crédito Oficial (ICO)* programmes, though negatively impacted by a mortgage portfolio sale in the third quarter. SCF was stable, with rises in the Nordics, Germany and France, which absorbed falls in other markets. Poland was up 1% and 'Other Europe' increased owing mainly to SCIB (+17%).

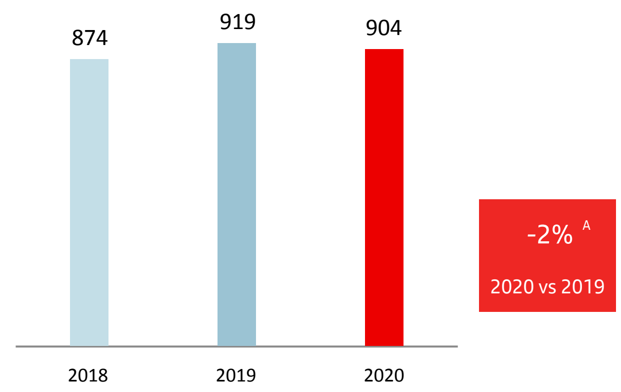
Loans and advances to customers

EUR million

	2020	2019	Change te	%	2018
Commercial bills	37,459	37,753	(294)	(0.8)	33,301
Secured loans	503,014	513,929	(10,915)	(2.1)	478,068
Other term loans	269,143	267,154	1,989	0.7	265,696
Finance leases	36,251	35,788	463	1.3	30,758
Receivable on demand	7,903	7,714	189	2.5	8,794
Credit cards receivable	19,507	23,876	(4,369)	(18.3)	23,083
Impaired assets	30,815	32,543	(1,728)	(5.3)	34,218
Gross loans and advances to customers (excl. reverse repos)	**904,092**	**918,757**	**(14,665)**	**(1.6)**	**873,918**
Reverse repos	35,702	45,703	(10,001)	(21.9)	32,310
Gross loans and advances to customers	**939,794**	**964,460**	**(24,666)**	**(2.6)**	**906,228**
Loan-loss allowances	23,595	22,242	1,353	6.1	23,307
Net loans and advances to customers	**916,199**	**942,218**	**(26,019)**	**(2.8)**	**882,921**

Gross loans and advances to customers (excluding reverse repos)

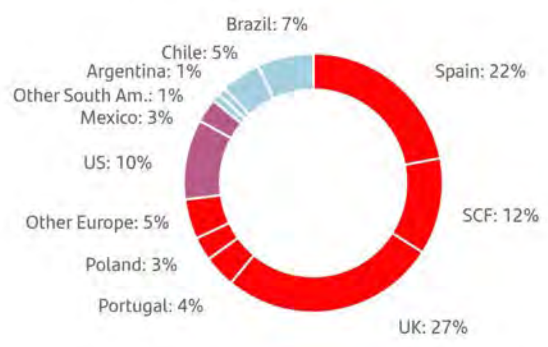
EUR billion



A. Excluding exchange rate impact: +5%.

Gross loans and advances to customers (excluding reverse repos)

% of operating areas. December 2020



- In **North America**, growth was 2%. The US grew 3% propelled by auto, corporate and SCIB loans though affected by the sale of Puerto Rico in the third quarter. Mexico remained flat.
- We grew 15% in **South America**, with Argentina growing 35% driven by SMEs and cards, Brazil +19% owing to a positive performance in all segments and Chile +6% due to corporates and large corporates. Uruguay rose 12%.

Our loans and advances to customers excluding reverse repos maintained a balanced structure: individuals (45%), consumer credit (17%), SMEs and corporates (25%) and SCIB (13%).

By the end of 2020, 45% of loans and advances to customers maturing in more than a year had floating interest rates, while the remaining 55% were fixed:

- In Spain, 58% of loans and advances to customers had floating rates and 42% were fixed.
- Elsewhere, 41% of loans and advances to customers had floating rates and 59% had fixed.

For further information on the distribution of loans and advances to customers by business, see note 10.b to the consolidated financial statements.

Tangible assets amounted to EUR 32,735 million in December 2020, decreasing EUR 2,500 million and 7% compared to December 2019, largely driven by the decline recorded in property, plant and equipment for own use.

Intangible assets stood at EUR 15,908 million, of which EUR 12,471 million corresponds to goodwill, which decreased EUR 11,775 million in the year (-49%) reflecting the adjustment made in the second quarter in the valuation of goodwill ascribed to several subsidiaries, further detailed in section 3.2 'Results'.

Loans and advances to customers facilities with maturities exceeding one year at year-end of 2020

EUR million

	Domestic		International		TOTAL	
	Amount	Weight over the total	Amount	Weight over the total	Amount	Weight over the total
Fixed	70,480	42%	311,467	59%	381,947	55%
Variable	99,023	58%	217,048	41%	316,071	45%
TOTAL	**169,503**	**100%**	**528,515**	**100%**	**698,018**	**100%**

Total customer funds

EUR million

EUR million	2020	2019	Change e	Change %	2018
Demand deposits	642,897	588,533	54,364	9.2	548,711
Time deposits	171,939	196,921	(24,982)	(12.7)	199,025
Mutual funds [A]	164,802	180,405	(15,603)	(8.6)	157,888
Customer funds	**979,638**	**965,859**	**13,779**	**1.4**	**905,624**
Pension funds [A]	15,577	15,878	(301)	(1.9)	15,393
Managed portfolios [A]	26,438	30,117	(3,679)	(12.2)	26,785
Repos	34,474	38,911	(4,437)	(11.4)	32,760
Total funds	**1,056,127**	**1,050,765**	**5,362**	**0.5**	**980,562**

A. Including managed and marketed funds.

In terms of liabilities, **customer deposits** amounted to EUR 849,310 million in December 2020, 3% higher than December 2019 (EUR 824,365 million).

Grupo Santander uses customer deposits including mutual funds but excluding repos (customer funds) to analyze traditional retail banking funds.

Customer funds, excluding the effect of exchange rate movements, rose 9% as follows:

- Deposits excluding repos rose 10%. Demand deposits (+14%) increased in all our core markets and time deposits fell 4% as the decreases in the US, Chile and all European markets were nearly offset by growth in Mexico, Brazil, Argentina and Uruguay. Mutual funds rose 3%, heavily conditioned by market volatility in the first quarter of 2020 and part of the second.
- By market, customer funds rose in all of them. Rises in all countries in the Americas with growth rates over 10% (the US: +16%; Mexico: +14%; Brazil: +16%; Chile +11%; Argentina: +67% and Uruguay: +28%). In Europe (+6%), growth ranged between +1% in SCF and +10% in Poland.

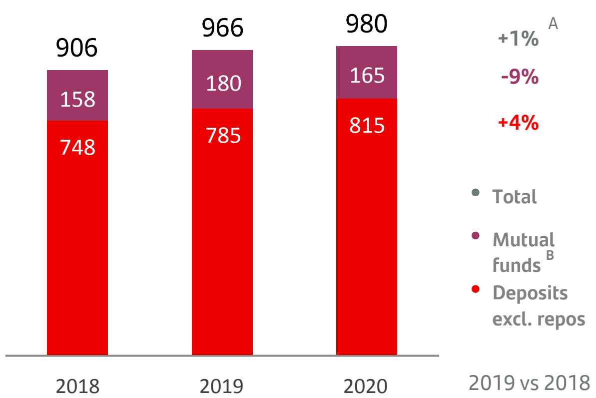
Customer funds are well diversified by product. The weight of demand deposits rose 5 pp in the last 12 months to 66%, resulting in a better cost of deposits. Time deposits accounted for 17% of the total and mutual funds 17%. The net loan-to-deposit ratio stood at 108%, compared to 114% in December 2019.

In addition to deposit-taking, Grupo Santander puts strategic value on following a selective issuance policy in international fixed income markets and adapts trade frequency and volume to each country unit's structural liquidity requirements, as well as to the receptiveness of each market.

For more information on debt issuances and maturities, see the following section 3.4 'Liquidity and funding management'.

Customer funds (excluding repos)

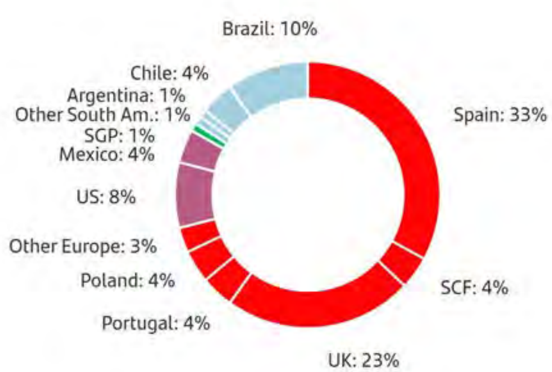
EUR billion



A. Excluding exchange rate impact: +9%.
B. Including managed and marketed funds.

Customer funds (excluding repos)

% of operating areas. December 2020



3.4 Liquidity and funding management

→ **Grupo Santander's liquidity remains at comfortable levels, well above regulatory requirements.**

→ **Lending recovering in most markets where the we operate.**

→ **Medium- and long-term funding prioritized diversification and cost optimization.**

→ **Structural funding sources of our balance sheet resulted in moderate asset encumbrance.**

First, we present Grupo Santander's **liquidity management**, its principles and framework.

Next, we will look at the **funding strategy for our group and subsidiaries**, particularly **liquidity in 2020,** by examining changes in liquidity management ratios as well as the related business and market trends over the last year.

To conclude, we provide a qualitative description of the **outlook** for funding in 2021.

Liquidity management in Grupo Santander

Our structural **liquidity management** aims to optimize maturities and costs, and avoid undesired liquidity risks in funding Grupo Santander's recurrent activity.

It follows **these 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.
- Wholesale funding sources diversified by: instrument and investor; market and currency; and maturity.
- Limited recourse to short-term funding.
- Sufficient liquidity reserves, including standing facilities/ discount windows at central banks to be used in adverse situations.
- Group-wide and subsidiary compliance with regulatory liquidity requirements, as a new factor conditioning management.

To effectively apply these principles across our group, we require a unique **management framework** built on three fundamental pillars:

- A **solid organizational and governance model** that involves subsidiaries' senior managers in decision-making and integrates them into our global strategy. Decision-making on structural risks, including liquidity and funding risk, falls on the local asset and liability committees (ALCOs), which coordinate with the global ALCO. The global ALCO is the body empowered by the board of directors under the corporate Asset and Liability Management (ALM) framework.

  This improved governance model is included within our Risk Appetite Framework, which meets regulators and market players' demands for stronger risk management and control systems, in response to the financial crisis.

- In-depth **balance sheet analysis and liquidity risk measurement** that support the taking and control of decisions to ensure the necessary liquidity levels to cover short- and long-term needs with stable funding sources, as well as minimizing the impact of their costs on earnings.

  We have proper liquidity risk management within a conservative risk appetite framework for each geographic area based on its commercial strategy. The framework sets limits within which the subsidiaries must operate to achieve their strategic objectives.

- Liquidity management adapted **to the needs of each business**. Every year, we develop a liquidity plan to achieve:
  - a solid balance sheet structure, with a diversified footprint in wholesale markets;
  - stable liquidity buffers and limited asset encumbrance;
  - compliance with both regulatory and other metrics included in each entity's risk appetite statement.

We monitor all dimensions of the plan throughout the year.

Grupo Santander continues to develop the Internal Liquidity Adequacy Assessment Process (**ILAAP**). It is integrated into our other risk management and strategic processes to evaluate liquidity in ordinary and stressed scenarios. We consider both quantitative and qualitative matters which are also inputs for the Supervisory Review and Evaluation Process (SREP).

Once a year, supervisors require us to prepare and submit an ILAAP assessment approved by the board of directors. It must conclude our funding and liquidity structure remains solid in all scenarios and that our internal processes ensure sufficient liquidity based on an analysis each subsidiary conducts following our local liquidity management model.

Our robust governance structure is suited to identify, manage, monitor and control liquidity risks. It rests on common frameworks, conservative principles, clearly defined roles and responsibilities, a consistent committee structure, effective local lines of defence and well-coordinated corporate supervision.

We generate frequent, detailed liquidity monitoring reports for management, control, reporting and steering purposes. We also send the most relevant information regularly to senior managers, the executive committee and the board of directors.

Over the last few years, Grupo Santander and each subsidiary have developed a comprehensive special situations management framework which centralizes the our governance for such scenarios and contains contingency funding plans, that are integrated within our governance model, with feasible, pre-assessed actions that follow a defined timeline. They are categorized and prioritized, and provide for sufficient liquidity and execution time to mitigate stress scenarios.

Funding strategy and liquidity in 2020

Funding strategy and structure

Our funding strategy in recent years has focused on extending our management model to all subsidiaries, including new additions.

It is based on a model of autonomous subsidiaries that are responsible for covering their own liquidity needs. This structure has enabled us to use our solid retail banking model to maintain comfortable liquidity positions in the group and our core country units, even amid market stress.

We have had to adapt funding strategies to commercial business trends, market conditions and new regulatory requirements.

In 2020, we improved on specific aspects, without significant changes in liquidity management or funding policies and practices. This will enable us to face 2021 from a strong starting point, with no growth restrictions.

In general, our subsidiaries continue to apply the same funding and liquidity management strategies:

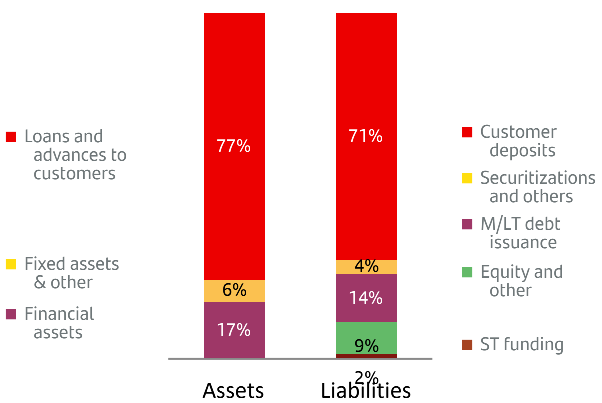
- maintaining sufficient and stable medium- and long-term wholesale funding levels.
- ensuring the right volume of assets which can be discounted in central banks as part of the liquidity buffer.
- generating liquidity from the retail business.

All these developments have afforded Grupo Santander its **robust funding structure**:

- **Customer deposits are our main source of funding**. They represent just over two-thirds of net liabilities (i.e., of the liquidity balance sheet) and nearly 93% of loans and advances to customers at the end of December 2020. Moreover, they are highly stable because they mainly arise from retail customer activity. Their weight as a percentage of loans and advances to customers grew compared to end 2019. More details can be found in the section on 'Liquidity in 2020'.

Santander liquidity balance sheet

%. December 2020



- **Medium- and long-term funding accounted for nearly 18% of net liabilities** at the end of December 2020, similar to 2019. It amply covers the loans and advances to customers not funded by customer deposits (retail funding gap).

The outstanding balance of M/LT debt issued in the market (to non-group third parties) at the end of the year was EUR 167,351 million. Our maturity profile is comfortable and well balanced by instruments and markets with a weighted average maturity of 4.7 years (slightly above the weighted average maturity of 4.4 years at the end of 2019).

The following tables show our funding by instrument over the last three years and by maturity profile:

Medium- and long-term debt issuance. Grupo Santander [A]

EUR million

	2020	2019	2018
Preferred	8,925	9,411	11,508
Subordinated	13,831	12,640	13,218
Senior debt	95,208	107,166	98,827
Covered bonds	49,388	50,847	46,272
Total	**167,351**	**180,064**	**169,825**

A. Placed in markets. Excluding securitizations, agribusiness notes and real estate credit notes.

Distribution by contractual maturity. December 2020. Grupo Santander [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	—	—	—	—	—	—	—	8,925	**8,925**
Subordinated	—	—	—	—	—	129	4,066	9,636	**13,831**
Senior debt	2,003	2,061	4,252	2,758	3,453	15,250	42,017	23,414	**95,208**
Covered bonds	—	—	4,903	2,766	397	6,899	14,455	19,967	**49,388**
Total	**2,003**	**2,061**	**9,155**	**5,524**	**3,850**	**22,278**	**60,538**	**61,942**	**167,351**

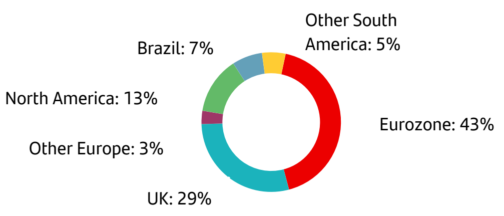
A. If an issuance has a put option in favour of the holder, the maturity of the put is considered rather than the contractual maturity.
Note: there are no additional guarantees for any of the debt issued by the group's subsidiaries.

In addition to the medium- and long- term wholesale debt issuances, Grupo Santander has securitizations placed in the market as well as collateralized and other specialist funding totalling EUR 44,196 million (which includes EUR 6,085 million of debt instruments placed with private banking clients in Brazil). The average maturity is around 1.5 years.

The following charts show the similarity of the geographic distribution of our loans and advances to customers and medium- and long-term wholesale funding across our footprint. This has remained largely unchanged since 2019, except for an increase in the weight of the eurozone, in loans and advances and M/LT wholesale funding, with the corresponding decreases across the other regions.

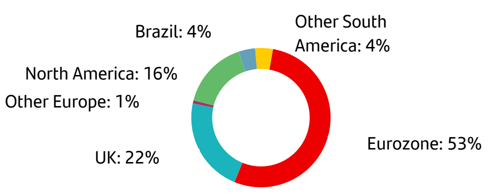
Loans and advances to customers

%. December 2020



M/LT wholesale funding

%. December 2020



Wholesale funding from **short-term issuance programmes** is a residual part of Grupo Santander's funding structure, which is related to treasury activities and comfortably covered by liquid assets.

The outstanding wholesale funding balance at the end of 2020 was EUR 23,210 million. 40% was in European Commercial Paper, US Commercial Paper and domestic programmes issued by the parent bank; 27% was in certificates of deposit and commercial paper programmes in the UK; 18% was in Santander Consumer Finance (SCF) commercial paper programmes; and 15% was in issuance programmes in other country units.

Liquidity in 2020

The key liquidity takeaways in 2020 are:

- Basic liquidity ratios remain at comfortable levels.
- Regulatory ratios are well above minimums and we are well positioned for the NSFR's entry into force.
- Our use of encumbered assets in funding operations is moderate.

We will discuss these points in the following sections, but first we would like to reflect on the actions taken by Grupo Santander, regulators, governments and central banks in the months following the World Health Organization's declaration of covid-19 as an epidemic and subsequently pandemic.

When the health crisis began, there were moments of initial uncertainty and concern from the markets, banks and regulators regarding potential stress situations.

The long-term debt markets closed in the beginning of March and there was a significant peak in the drawdown of committed wholesale credit lines. There was also tension in the short-term markets which manifested in high price and exchange rate volatility and wider spreads, reflecting policy uncertainty (fiscal and monetary).

In this environment, our priority was to preserve our solid liquidity position at group and subsidiary level and so established a series of management measures and actions.

In addition, decisions were taken quickly by governments and central banks to increase the liquidity available in the market. Some of these measures were: PELTROs (Pandemic Emergency Longer-Term Refinancing Operations) announced in April, modification of the conditions of the third TLTRO programme (Targeted longer-term refinancing operation), introduction of the TFSME (Term funding SMEs) announced in March in the United Kingdom, reduction of liquidity reserve requirements, the temporary lowering of the Liquidity Coverage Ratio (LCR) requirements below 100% and the extension of the dollar liquidity lines offered by the Federal Reserve, among others. All these measures helped calm markets and avoid episodes of stress.

These measures continued throughout 2020, most recently increasing the number of auctions and volumes and extending the better TLTRO III conditions for banks lending to the real economy announced in December 2020 by the European Central Bank.

Among the measures we adopted, of note was the enhanced the daily liquidity monitoring which was regularly presented to the special situations committees and at the meetings held by the executive committee and the board of directors. In addition, daily monitoring meetings were held with the ECB during the first few weeks.

Although most country units had sufficient liquidity buffers to cover a horizon of 90 days or more under an aggressive scenario, we implemented several mitigation measures, including:

- Collateral generation in all geographic areas to maximize access to central bank facilities if necessary.
- Increased use of ECB facilities via the TLTRO programme and Bank of England funding via its TFSME programme.
- The strengthening of the USD liquidity position in Mexico and South America.
- The optimization of resources and capacity to use central bank programmes.
- Close collaboration with the authorities to ensure the effective implementation of public support.

As a result of these measures, our liquidity position remained solid at all times. Moreover, our commercial activity, which we will discuss later, positively contributed liquidity in the year.

i. Basic liquidity ratios at comfortable levels

At the end of December 2020, Grupo Santander recorded:

- a stable credit to net assets ratio (total assets minus trading derivatives and inter-bank balances) of 76%, similar to recent years. This high level compared to our competitors in Europe speaks to the retail nature of our balance sheet.
- a net loan-to-deposit ratio (LTD) of 108%, at a very comfortable level (below 120%) and well below the 114% in 2019. This improvement reflects the pandemic's effect postponing consumption and investment decisions and causing a sharp increase in savings. Most central banks and governments in our footprint implemented support programmes for their economies in 2020, such as income policies, in the form of state-guaranteed financing facilities for companies via banks or direct loans to corporates. This allowed our lending (in constant euros) to grow moderately but was more than offset by deposit growth.
- a customer deposits plus M/LT funding to net loans and advances ratio of 116% versus 113% in 2019, for the reasons explained above.
- limited recourse to short-term wholesale funding, 2% of total funding, in line with previous years.
- lastly, our structural surplus defined as the excess of structural funding sources (deposits, M/LT funding and capital) against structural liquidity needs (fixed assets and loans) had an average balance of EUR 170,483 million in the year.

As at end-2020, our consolidated structural surplus stood at EUR 181,904 million. Fixed-income assets (EUR 162,830 million), equities (EUR 14,719 million) and net interbank deposits (EUR 27,565 million) were partly offset by short-term wholesale funding (-EUR 23,210 million). This totalled around 15% of our net liabilities, similar to 2019 year-end.

The table shows Grupo Santander's basic liquidity monitoring metrics over the last few years:

Group's liquidity monitoring metrics

%

	2020	2019	2018
Loans [A] / Total assets	76 %	77 %	76 %
Loans [A] to deposit ratio (LTD)	108 %	114 %	113 %
Customer deposits and medium and long term funding / Loans [A]	116 %	113 %	114 %
Short term wholesale funding / Net liabilities	2 %	3 %	2 %
Structural liquidity surplus (% of net liabilities)	15 %	13 %	13 %

A. Loans and advances to customers.

The table below shows the principal liquidity ratios of our main country units as at end-2020:

Main country units' liquidity metrics

December 2020

	LTD ratio	Deposits + M/LT funding / Loans[A]
Parent bank	77%	170%
Finance	256%	70%
United Kingdom	112%	107%
Portugal	95%	111%
Poland	80%	130%
United States	135%	107%
Mexico	83%	132%
Brazil	91%	122%
Chile	139%	94%
Argentina	58%	173%
Group	**108%**	**116%**

A. Loans and advances to customers.

In 2020, the **key drivers** of Grupo Santander and our subsidiaries' liquidity (excluding the FX effect) were:

- recovery in credit in all our markets (except for SCF, which was heavily affected by the postponement of consumption decisions and the temporary closure of dealers). Customer deposits also grew and as such, the retail funding gap significantly contributed liquidity during the year.
- issuances continued to be less intense than in previous years and below our funding plan due to commercial dynamics and the favourable conditions of funding programmes implemented by central banks in response to the pandemic (especially the ECB and the Bank of England). We therefore issued mainly to ensure our regular presence in the relevant capital markets and comply with regulatory requirements.

In 2020, Grupo Santander issued EUR 47,328 million in M/LT funding (at year-average exchange rates) and extended contractual maturity on EUR 2,029 million in securitizations.

By **instrument**, the stock of M/LT fixed income debt (covered bonds, senior debt, subordinated debt and capital hybrid instruments) decreased by around 7% to EUR 30,410 million at the end of the year. The greater activity in senior TLAC eligible bonds and hybrids (preferred and subordinated) partially offset the lower covered bond and preferred senior debt issuances. As a sign of our commitment to sustainability, these figures include a EUR 1 billion green senior non-preferred bond issuance. Securitization and structured finance activities amounted to EUR 16,919 million in 2020, down 12% on 2019.

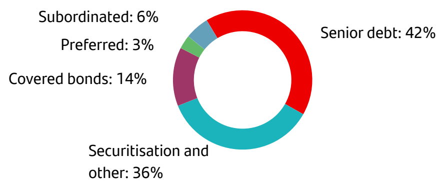
By country **unit**, Banco Santander, S.A. and Santander UK issued the most M/LT fixed income debt (excluding securitizations), followed by SCF. In the year, the greatest absolute increases were recorded in by our units in the UK, Spain and Mexico. The main year-on-year decreases were in SCF due to the commercial environment and in the US as issuances in 2019 were very high.

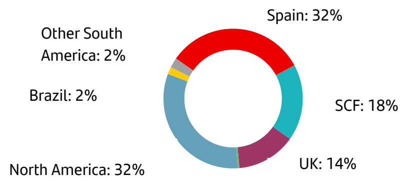
SCF and SC USA were the main issuers of securitizations.

The charts below provide greater detail on **issuances by instrument and region**:

Distribution by instrument and region

%. December 2020





Covered bonds issued in 2020 were 14% of total issuances, less than the 17% last year. As in 2019, the main issuing units were Spain and the UK. Senior debt accounted for 42% of total issuances, down from 44% in 2019. In qualitative terms, the weight of TLAC eligible senior debt in 2020 compared to senior preferred was greater than in 2019.

In 2020, Grupo Santander issued EUR 13,974 million of subordinated instruments, including EUR 9,809 million of senior non-preferred debt from Banco Santander, S.A. and senior preferred from the holdings in the UK and the US; EUR 2,664 million of subordinated debt; and EUR 1,500 million of AT1 eligible hybrid instruments issued by the parent bank.

In summary, Grupo Santander retained its comfortable access to the markets it operates in. In 2020, we issued and securitized debt in 11 currencies, involving 21 major issuers from 13 countries, with an average maturity of 4.8 years, slightly higher than last year.

ii. Compliance with regulatory ratios

Within the liquidity management model, over the last few years Grupo Santander has been managing the implementation, monitoring and compliance with the liquidity requirements established under international financial regulations ahead of schedule.

The commercial dynamics in the year, combined with market access and our active liquidity management, enabled us to use government and central bank funding mechanisms. This greatly strengthened our regulatory ratios, both immediate liquidity (LCR) as well as structural (NSFR), as we will see now.

Liquidity Coverage Ratio (LCR)

Since 2018, the regulatory LCR requirement has been at the maximum level (100%). As a result, we have set a risk appetite of 110% at both the group and subsidiary level.

Our strong short-term liquidity base and our core subsidiaries' autonomous management led to compliance levels above 100% (both at group and local level) throughout the year. Our LCR in December 2020 was 168%, comfortably exceeding regulatory requirement.

The following table shows that all our subsidiaries substantially exceeded the required minimum over the last year.

Santander UK's figures only include activities that the Financial Services and Markets Act 2000 leaves within the Ring-Fenced Bank.

Liquidity Coverage Ratio (LCR)

%

	December 2020	December 2019
Parent bank	175%	143%
Finance	314%	248%
United Kingdom	152%	145%
Portugal	122%	134%
Poland	187%	149%
United States	129%	133%
Mexico	207%	133%
Brazil	167%	122%
Chile	155%	143%
Argentina	222%	196%
Group	**168%**	**147%**

NSFR (Net Stable Funding Ratio)

The final definition of the net stable funding ratio (NSFR) was approved by the Basel Committee in October 2014. It was transposed to EU law in June 2019 when the Official Journal of the European Union published the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No575/2013 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.

Accordingly, entities must have a net stable funding ratio, greater than 100% from June 2021.

The NSFR is a structural measurement that gives banks an incentive to ensure long-term stability and proper management of maturity mismatches by funding long-term assets with long-term liabilities. It is defined as the quotient of available stable funding (ASF) and required stable funding (RSF).

ASF comprises those sources of funding (capital and other liabilities) deemed stable over one year. RSF primarily refers to any asset considered illiquid over one year, thus needing to be matched with stable sources of funding.

In 2020, Grupo Santander had a consolidated and subsidiary management limit of 100%. A more demanding level has been established for 2021 to coincide with the regulatory entry into force of the metric.

We benefit 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. This helped maintain our balanced liquidity structure as reflected in our year-end consolidated and subsidiary NSFRs above 100%.

The following table provides details by main subsidiary as well as a comparison with 2019. Santander UK's figures only include activities that the Financial Services and Markets Act 2000 leaves within the Ring-Fenced Bank.

Net Stable Funding Ratio

%

	December 2020	December 2019
Parent bank	116 %	103 %
Santander Consumer Finance	114 %	106 %
United Kingdom	129 %	124 %
Portugal	123 %	104 %
Poland	150 %	130 %
United States	120 %	111 %
Mexico	132 %	121 %
Brazil	119 %	112 %
Chile	120 %	108 %
Argentina	174 %	154 %
Group	**120 %**	**112 %**

III. Asset Encumbrance

Grupo Santander's use of assets as collateral in structural funding sources of the balance sheet is moderate.

In keeping 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, off-balance-sheet assets received and reused for a similar purpose, and other assets with liabilities for reasons other than funding.

The following tables show the asset encumbrance data Grupo Santander must present to the EBA as at end 2020:

Group. Disclosure on asset encumbrance as at December 2020

EUR billion

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	**350.4**	**—**	**1,157.9**	**—**
Loans and advances	249.5	—	884.7	—
Equity instruments	5.8	5.8	9.9	9.9
Debt instruments	61.9	60.7	114.6	115.4
Other assets	33.2	—	148.7	—

Group. Collateral received as at December 2020

EUR billion

	collateral received or own debt securities issued	or own debt securities issued available for encumbrance
Collateral received	**84.7**	**43.0**
Loans and advances	—	—
Equity instruments	3.5	5.9
Debt instruments	80.2	37.1
Other collateral received	0.9	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**0.9**

Group. Encumbered assets / collateral received and associated liabilities as at December 2020

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)	**306.3**	**435.1**

On-balance-sheet encumbered assets amounted to EUR 350.4 billion; 71% are loans and advances (mortgages, corporate loans, etc.). Off-balance-sheet encumbrance stood at EUR 84.7 billion and mainly corresponds to debt securities received as collateral in reverse repurchase agreements and rehypothecated ("reused").

Both types of encumbered assets amount to EUR 435.1 billion, giving rise to associated liabilities of EUR 306.3 billion.

As the end of 2020, total asset encumbrance in funding operations was 26.6% of our extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,635.9 billion). It increased from 24.1% in 2019 due to our use of funding programmes implemented by central banks in response to the pandemic.

Rating agencies

Rating agencies influence Grupo Santander's access to wholesale financing markets and the cost of its issuances.

The agencies listed below regularly review our ratings. Debt ratings depend on several endogenous factors (business model, strategy, capital, income generation capacity, liquidity, etc.) and exogenous factors related to the economic environment, the industry and sovereign risk across our footprint.

While sometimes the methodology applied by the agencies limits a bank's rating to the sovereign rating assigned to the country where it is headquartered, Banco Santander, S.A. is still rated above the sovereign debt rating of the Kingdom of Spain (where it is headquartered) by Moody's and DBRS and on par with it by Fitch and S&P, a testament of our financial strength and diversification.

At the end of 2020, the ratings from the main agencies were:

Rating agencies

	Long term	Short term	Outlook
DBRS	A (High)	R-1 (Middle)	Stable
Fitch Ratings	A-(SeniorA)	F2 (Senior F1)	Negative
Moody's	A2	P-1	Stable
Standard & Poor's	A	A-1	Negative
Scope	AA-	S-1+	Stable
JCR Japan	A+	—	Stable

In 2020, there were no modifications to these ratings which were confirmed by DBRS, Fitch, Moody's, S&P and JCR Japan. Regarding the outlook, Fitch and S&P changed from stable to negative due to the economic consequences of the covid-19 crisis on the long-term rating.

Funding outlook for 2021

Despite lingering uncertainties, namely in geopolitics, financial regulation and development of the pandemic, Santander has begun 2021 with a comfortable liquidity position and a positive funding outlook for the year.

We expect a moderate increase in lending in all our core country markets, as well as a good performance in deposits leading to limited demand for liquidity from the retail business. The largest liquidity needs will come from our largest country units: Spain, Brazil and Global Consumer Bank (new entity comprising Santander Consumer Finance and Openbank).

The maturities in the coming quarters are manageable. They are aided by limited recourse to short-term funding and an expected medium- and long-term issuance dynamic in line with last year. We will manage each country, optimizing liquidity to maintain a solid balance sheet structure across our footprint.

For example, Banco Santander, S.A.'s 2021 funding plan is designed to cover the greater TLAC/MREL requirements and pre-finance issuances that lose loss-absorbing capacity, and, where applicable, cover the needs arising from potential increases in RWAs, as they form base for both ratios. As such, the plan does not incorporate secured instruments. It includes between EUR 8 billion and EUR 10 billion of senior preferred and non-preferred debt and a limited volume of hybrid instruments, the latter depending on RWA growth to ensure the continued fulfilment of the AT1 and T2 buffers (1.5% and 2%, respectively).

Our funding plans are designed to ensure Grupo Santander and each subsidiary always comply with regulatory requirements and those stemming from its risk appetite framework.

3.5 Capital management and adequacy. Solvency ratios

- → At year-end, the phased-in CET1 ratio reached 12.34% after increasing 69 bps in the year (including 104 bps of organic generation).
- → The total phased-in capital ratio was 16.18% (+113 bps in the year).
- → Our active capital management culture strengthened throughout the organization.

Grupo Santander's capital management aims to guarantee solvency and maximize profitability, while complying with internal objectives and regulatory requirements.

It is a key strategic tool for local and corporate decision making, enabling us to set a common framework of actions, criteria, policies, functions, metrics and processes.

We manage two types of capital:

- **Regulatory capital**: to manage regulatory capital, we analyze our capital base, regulatory solvency ratios under the prevailing regulatory criteria and capital planning scenarios to make our capital structure as efficient as possible both in terms of cost and compliance with the regulatory requirements.

  Our active capital management applies strategies on efficient capital allocation to business lines, and considers securitizations, asset sales and issuances of capital instruments (capital hybrids and subordinated debt).

- **Economic capital**: our economic capital model aims to ensure our capital allocation is right for the risks inherent in our operations and risk appetite to optimize economic value added for our group and business units.

  To optimize economic value added, we measure the real economic capital an activity requires and its return, and select those activities that maximize returns. We do this under both expected as well as unlikely but plausible economic scenarios, and with the solvency level decided by the Group.

Grupo Santander considers the following concepts:

→ Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure solvency based on credit, market and operational risks.
- **Eligible capital:** the amount of own funds considered eligible by the regulator to meet capital requirements, principally accounting capital and reserves.

→ Economic capital

- **Self-imposed capital requirement**: the minimum volume of own funds Grupo Santander requires, for a given level of probability, to absorb unexpected losses resulting from its current exposure to risks (including risks not considered in regulatory capital).
- **Available capital:** the volume of own funds Grupo Santander deems eligible under management criteria to meet its capital needs.

→ Cost of capital

The minimum return investors (shareholders) require as compensation for the opportunity cost and risk of investing in Santander. It represents a 'cut-off rate' or 'minimum return', which allows analysts to compare business units' performance and analyze efficiency.

→ Leverage ratio

This regulatory metric compares a bank's size to its capital to measure how sound and robust it is, dividing Tier 1 capital by the leverage exposure. This takes into account balance sheet size with some 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. Because a higher level of economic capital decreases the RoRAC, we require higher returns on transactions and business units with high capital consumption.
This considers the investment risk and is therefore a risk-adjusted returns measure.
The RoRAC improves management, allowing us to assess the risk-adjusted returns on our business and take more efficient investment decisions.

→ Return on risk-weighted assets (RoRWA)

This is the return (net of tax) on risk-weighted assets (RWAs) for a particular business.
Grupo Santander uses RoRWA to establish strategies to allocate regulatory capital for maximum returns.

→ Economic value added (EVA)

This is measured by profit generated in excess of the cost of economic capital. Grupo Santander adds economic value when the RoRAC exceeds its cost of capital; otherwise, value is destroyed. EVA measures absolute risk-adjusted returns (in monetary units), which complements the RoRAC approach.

→ Expected loss

Loss due to insolvency that an entity will suffer on average over an economic cycle. It considers insolvency a cost that can be reduced by proper loan approval.

Capital management priorities and activities

Grupo Santander's core capital management activities are:

- setting solvency and capital contribution objectives in line with the minimum regulatory requirements and internal policies to guarantee a solid level of capital, matching our risk profile, and an efficient use of capital to maximize shareholder value.
- developing a capital plan to meet the strategic objectives. Capital planning is an essential part of executing the three-year strategic plan.
- assessing capital adequacy to ensure the capital plan is coherent with our risk profile and risk appetite framework, particularly in stress scenarios.
- preparing our annual capital budget as part of the group's budgetary process.
- monitoring and controlling budgetary implementation in the group and country units and drawing up action plans to correct budget deviations.
- integrating capital metrics in management of businesses, ensuring alignment with group-wide objectives.
- drawing up reports on internal capital and for supervisory authorities and market players.
- planning and managing other loss-absorbing instruments (MREL and TLAC).

The main measures we took in 2020 were:

Issuances of capital hybrid and other loss-absorbing instruments

In 2020, Banco Santander, S.A. issued a total of EUR 3,814 million in subordinated debt. This comprised EUR 2,314 million of T2 subordinated debt and EUR 1,500 million in contingently convertible preferred shares (CoCos). The purpose of the CoCo issuance was to replace the euro issuance in the same amount.

In addition, Banco Santander, S.A. issued EUR 6,913 million in senior non-preferred debt.

Dividend policy

On 2 April 2020, Banco Santander's board of directors, taking into account the ECB's recommendation, decided to cancel the final 2019 dividend payment and suspend the 2020 dividend policy. It therefore withdrew from the following day's AGM agenda the proposal for the distribution of 2019 dividends and postponed its decision to a meeting In October.

The shareholders at the AGM held on 27 October approved a fully-paid capital increase for the distribution of new shares equivalent to EUR 0.10 per share as a complementary payment from 2019. This, together with the dividend paid in November 2019, resulted in a total remuneration for 2019 of EUR 0.20 per share.

Regarding the dividend against 2020 results, the board of directors intends for the final remuneration to be EUR 0.0275 per share in cash. This is the maximum allowed according to the limits established by the European Central Bank (ECB) in its recommendation 2020/63 on 15 December.

The board's intention is to restore in the mid-term a cash dividend payout of 40-50% of the underlying profit. With respect to the remuneration against 2021 results, the intention is, in line with the announcement made in April 2020, to maintain the suspension of the dividend policy while the above mentioned ECB recommendation applies.

For more details, see section 3.3 'Dividends' on the Corporate governance chapter.

Strengthen capital management culture

Grupo Santander aims to have a CET1 ratio of 11-12% in the medium term.

The continuous improvement in the capital ratios attests to our profitable growth strategy and active capital management culture across the organization.

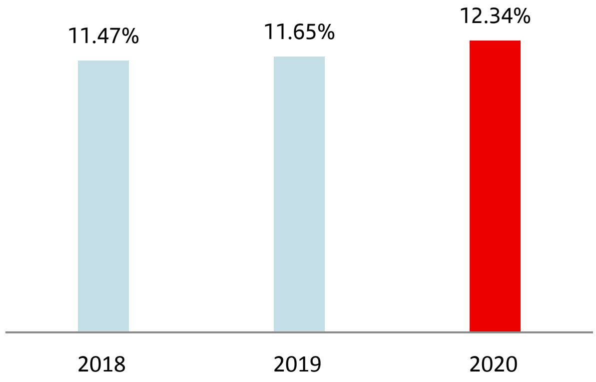
In particular:

- We reinforced our dedicated capital management teams and improved coordination between the Corporate Centre and local teams.
- All country and business units developed individual capital plans focused on maximizing their return on capital.
- We increased the weight of capital on incentives having incorporated capital management and profitability standards in senior managers' variable pay:
  - The metrics we consider include our CET1 ratio, the country units' contributions to the group capital ratio or their return on equity (RoTE) and profits after tax.
  - Some of the qualitative items we consider include proper management of regulatory changes in capital, effective capital management in decision-making, generation of sustainable capital and effective capital allocation.

We're also developing a programme for better infrastructure, processes and methodologies that give support to capital areas to further enhance capital management, respond more quickly to the numerous and increasing regulatory requirements and carry out all related activities more efficiently.

Regulatory CET1 ratio (phased in [A])

%



Capital ratios in 2020

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).

At the end of the year, the total phased-in capital ratio stood at 16.18% and the CET1 ratio (phased-in) at 12.34%. We have a strong capital base, comfortably meeting the minimum levels required by the European Central Bank on a consolidated basis (13.01% for the total capital ratio and 8.85% for the CET1 ratio). This resulted in a CET1 management buffer of 349 bps, compared to the pre-covid-19 buffer of 189 bps.

In the year, the CET1 ratio (phased-in) increased 69 bps. Of note was the strong underlying capital generation of 104 bps, partially offset by the impact of restructuring costs, corporate transactions and market performance. It also includes 9 bps related to an accrual for 2020 dividend payments, based on the limit established by recommendation 2020/63 of the ECB on 15 December 2020, which allows a maximum payment of EUR 0.0275 per share.

Had the IFRS 9 transitional arrangement not been applied, the total impact on the CET1 ratio was 45 bps, leading to a fully-loaded CET1 ratio of 11.89%, 48 bps higher than 2019.

The fully-loaded total capital ratio was 15.73%, up 95 bps during the year.

The phased-in leverage ratio stood at 5.3% and the fully-loaded ratio at 5.1%.

Main regulatory capital and solvency ratios (phased-in [A])

EUR million

	2020	2019
Common equity (CET1)	69,399	70,497
Tier1	78,501	79,536
Eligible capital	91,015	91,067
Risk-weighted assets	562,580	605,244
CET1 capital ratio	12.34 %	11.65 %
T1 capital ratio	13.95 %	13.14 %
Total capital ratio	16.18 %	15.05 %
Leverage ratio	5.33 %	5.15 %

Regulatory capital (phased-in). Flow statement

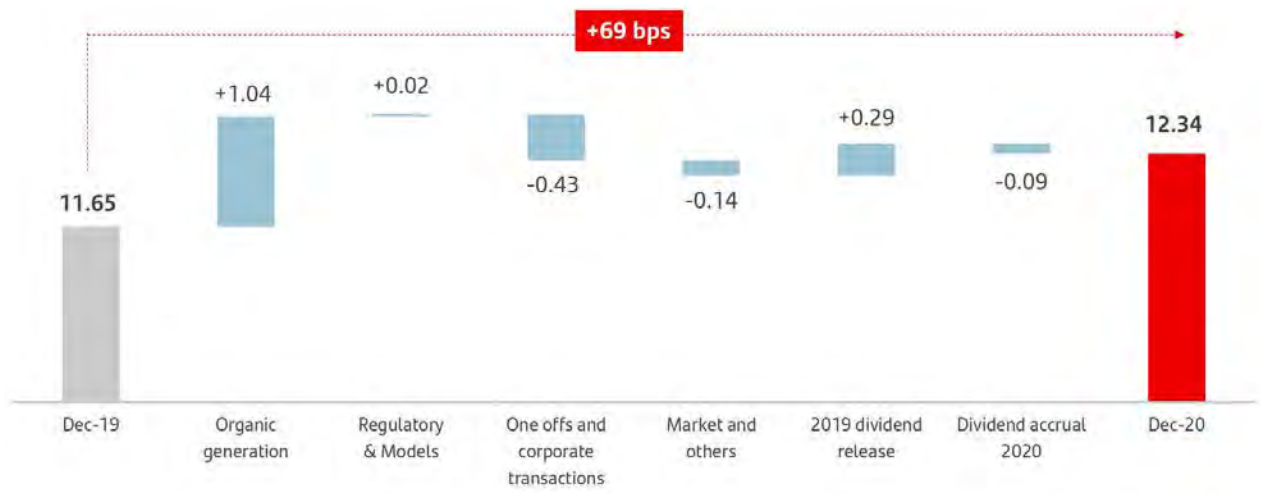
EUR million

	2020
Core Tier 1 Capital	
Starting amount (31/12/2019)	**70,497**
Shares issued in the year and share premium	(72)
Treasury shares and own shares financed	(63)
Reserves	4,306
Attributable profit net of dividends	(9,249)
Other retained earnings	(12,004)
Minority interests	228
Decrease/(increase) in goodwill and other intangible assets	12,767
Other	2,988
Ending amount (31/12/2020)	**69,399**
Additional Tier 1 Capital	
Starting amount (31/12/2019)	**9,039**
AT1 eligible instruments	(355)
T1 excesses - subsidiaries	418
Residual value of intangible assets	—
Deductions	—
Ending amount (31/12/2020)	**9,102**
Tier 2 Capital	
Starting amount (31/12/2019)	**11,531**
T2 eligible instruments	990
Generic funds and surplus loan-loss provisions-IRB	—
T2 excesses - subsidiaries	(7)
Deductions	—
Ending amount (31/12/2020)	**12,514**
Deductions from total capital	—
Total capital ending amount (31/12/2020)	**91,015**

A. The phased-in ratios include the transitory treatment of IFRS 9, calculated in accordance with article 473 bis of the Regulation on Capital Requirements (CRR) and subsequent amendments introduced by Regulation 2020/873 of the European Union. Additionally, the Tier 1 and total phased-in capital ratios include the transitory treatment according to chapter 2, title 1, part 10 of the aforementioned CRR.

Regulatory CET1 ratio (phased-in) performance in 2020

%



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		capital requirements
	2020	2019	2020
Credit risk (excluding CCR)	**447,927**	**483,341**	**35,834**
Of which standardized approach (SA)	246,284	283,385	19,703
Of which the foundation IRB (FIRB) approach [A]	30,797	35,583	2,464
Of which the advanced IRB (AIRB) approach	168,096	161,548	13,448
Of which Equity IRB under the Simple risk-weight or the IMA	2,750	2,825	220
Counterparty Risk (CCR)	**10,239**	**11,070**	**819**
Of which IRB approach	7,083	7,549	567
Of which standardized approach	2,195	2,274	176
Of which risk exposure from contributions to default fund of central counterparties (CCP)	241	259	19
Of which credit valuation adjustment (CVA)	720	988	58
Settlement risk	**0**	**2**	**—**
Securitization exposure in banking book (after cap)	**8,159**	**6,629**	**653**
Of which IRB approach	0	2,374	0
Of which SEC-IRBA approach	4,731	2,030	378
Of which SEC-SA approach	1,821	1,014	146
Of which SEC-ERBA approach	1,607	866	129
Of which standardized approach (SA)	0	346	0
Market risk	**18,008**	**21,807**	**1,441**
Of which standardized approach	5,071	7,596	406
Of which internal model approach (IMA)	12,936	14,211	1,035
Operational risk	**55,865**	**59,661**	**4,469**
Of which standardized approach	55,865	59,661	4,469
weight)	**22,382**	**22,734**	**1,791**
Floor adjustment	—	—	—
Total	**562,580**	**605,244**	**45,006**

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	**36,401**	**22,492**	**9,977**	**5,047**	**6,342**	**4,863**	**6,860**	**4,340**	**706**
Of which internal rating-based (IRB) approach [A]	**15,884**	**12,574**	**5,891**	**3,663**	**1,168**	**481**	**1,536**	**1,271**	**605**
Central governments and central banks	31	1	1	—	1	—	15	3	15
Institutions	509	286	72	73	110	52	35	4	78
Corporates – SME	9,760	6,876	3,946	1,242	1,052	425	1,484	1,262	348
Lending	1,283	999	350	381	167	33	67	—	50
Of which Corporates – Other	1,813	1,700	1,424	87	75	1	38	36	1
Retail - Secured by real estate SME	65	64	64	—	1	1	—	—	—
Retail - Secured by real estate non-SME	3,238	3,226	939	2,050	2	1	1	—	8
Retail - Qualifying revolving	321	321	112	148	—	—	—	—	—
Retail - Other SME	329	328	201	1	—	—	—	—	—
Retail - Other non-SME	1,631	1,472	556	149	2	—	1	—	155
Other non-credit-obligation assets	—	—	—	—	—	—	—	—	—
Of which standardized approach (SA)	**19,703**	**9,104**	**3,271**	**1,384**	**5,174**	**4,382**	**5,324**	**3,069**	**101**
Central governments and central banks	1,197	758	741	—	83	—	353	317	2
authorities	17	9	6	—	—	—	8	8	—
Public sector entities	31	4	—	—	14	14	13	—	—
Multilateral Development Banks	—	—	—	—	—	—	—	—	—
International Organizations	—	—	—	—	—	—	—	—	—
Institutions	350	118	70	9	119	109	107	87	6
Corporates	3,623	1,922	358	471	695	648	994	362	11
Retail	7,584	2,886	296	508	2,507	2,206	2,111	1,589	81
property	2,570	872	190	37	802	615	895	256	—
Exposures in default	524	262	127	16	77	51	185	84	—
Items associated with particular high risk	156	28	—	13	16	16	112	13	—
Covered bonds	13	13	—	13	—	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	6	2	2	—	3	—	2	—	—
(CIU)	21	22	7	—	—	—	—	—	—
Equity exposures	23	18	—	—	—	—	5	—	—
Other items	3,588	2,191	1,475	317	859	722	537	353	1
Of which Equity IRB	**814**	**814**	**814**	**—**	**—**	**—**	**—**	**—**	**—**
Under the PD/LGD method	594	594	594	—	—	—	—	—	—
Under simple method	220	220	220	—	—	—	—	—	—
Counterparty credit risk	**253**	**153**	**79**	**37**	**58**	**48**	**41**	**24**	**—**
(Standardized)	176	94	25	32	53	47	29	20	—
contributions to the default fund of a CCP	19	19	16	2	—	—	—	—	—
Of which CVA	58	41	37	2	5	1	12	4	—
Settlement risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
(after cap)	**653**	**450**	**174**	**141**	**188**	**157**	**13**	**13**	**2**
Market risk	**1,441**	**1,002**	**973**	**14**	**207**	**7**	**232**	**116**	**—**
Of which standardized approach (SA)	406	274	245	14	8	7	123	116	—
Of which internal model approaches (IMA)	1,035	728	728	—	199	—	108	—	—
Operational risk	**4,469**	**2,349**	**854**	**566**	**1,078**	**830**	**1,042**	**565**	**—**
Of which standardized approach	4,469	2,349	854	566	1,078	830	1,042	565	—
deduction and other non-deducted investments (subject to 250% risk weight)	**1,791**	**1,242**	**1,128**	**20**	**77**	**—**	**470**	**399**	**2**
Floor adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**45,006**	**27,688**	**13,184**	**5,825**	**7,950**	**5,904**	**8,657**	**5,455**	**711**

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 (31/12/2019)	**522,527**	**41,802**
Asset size	12,298	984
Model updates	2,790	223
Regulatory	(4,057)	(325)
Acquisitions and disposals	(721)	(58)
Foreign exchange movements	(38,002)	(3,040)
Other	(7,089)	(567)
Ending amount (31/12/2020)	**487,745**	**39,020**

A. Includes capital requirements of equity, securitisations and counterparty risk (excluding CVA and CCP).

The changes in RWAs in 2020 (-EUR 34,782 million) were impacted by the generalized devaluation of currencies, especially the BRL, USD and GBP. Volumes increased in South America in the year (particularly in Brazil) and in the US. These increases offset the decline observed in Europe, mainly in Spain.

Other includes the securitizations in the year, particularly in Spain and Santander Consumer Finance.

With regards to regulatory ratios, Santander exceeded the 2020 minimum regulatory requirements by 317 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 required to cover risks from our activity with a certain level of solvency. We measure it with an internally developed model. To calculate the required capital, we determine our solvency level based on our objective long-term rating of 'A' (above the rating for the Kingdom of Spain); this represents a confidence level of 99.95% (higher than the regulatory level of 99.90%).

Our economic capital model measurements cover all significant risks incurred in our activity (concentration risk, structural interest rate risk, business risk, pensions risk, deferred tax assets (DTAs), goodwill and others that are beyond the scope of regulatory Pillar 1). It also takes diversification into account, which is key to determining and understanding our risk profile and solvency in view of our multinational operations and businesses.

Our total risk and related economic capital are less than the sum of the risk and capital of all individual units combined. Because our business spreads across various countries via a structure of separate legal entities with different customer and product segments and types of risks, our earnings are less vulnerable to adverse situations for any given market, portfolio, customer type or risk. Despite increasing economic globalization, economic cycles are not the same and countries are affected differently. This was clearly evident during the current covid-19 crisis. Groups with a global presence have more stable results and are more resistant to the eventual market or portfolio crises. This translates into lower risk.

In contrast to regulatory criteria, we consider certain intangible assets, such as DTAs or goodwill, retain value, even in a hypothetical resolution, owing to the geographic structure of our subsidiaries. Thus, assets can be valued and their unexpected loss and capital impact can be estimated.

Economic capital is a key tool for internal management and the development of Grupo Santander's strategy, for assessing solvency and managing risk of portfolios and businesses.

With regard to Basel Pillar 2, we use our economic model for the internal capital adequacy assessment process (ICAAP). We plan business progression and capital needs under a central scenario and alternative stress scenarios to make sure we meet our solvency objectives even in adverse scenarios.

Economic capital derived metrics help us assess risk-return objectives, how to price operations based on risk, how economically viable projects are, and how to value country units and business lines, so we can fulfil our overriding objective of maximizing shareholder value.

As a homogeneous risk measure, we can use economic capital to explain how risk is distributed throughout the Grupo Santander, bringing together different activities and types of risk under a single metric.

Given its relevance, internal management considers several economic capital derived metrics from both a capital needs and a risk-return point of view, within a conservative risk appetite framework established at both group and country unit level.

Required economic capital in December 2020 amounted to EUR 60,386 million. Compared to the available economic capital base of EUR 86,316 million, this implies a capital surplus of EUR 25,931 million.

Reconciliation of economic and regulatory capital

EUR million

	2020	2019
premiums	60,557	60,692
profits	52,902	59,016
Valuation adjustments	(35,345)	(23,249)
Minority interests	6,669	6,441
Prudential filters	(592)	(639)
Other [A]	2,126	(2,136)
available	**86,316**	**100,124**
Deductions	(16,337)	(31,398)
Goodwill	*(13,621)*	*(25,068)*
Other intangible assets	*(2,090)*	*(3,410)*
DTAs	*(627)*	*(2,920)*
Other	(580)	1,772
Base regulatory (CET1) capital available [B]	**69,399**	**70,497**
available	86,316	100,124
Economic capital required [C]	60,386	72,879
Capital surplus	25,931	27,245

Includes: Comparative of Provisions over Economic Expected loss, Pension Assets and Other adjustments. All figures according to EC 2020 methodology.

Including IFRS 9 transitional arrangements.

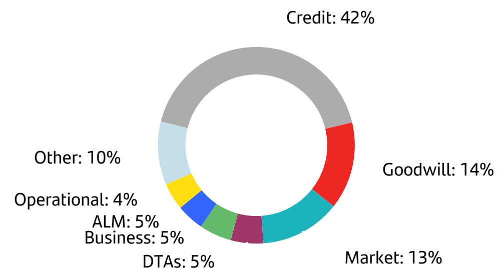
In order to enhance the comparison with regulatory capital, the differences in goodwill due to fx changes are included in the required economic capital. All figures according to EC 2020 methodology.

The main difference compared to regulatory CET1 is how goodwill, other intangible assets and DTAs are treated; we consider them additional capital requirements rather than a deduction from available capital.

The charts below sum up Grupo Santander's economic capital needs as at 31 December 2020, by region and risk type.

Distribution of economic capital needs by type of risk

%



The distribution of economic capital among core business areas reflects our business and risk diversification. Europe accounted for 57% of capital; North America, 24%; and South America, 19%.

Outside our operating areas, the Corporate Centre mainly takes on goodwill risk and structural exchange rate risk (risk from maintaining stakes in foreign subsidiaries that is denominated in currencies other than the euro).

The benefit from diversification included in the economic capital model, including intra-risks (largely similar to geographic diversification) and inter-risk diversification amounted to approximately 25-30%.

Distribution of economic capital needs by geographic area and type of risk

EUR million. December 2020

Grupo Santander. Total requirements: 60,386

Corporate Centre [A] 16,514		Europe 25,190		North America 10,315		South America 8,367	
All risks:		**All risks:**		**All risks:**			**All risks:**
Goodwill	53%	Credit	54%	Credit	63%	Credit	63%
Market	30%	Market	10%	Fixed Assets	12%	ALM	7%
DTAs	14%	Pensions	9%	Business	8%	Operational	7%
Other	4%	ALM	8%	Operational	4%	Business	6%
		Others	19%	Others	13%	Others	17%

A. Including Santander Global Platform

RoRAC and Economic Value Added

Since 1993, Grupo Santander has been using RoRAC methodology to:

- calculate economic capital consumption and return for business units, segments, portfolios and customers, so as to optimize capital allocation.
- measure the management of units through budgetary monitoring of capital consumption and RoRAC.
- analyze and set prices to make decisions on operations (approvals) and customers (monitoring).

The RoRAC methodology helps us compare the return on operations, customers, portfolios and businesses on a like-for-like basis. We can identify what is obtaining a risk-adjusted return higher than its cost of capital and thus align risk and business management to maximize economic value added (EVA), which is senior management's ultimate goal.

We regularly assess the level and progression of EVA and the risk-adjusted return (RoRAC) across Grupo Santander. EVA is calculated as profit generated above the cost of economic capital employed, and is calculated as follows:

Economic Value Added = underlying consolidated profit – (average economic capital x cost of capital)

We calculate profit by making the necessary adjustments to consolidated profit to eliminate factors outside the ordinary course of our business and thus obtain each country unit's underlying result in the year.

Additionally, for internal management purposes, we analyze the impact of items not covered by our economic capital model but affect reserves without being included in the income statement.

We compare the expected credit loss of the various portfolios against provisions, similar to the regulatory capital approach. This became more significant in 2020 owing to the exceptional increase in provisions required to tackle the covid-19 crisis.

The minimum return on capital a transaction must obtain is determined by the cost of capital, the minimum compensation required by shareholders. We calculate it by adding the premium shareholders require to invest in Santander, to the risk-free return. The premium depends essentially on the degree of volatility in our share price with respect to the market's performance. The cost of capital defined for Grupo Santander in 2020 was 12.00%, impacted by higher volatility in the covid-19 crisis (vs. 8.30% the previous year, which shows a more structural value).

As well as annually reviewing the cost of capital, Grupo Santander's internal managers also estimate a cost of capital for each business unit based on its features (under the philosophy that subsidiaries manage capital and liquidity autonomously) to determine whether each business is capable of creating standalone value.

If a transaction or portfolio obtains a positive return, it contributes to our profits, but only adds economic value when that return exceeds the cost of capital.

The following table shows economic value added and RoRAC at the end of December 2020 of the Group's main geographical segments. These figures are clearly affected by the economic situation resulting from the covid-19 crisis, which led to lower profit due to greater provisions and an increase in the cost of capital, resulting in a value for 2020 greater than the structural cost of capital for the group:

Economic Value Added [A] and RoRAC

EUR million

	2020		2019	
Main segments	**RoRAC**	**EVA**	**RoRAC**	**EVA**
Europe	10.5 %	(429)	17.7 %	2,682
North America	15.0 %	187	20.2 %	1,019
South America	26.1 %	883	36.0 %	2,641
Total Group	**8.5 %**	**(2,529)**	**12.9 %**	**3,509**

A. The economic value added is calculated with the cost of capital of each unit. The Group's total RoRAC includes the operative units, the Corporate Centre and SGP, reflecting the Group's economic capital and its return.

Capital planning and stress tests

Capital stress test exercises are a key tool in banks' dynamic evaluations of their risks and solvency.

These forward-looking evaluations are based on unlikely but plausible macroeconomic and idiosyncratic scenarios. They require robust planning models that can translate the effects defined in the projected scenarios to elements that affect solvency.

The ultimate aim of capital stress exercises is to thoroughly assess risks and solvency to determine capital requirements if a bank fails to meet its regulatory and internal capital objectives.

Internally, Grupo Santander has a defined capital stress and planning process to respond to various regulatory exercises and is a key tool integrated into management and strategy.

Internal capital stress and planning aims to ensure sufficient current and future capital, even in unlikely but plausible economic scenarios. Based on our initial situation (defined by our financial statements, capital base, risk parameters, and regulatory and economic ratios), we estimate results in various business environments (including severe recessions as well as expected macroeconomic environments), to determine our solvency ratios, usually for a three-year period.

Planning offers a comprehensive view of our capital for the analyzed period and in each of the defined scenarios based on regulatory capital and economic capital metrics.

This chart describes the structure in place:

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** • **Regulatiry and economic 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** • **Regulatory and economic view**
5	**Action plan**	• In the event of failure to comply with internal objectives or regulatory requirements

This structure supports the ultimate objective of capital planning, by making it an important strategic element that:

- ensures current and future solvency, even in adverse economic scenarios.
- ensures comprehensive capital management, analyzes specific effects and integrates them into strategic planning.
- enables a more efficient use of capital.
- helps formulate capital management strategy.
- facilitates communication with the market and supervisors.

Our capital planning has the full involvement and close supervision of senior managers, under a framework that ensures suitable governance and that is subject to the right levels of challenge, review and analysis.

A key element in capital planning and stress analysis exercises is calculating the provisions needed under these scenarios, especially to cover losses on credit portfolios; it is particularly important for income statement forecasts under defined adverse scenarios.

To calculate loan-loss provisions of the credit portfolio, we use a methodology that ensures provisions cover loan losses projected by its internal expected loss models, based on exposure at default (EAD), probability of default (PD) and loss given default (LGD parameters), at all times.

In 2018, we adapted this methodology to incorporate changes in the new IFRS 9 regulations, with models to calculate balances by stages (S1, S2, S3) as well as the movements between them and the loan-loss provisions in accordance with the new standards.

Our capital planning and stress analysis culminate with an analysis of solvency under various scenarios over a set period to measure capital adequacy and ensure we meet internal all capital and regulatory requirements.

If we were to fail to meet our capital objectives, we would draw up an action plan with the measures needed to attain the minimum capital desired. We analyze and quantify these measures as part of internal exercises even if we will not need to utilize them as we exceed the minimum capital thresholds.

Grupo Santander carries out its internal stress and capital planning transversally throughout the group, at the consolidated and local level. Our country units use it as an internal management tool, particularly to respond to local regulatory requirements.

Since the beginning of the economic crisis in 2008, we have undergone seven external stress tests. All of them proved our strength and solvency in the most extreme and severe macroeconomic scenarios showing that, owing to our business model and geographic diversification, we would still be capable of generating profit for shareholders while satisfying the most demanding regulatory requirements.

We have also conducted internal stress tests every year since 2008 as part of our ICAAP process (Basel Pillar 2). Every test has proven our capacity to confront the most difficult exercises on a global and local level.

During 2020, due to the special situation resulting from the coronavirus crisis, capital planning capacities and stress tests allowed us to analyze various scenarios for the evolution of the pandemic and ensure capital adequacy under the various possible scenarios derived from the covid-19 crisis.

Recovery and Resolution Plans and Special Situations Management Framework

This section summarizes our progress in crisis management, particularly the main principles of recovery plans, resolution plans and the management framework governing special situations.

Recovery plans

Context. Grupo Santander prepared its eleventh corporate recovery plan in 2020. The most important part sets out measures we have at our disposal to survive a very severe crisis on our own.

Its aims primarily to test the feasibility, effectiveness and credibility of recovery measures as well as the suitability of the recovery indicators and their respective thresholds, above which decision-making will be escalated to cope with stress situations.

It sets out macroeconomic and/or financial crisis scenarios which incorporate idiosyncratic and/or systemic events relevant to the group that could lead to its activation.

It has been designed with the premise of no extraordinary public aid, in accordance with article 5.3 of the BRRD.

The recovery plan should not be interpreted as an instrument independent of our structural mechanisms to measure, manage and supervise risk. Integrated into the plan are: the risk appetite framework (RAF), the risk appetite statement (RAS), the risk identification assessment (RIA), the business continuity management system (BCMS), the internal assessments of capital and liquidity (ICAAP and ILAAP) and other tools. It is also integrated into our strategic plans.

Progress in 2020. In April, as a result of the crisis caused by the covid-19 pandemic, the ECB announced that banks could submit recovery plans for 2020 only covering essential elements and improvements made to rectify any key deficiencies the ECB had identified in its feedback letters on their 2019 recovery plans.

It also announced that the macroeconomic and/or financial crisis scenarios used in past years, in which idiosyncratic and/or systemic events are incorporated, would be replaced with a single covid-19 stress scenario.

Despite this easing of requirements and the ECB not identifying any key weaknesses in our 2019 recovery plan, we decided to prepare a comprehensive plan in 2020. It comprised all chapters and most of the improvements suggested by the ECB. Specifically:

- further details on the roles and responsibilities of Silver/Gold forums outside of crisis periods.
- more details about non-financial indicators and on our approach to early warning indicators for non-financial events.
- greater detail on external interconnections, standardizing criteria between subsidiaries.
- a recovery strategy adapted to the covid-19 scenario, and an improved chapter on global stressed recovery capacity with more details, macro charts developed by the in-house research team and tables to demonstrate the impact of the measures on the LCR.
- the impact of recovery measures in March, to show how all our recovery options can be executed in a crisis, in addition to more details about the assumptions underlying impact calculations, including stress scenarios.

The **key takeaways** from our analysis of the 2020 corporate plan were:

- no material interdependencies between country units.
- ample recovery capacity ensured in all scenarios by available measures, with an advantage in a recovery situation afforded by our geographic diversification model.
- sufficient capacity in each subsidiary to emerge from a recovery situation on its own, strengthening our autonomous subsidiaries model (in terms of capital and liquidity).

- sufficient mitigation mechanisms to minimize the negative economic impact of potential reputational damage in stress scenarios.
- in a serious financial or solvency event, no one subsidiary is important enough to trigger the corporate plan by causing the severest recovery indicator levels to be surpassed.

These factors prove our business model and geographic diversification strategy, based on autonomous subsidiaries, will continue to be strong in a recovery situation.

Regulation and governance. Grupo Santander's recovery plan complies with the EU regulations and follows the non-binding recommendations of the Financial Stability Board (FSB) and other international bodies.

We submitted our latest plan to the Single Supervisory Mechanism in October 2020, after which the EBA has six months to make formal considerations.

It comprises the corporate plan (Banco Santander, S.A.) and local plans for the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Poland and Portugal. Except for Santander Chile, all country units must draw up a local plan in compliance with local regulations as well as corporate requirements.

Though the board of Banco Santander, S.A. approves the corporate plan, relevant content and figures are previously submitted to and discussed by the capital committee, the global ALCO and the risk supervision, regulation and compliance committee. On the other hand, local plans are approved by local bodies, always in coordination with the parent as they are included in the corporate plan.

Resolution plans

Grupo Santander cooperates with the relevant authorities to prepare resolution plans, providing them with the information they request.

Those that form part of the Crisis Management Group (CMG) upheld their decision on our Multiple Point of Entry (MPE) strategy[1] to be used in the hypothetical case of resolution.

This is based on our legal and business structure, organized into nine resolution groups that can be resolved independently without involving other parts of the organization.

In November 2020, the Single Resolution Board (SRB) announced its preferred resolution strategy and work priorities to improve our resolvability.

We continued to make progress with projects to improve resolvability, defining these lines of action:

1) Ensure a sufficient buffer of instruments with loss absorption capacity.

In 2020, Grupo Santander issued debt instruments that meet the MREL eligibility requirements.

To avoid legal uncertainty surrounding the execution of the resolution authority's bail-in power, all our issuances governed by laws other than Spanish law include a contractual recognition clause, obliging the creditor to accept any reduction of principal or outstanding amounts, or the conversion or cancellation by virtue of the said bail-in power.

2) Ensure information systems can quickly provide the high-quality information required in resolution.

We continue to make our governance of information provided to the resolution authority for drawing up resolution plans stronger and more systematic. We made further progress with 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.

3) Guarantee operational continuity in resolution situations.

Grupo Santander is strengthening operational continuity with new clauses in contracts with internal and external suppliers, which stipulate that resolution is not considered an event which could trigger termination of services.

This clause features in any new contracts or renewals according to a corporate template we've created.

We conducted an analysis on services provided by market infrastructure to confirm service continuity in a resolution scenario and understand their policies in the case of financial deterioration prior to resolution.

1. With the exception of Santander US whose resolution plans correspond to the individual entities.

We are also developing contingency plans for cases where a main market infrastructure's own resolution disrupts service. They will include actions to mitigate the associated risk such as (i) identifying and justifying potential substitutes/ alternatives and (ii) assessing possible financial or operative measures that would mitigate risk from losing the service.

4) Foster a culture of resolvability.

Grupo Santander continued to involve more senior managers by elevating resolvability matters to the board and other high-level committees.

Special situations management framework

We hold regular simulation exercises, which serve as a tool for raising awareness and preparing for certain stress situations.

Contingency plans are classified as mitigation tools within the Comprehensive Special Situations Framework (CSSF), in line with their more global nature.

The framework comprises two additional key stages in managing them: (i) special situations preparation in BAU and (ii) facilitating resolution.

This has given us flexibility to activate the special corporate situations committees in order to respond preventively to the situation generated by covid-19, and to coordinate the responses of the country units.

In the pandemic, we continued to actively interact with our main subsidiaries to promote and share best practices, and ensure appropriate crisis governance through local crisis committees.

As reflected in our management of covid-19, one key feature has been to have a tried and tested technological infrastructure to guarantee the agile and swift activation of special situations protocols and procedures.

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 for crisis management frameworks. It aims to ensure global systemically important banks (G- SIBs) have the capacity to absorb losses and recapitalize as required to maintain critical functions during and immediately after resolution proceedings without compromising customer funds, public funds or financial stability.

The TLAC term sheet requires each G-SIB to have an individually set minimum TLAC level which is the greater of (a) 16% of risk weighted assets from 1 January 2019 and 18% from 1 January 2022, or (b) 6% of the Basel III Tier 1 leverage ratio exposure measure from 1 January 2019, and 6.75% from 1 January 2022.

Some jurisdictions have already transposed the TLAC term sheet into law (as is the case in Europe via the CRR 2 and BRRD 2, and in the US). Other jurisdictions where we operate, including Brazil and Mexico, have yet to implement this requirement.

The phase-in calendar for developing countries extends the deadline for implementing the term sheet to 2025. In Europe, the final texts of CRR 2 and BRRD 2, which modify the resolution framework, were published in June 2019. One of the main objectives of this revision was to implement the TLAC requirement in Europe.

The CRR 2, which came into force in June 2019, dictates the 16%/18% minimum requirement for G-SIBs as set in the TLAC term sheet. It must be made up of subordinated liabilities (with the exception of a percentage of senior debt - 2.5%/3.5%). It also sets the subordination requirement for large banks (with total assets exceeding EUR 100 billion) at 13.5% of RWAs or 5% of the tier 1 Basel III leverage ratio exposure (whichever is greater).

The BRRD 2 will be transposed into law in Spain in 2021.

G-SIBs also have a Pillar 2 requirement in addition to the minimum CRR requirement, owing to the MREL methodology in the BRRD 2.

In November 2019, Banco de España formally communicated the (binding) MREL for the Banco Santander, S.A. Resolution Group (sub-consolidated), which needed be met from 1 January 2020. It 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, 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 which can be non-subordinated.

As of 31 December 2020, Banco Santander, S.A. meets its MREL requirements having issued eligible instruments during the year.

4. Financial information by segment

4.1 Description of segments

We base segment reporting on financial information presented to the chief operating decision maker, which excludes certain statutory results items that distort year-on-year comparisons and are not considered for management reporting. 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 51.c to the Grupo Santander financial statements).

Grupo Santander has aligned the information in this chapter with the underlying information used internally for management reporting and with that presented in Grupo Santander's other public documents.

Grupo Santander executive committee has been selected to be its chief operating decision maker. Grupo Santander's operating segments reflect its organizational and managerial structures. The executive committee reviews internal reporting based on these segments to assess performance and allocate resources.

The segments are split by geographic area in which profits are earned and type of business. We prepare the information by aggregating the figures for Grupo Santander's various geographic areas and business units, relating it to both the accounting data of the business units integrated in each segment and that provided by management information systems.The same general principles as those used in Grupo Santander are applied.

In 2020, we maintain the general criteria applied in 2019, as well as the business segments with the following exceptions, which only affect the secondary segments:

1. Following the creation of the reporting segment Santander Global Platform in 2019, which comprises our global digital services under a single business unit, and its incorporation in both primary and secondary segments, in 2020 for better monitoring of its evolution and contribution to the Group's results, at the secondary segment level in addition to the results generated by the platforms, 50% of the results generated by countries in products linked to these platforms are considered. These results were previously included in Retail Banking.
2. Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Santander Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.

These changes in the secondary segments have no impact on the primary segments and do not affect the Group's figures.

To allow better comparability of the secondary segments, 2019 data has been provided on a new basis.

After these changes, **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, Santander Consumer Finance (which incorporates all the region's business, including the three countries mentioned herewith) 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 Santander Bank, Santander Consumer USA, the specialized business unit Banco Santander International, Santander Investment Securities (SIS) and the New York branch. The sale of Banco Santander Puerto Rico was completed in September 2020, which was previously included in the US.

South America: includes all the financial activities carried out by Grupo Santander through its banks and subsidiary banks in the region. Detailed information is provided on Brazil, Chile, Argentina, Uruguay, Peru and Colombia.

Santander Global Platform: which comprises our global digital services under a single business unit, 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, Grupo Santander is structured into Retail Banking, Santander Corporate & Investment Banking, Wealth Management & Insurance and Santander Global Platform.

Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking which are managed through Santander Corporate & Investment Banking, asset management, private banking and insurance, which are managed by Wealth Management & Insurance and 50% of the countries' results generated by digital services, which are included in Santander Global Platform. 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 the asset management business (Santander Asset Management), the corporate unit of Private Banking and International Private Banking in Miami and Switzerland and the insurance business (Santander Insurance).

Santander Global Platform: which comprises our global digital services under a single business unit (breakdown in the primary segment definition), as well as 50% of the results generated by these services in the commercial network.

In addition to these operating units, which report by geographic area and businesses, Grupo Santander continues to maintain the area of **Corporate Centre**, that includes the centralized activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of Grupo Santander's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

As Grupo Santander's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortization 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 'Group financial performance' 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.

The statements included in this section regarding Grupo Santander's competitiveness and that of its subsidiaries have been produced by Santander based on public information (corporate websites of competing entities and information published by national banking institutions).

4.2 Summary income statement of the Group's main business areas

2020

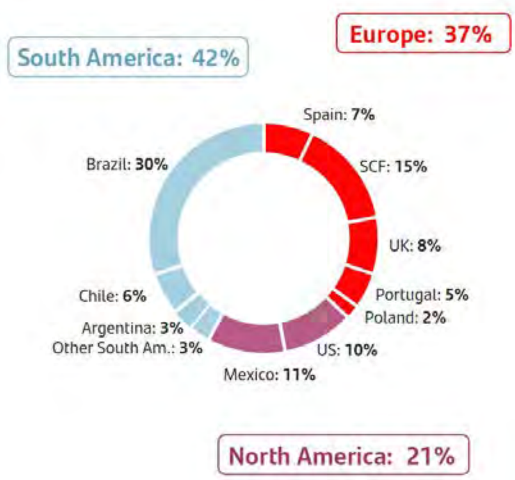
Main items of the underlying income statement

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	**14,046**	**4,737**	**19,693**	**9,379**	**4,167**	**2,656**
Spain	3,957	2,314	6,782	3,175	715	517
Finance	3,832	750	4,685	2,703	1,869	1,085
United Kingdom	3,808	506	4,339	1,697	697	530
Portugal	787	388	1,296	706	483	338
Poland	1,037	452	1,524	895	370	162
Other	626	328	1,067	203	32	24
NORTH AMERICA	**8,469**	**1,661**	**11,011**	**6,379**	**2,332**	**1,492**
US	5,645	889	7,360	4,281	1,250	731
Mexico	2,825	772	3,651	2,098	1,082	762
SOUTH AMERICA	**10,723**	**3,566**	**14,845**	**9,533**	**5,291**	**2,927**
Brazil	7,625	2,824	10,866	7,325	4,045	2,113
Chile	1,787	335	2,263	1,363	785	432
Argentina	912	273	1,128	496	200	179
Other	398	134	588	349	262	203
PLATFORM	**129**	**81**	**192**	**(190)**	**(204)**	**(150)**
CORPORATE CENTRE	**(1,374)**	**(29)**	**(1,141)**	**(1,470)**	**(1,912)**	**(1,844)**
TOTAL GROUP	**31,994**	**10,015**	**44,600**	**23,633**	**9,674**	**5,081**
Secondary segments						
RETAIL BANKING	**29,544**	**6,850**	**37,215**	**20,368**	**7,531**	**4,196**
BANKING	**2,953**	**1,550**	**5,397**	**3,328**	**2,726**	**1,823**
INSURANCE	**454**	**1,194**	**2,135**	**1,229**	**1,199**	**868**
PLATFORM	**416**	**449**	**994**	**178**	**130**	**39**
CORPORATE CENTRE	**(1,374)**	**(29)**	**(1,141)**	**(1,470)**	**(1,912)**	**(1,844)**
TOTAL GROUP	**31,994**	**10,015**	**44,600**	**23,633**	**9,674**	**5,081**

Underlying attributable profit to the parent by primary segment distribution [A]

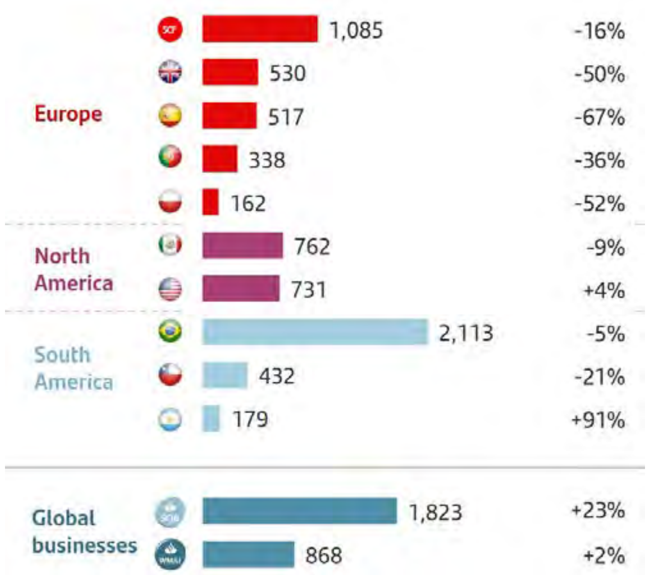
2020



A. As a % of operating areas. Excluding Corporate Centre and Santander Global Platform.

Underlying attributable profit to the parent 2020. Core markets

EUR million. % change YoY in constant euros



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	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
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
PLATFORM	**92**	**6**	**81**	**(159)**	**(166)**	**(120)**
CORPORATE CENTRE	(1,252)	(50)	(1,617)	(1,990)	(2,262)	(2,097)
TOTAL GROUP	**35,283**	**11,779**	**49,494**	**26,214**	**14,929**	**8,252**

Secondary segments	Net interest income	Net fee income	Total income	Net operating income	Profit before tax	attributable profit to the parent
RETAIL BANKING	**32,862**	**8,561**	**42,599**	**23,672**	**12,953**	**7,580**
BANKING	**2,728**	**1,520**	**5,227**	**2,945**	**2,699**	**1,713**
INSURANCE	**570**	**1,199**	**2,226**	**1,271**	**1,281**	**929**
PLATFORM	**375**	**549**	**1,061**	**315**	**258**	**127**
CORPORATE CENTRE	(1,252)	(50)	(1,617)	(1,990)	(2,262)	(2,097)
TOTAL GROUP	**35,283**	**11,779**	**49,494**	**26,214**	**14,929**	**8,252**

4.3 Primary segments

EUROPE

Underlying attributable profit
EUR 2,656 Mn

2020 Highlights

- → One Santander, whose first focus is Europe, is accelerating our business transformation in the region, to achieve superior growth and a more efficient operating model.
- → Excluding the exchange rate impact, volumes grew in all markets in the year: loans grew +4% and deposits +6%, with significant recovery in activity since April's lows.
- → Underlying attributable profit of EUR 2,656 million, 46% lower year-on-year (-45% in constant euros), affected by the extraordinary provisions recorded.
- → Customer revenue showed the resilience and strength of our model in a low activity environment, with a recovery in recent months which drove the fourth quarter to be the highest of the past two years. Strong cost control across all markets mitigating the negative impact on net operating income (-5%).

Strategy

With **One Santander** we want to create a better bank in Europe, where our customers and our employees feel a deep connection with Santander while delivering sustainable shareholder value, by:

- **Growing our business by better serving our customers**, through capital efficient growth opportunities including SCIB and WM&I, simplifying our mass market value proposition, improving customer experience and connecting to PagoNxt.
- **Continuing to develop our omnichannel strategy**, to redefine how we interact with our customers, accelerate our digital agenda and maintain the personal relationships through our teams.
- Creating a **common operating model in Europe**, to serve the business with common platforms and automated operations. We will leverage shared services to move to a more flexible organization with one aligned team across the continent.

This transformation aims to deliver revenue growth and notable cost savings, resulting in positive operating jaws. in October, we committed to deliver EUR 1 billion additional cost savings over the next two years after we achieved our previous target early.

In 2021 we will see the first steps of this deep transformation. Particular focus will be on changing how we manage our business with new regional business owners, who will define the vision and end-to-end value proposition for each customer area and deliver through agile teams in all countries.

Loyal customers

December 2020. Thousands

10,021

36% /active customers

Digital customers

December 2020. Thousands

15,187

+10% YoY

Business performance

Loans and advances to customers remained virtually unchanged year-on-year. In gross terms, excluding reverse repurchase agreements and the exchange rate impact, they rose 4%, with broad-based growth in all countries. Of note were the UK (mortgages), Spain (mainly corporates due to ICO-guaranteed loans) and Portugal (mortgages and corporates), as well as a positive performance in SCIB (mainly in Other Europe, but in the other countries as well).

Customer deposits increased by 4% compared to 2019. Excluding repurchase agreements and the FX impact, they were up 6% with rises in all countries.

Mutual funds grew 4% (+5% excluding FX impact), predominantly driven by Portugal (+6%) and Other Europe (+56%), boosting customer funds by 4% (+6% excluding the exchange rate impact).

Results

Underlying attributable profit in 2020 was EUR 2,656 million (37% of the Group's total operating areas), and underlying RoTE was 5.5%.

Compared to 2019, underlying attributable profit, was down 45% in constant euros (-46% in euros), as follows:

- **Total income** declined 5% dampened by the health crisis, low interest rates, lower income from real estate stakes in Spain and the higher contribution to the DGF.

  Net interest income remained stable benefiting from higher volumes, interest rate management and the positive TLTRO impact.

- **Administrative expenses and amortizations** decreased 6% stemming from optimizations in recent years and the efficiencies generated since the pandemic began.

- **Net loan-loss provisions,** which to some extent anticipate potential future impacts, increased sharply amid the covid-19 health crisis. However, the NPL ratio improved 10 bps to 3.15% due to risk management and other initiatives such as non-performing portfolio sales.

- **Other gains (losses) and provisions** increased their loss during the year, mainly in the UK and Poland for potential legal contingencies and other provisions.

EUROPE

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	14,046	14,201	(1.1)	0.0
Net fee income	4,737	5,260	(9.9)	(9.4)
Gains (losses) on financial transactions [A]	884	1,035	(14.6)	(14.2)
Other operating income	26	505	(94.9)	(94.9)
Total income	**19,693**	**21,001**	**(6.2)**	**(5.4)**
Administrative expenses and amortizations	(10,314)	(11,044)	(6.6)	(5.8)
Net operating income	**9,379**	**9,957**	**(5.8)**	**(4.8)**
Net loan-loss provisions	(4,299)	(1,839)	133.8	136.3
Other gains (losses) and provisions	(914)	(768)	18.9	20.1
Profit before tax	**4,167**	**7,350**	**(43.3)**	**(42.7)**
Tax on profit	(1,132)	(1,979)	(42.8)	(42.3)
Profit from continuing operations	**3,035**	**5,371**	**(43.5)**	**(42.9)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**3,035**	**5,371**	**(43.5)**	**(42.9)**
Non-controlling interests	(379)	(493)	(23.2)	(22.1)
Underlying attributable profit to the parent	**2,656**	**4,878**	**(45.6)**	**(45.0)**
Balance sheet				
Loans and advances to customers	675,895	676,904	(0.1)	2.6
Cash, central banks and credit institutions	224,793	180,389	24.6	26.2
Debt instruments	86,925	104,382	(16.7)	(15.2)
Other financial assets	48,266	53,893	(10.4)	(10.2)
Other asset accounts	41,658	41,471	0.5	2.2
Total assets	**1,077,537**	**1,057,038**	**1.9**	**4.2**
Customer deposits	622,826	600,380	3.7	6.4
Central banks and credit institutions	208,408	189,792	9.8	11.2
Marketable debt securities	120,166	133,544	(10.0)	(7.4)
Other financial liabilities	55,919	60,807	(8.0)	(7.7)
Other liabilities accounts	15,635	16,383	(4.6)	(2.6)
Total liabilities	**1,022,954**	**1,000,906**	**2.2**	**4.5**
Total equity	**54,583**	**56,133**	**(2.8)**	**(0.1)**
Pro memoria:				
Gross loans and advances to customers [B]	658,471	650,552	1.2	3.9
Customer funds	696,427	671,032	3.8	6.1
Customer deposits [C]	603,450	581,395	3.8	6.4
Mutual funds	92,977	89,637	3.7	4.6
Ratios (%) and operating data				
Underlying RoTE	5.48	10.00	(4.51)	
Efficiency ratio	52.4	52.6	(0.2)	
NPL ratio	3.15	3.25	(0.10)	
NPL coverage	57.3	49.8	7.5	
Number of employees	83,976	86,574	(3.0)	
Number of branches	4,846	5,336	(9.2)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Spain

Underlying attributable profit
EUR 517 Mn

2020 Highlights

→ **Santander España has worked to be a part of the solution to the crisis through initiatives to support households, the self-employed and businesses. Among others, we remained at the forefront of mobilizing ICO funding and granting payment holidays in mortgages, consumer finance and cards.**

→ **We made further progress in transforming our distribution model with the launch of our new app and website, among other initiatives, and in accelerating our digitalization.**

→ **Significant cost reduction efforts (-10% year-on-year), while improving customer satisfaction and our net promoter score (NPS) positioning.**

→ **Underlying attributable profit was EUR 517 million in 2020, down 67% compared to 2019, predominantly affected by higher provisions amid the uncertain climate.**

Strategy

Commercial activity was strongly affected in 2020, particularly during the worst months of the pandemic. Since the outbreak, Santander España has run **initiatives to support our stakeholders**:

- **Protecting our employees:** we introduced remote working measures, encouraged the use of digital channels and implemented health protection measures at our facilities.
- **Supporting our customers:** we channelled EUR 30.8 billion in ICO-backed loans (approved loans and credit lines) to the self-employed, SME and corporates (reaching a 27% market share) and granted more than 180,000 payment holidays to households.
- **Contributing to society:** we launched the Together in Solidarity Fund, with more than EUR 25 million invested in solidarity initiatives.

As regards the main **loyalty drivers** and **performance by segment in 2020**:

- For **SMEs and corporates**, we simplified our value proposition with **Santander One**, a pioneering model in Spain's financial industry, that provides subscription-based, personalized financial services, centred on customer loyalty.
- In **Insurance**, the performance of our **agreements with Aegon and Mapfre** to provide a complete insurance offering, which boosted growth in non-credit related premiums by more than 27% year-on-year.
- In **Private Banking**, we remained market leaders, being named Best Private Banking Overall in Spain by *Euromoney* and *Global Finance*.
- In **SCIB**, we obtained solid results, maintaining our leadership in the main league tables despite the uncertain market environment and the covid-19 impacts.

We continued to ramp up our **digitalization**, leading to an 11% increase in digital customers in the year and more than 100 million accesses to digital channels per month. Our app and website **led** the *Aqmetix* ranking.

Our **strategic agreement with Correos** increases our network services at more than 4,600 offices and bolsters our financial services in Spain's rural areas.

We reaffirmed our **Responsible Banking commitment**, with sustainable growth initiatives, as well as leading SRI Funds with a 44% market share.

Lastly, Santander España was named Best Company to Work For by *Top Employers*.

Loyal customers
December 2020. Thousands

2,643

34% /active customers

Digital customers
December 2020. Thousands

5,234

+11% YoY

Business performance

Loans and advances to customers rose 5%. In gross terms, excluding reverse repurchase agreements, they increased by EUR 9,455 million (+5%) strongly driven by the self-employed, SMEs and corporates. Mortgage completions and consumer lending remained below 2019 levels, in line with the economic slowdown.

Customer deposits increased 5% compared to 2019. Excluding repos, growth was also 5% boosted by demand deposits (+9% year-on-year). Regarding mutual funds, assets under management increased 1% despite the initial impact of the pandemic, as net inflows were positive in the last seven months.

Results

Underlying attributable profit amounted to EUR 517 million (7% of the Group's total operating areas) with an underlying RoTE of 3%.

Compared to 2019, underlying attributable profit was 67% lower. By line:

- **Total income** declined 10% impacted primarily by lower net fee income from reduced transaction volumes and market performance, and lower income from real estate stakes. Conversely, net interest income had no material change after absorbing the impact of negative interest rates and smaller ALCO portfolio.

- **Administrative expenses and amortizations** fell at double-digit rates (-10% year-on-year) through the development of our distribution model.

- Higher **loan-loss provisions** for potential future impacts of the uncertainty caused by the covid-19 crisis. Despite the economic recession, the NPL ratio improved 71 bps year-on-year, mainly due to the high level of corporate loans and a non-performing portfolio sale for EUR 1.5 billion. Coverage ratio increased 6 pp.

- **Other gains (losses) and provisions,** where provisions related to foreclosed assets and increased operational risk are recorded, had no material change.

Spain

EUR million

Underlying income statement	2020	2019	%
Net interest income	3,957	3,919	1.0
Net fee income	2,314	2,481	(6.7)
Gains (losses) on financial transactions [A]	781	1,046	(25.4)
Other operating	(269)	61	0.0
Total income	**6,782**	**7,506**	**(9.6)**
Administrative expenses and	(3,607)	(4,021)	(10.3)
Net operating income	**3,175**	**3,485**	**(8.9)**
Net loan-loss	(2,001)	(856)	133.7
Other gains (losses) and provisions	(459)	(455)	0.9
Profit before tax	**715**	**2,174**	**(67.1)**
Tax on profit	(199)	(589)	(66.2)
Profit from continuing operations	**516**	**1,585**	**(67.4)**
Net profit from discontinued	—	—	—
Consolidated profit	**516**	**1,585**	**(67.4)**
Non-controlling	0	0	0.0
Underlying attributable profit to the parent	**517**	**1,585**	**(67.4)**

Balance sheet			
Loans and advances to customers	194,239	185,179	4.9
Cash, central banks and credit institutions	113,518	78,334	44.9
Debt instruments	21,654	34,288	(36.8)
Other financial assets	2,671	1,393	91.8
Other asset accounts	22,438	23,908	(6.1)
Total assets	**354,521**	**323,102**	**9.7**
Customer deposits	251,375	240,427	4.6
Central banks and credit institutions	48,305	25,231	91.4
Marketable debt	26,068	26,855	(2.9)
Other financial	9,344	8,971	4.2
Other liabilities	4,112	5,222	(21.3)
Total liabilities	**339,203**	**306,706**	**10.6**
Total equity	**15,318**	**16,396**	**(6.6)**

Pro memoria:			
Gross loans and advances to customers [B]	200,735	191,280	4.9
Customer funds	320,879	308,747	3.9
Customer deposits [C]	251,375	240,126	4.7
Mutual funds	69,503	68,621	1.3

Ratios (%) and			
Underlying RoTE	3.30	10.48	(7.18)
Efficiency ratio	53.2	53.6	(0.4)
NPL ratio	6.23	6.94	(0.71)
NPL coverage	47.1	41.1	6.0
Number of employees	26,961	27,630	(2.4)
Number of branches	2,939	3,235	(9.1)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Santander Consumer Finance

Underlying attributable profit
EUR 1,085 Mn

2020 Highlights

→ During 2020, SCF prioritized the management of the covid-19 impact. This was reflected in the protection of our employees' health, in ensuring business continuity and service and in supporting our customers and business partners (car manufacturers, dealers and retailers).

→ New business volumes were affected by the health crisis, particularly from March to May, with strong signs of recovery in H2, as the impact of second wave at the end of the year was much less severe.

→ Underlying attributable profit was EUR 1,085 million, with an underlying RoTE that remained at double-digits (13%), RoRWA of 1.9% and a cost of credit which is low for this type of business.

→ We announced the creation of the Digital Consumer Bank, a new business with the aim of building a global digital consumer finance business based on SCF and Openbank's digital platform technology.

Strategy

Santander Consumer Finance (SCF) is Europe's consumer finance leader, present in 15 countries with more than 130,000 associated points of sale (auto dealers and shops). It also has numerous finance agreements with auto and motorcycle manufacturers and retail distribution groups.

In 2020 management focused on:

- strengthening leadership position in the retail auto finance market, while optimizing capital consumption and driving growth in consumer finance;
- proactively managing brand agreements and developing digital projects, helping our partners with their digitalization and transformation plans;
- executing the 2019 strategic operations as a key element to maintain high profitability and best-in-class efficiency:
  - 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.

As a result of these priorities, SCF continued to gain market share amid the health crisis, underpinned by its **business model**: highly diversified by countries with a critical mass in key products.

We also **maintained our leadership position** in profitability, more than doubling the RoA of pan-European competitors, and in efficiency we were the only player who improved.

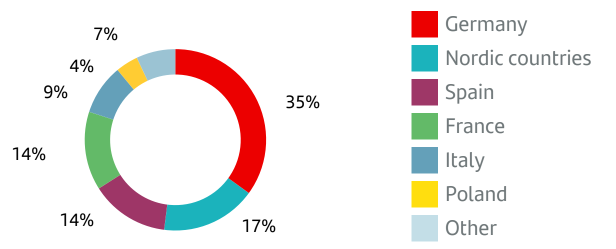
We signed new agreements with retail distributors and manufacturers, to assist them in their commercial transformation and increase the value proposition for the end customer. We struck two main strategic deals to strengthen our presence in Europe, maintain our auto finance leadership position and boost digital channels: the acquisition of 46% of Sixt Leasing and the joint consumer finance operation with Telecom Italia Mobile.

SCF was once again named *Top Employer 2020* in Austria, Belgium, Germany, Italy, the Netherlands and Poland.

Looking forward, we announced the creation of **Santander Digital Consumer Bank**, a new business with the aim of building a global digital consumer finance business based on SCF and Openbank's digital platform technology. Openbank is our 100% digital bank and is the largest digital bank in Europe. It has a complete set of banking services that come on top of its unique, scalable and efficient software package. Together, they will form a very potent business.

Loans and advances to customers by geographic area

December 2020



Business performance

Most of SCF's markets were significantly affected in 2020 by the isolation measures related to covid-19, which was reflected in a 12% fall in new lending (significantly better than 24% fall in European new car sales), despite recovering pre-crisis levels in the second half of the year. The largest falls were in Southern Europe, which was most affected by isolation measures, whereas Northern European markets were stronger.

In order to compensate lost revenue, several measures are being carried out to reduce risk, including expense reductions, income initiatives in pricing and cost of funding.

The stock of loans and advances fell 1% year-on year. In gross terms, excluding the exchange rate impact and reverse repos, it was in line with 2019.

Customer deposits were flat (+1% excluding the exchange rate impact). Our recourse to wholesale funding markets remained strong, obtaining EUR 10 billion in 2020. Additionally, we increased funding from the ECB (+85%) to take advantage of the favourable conditions.

Results

Underlying attributable profit in 2020 was EUR 1,085 million, (15% of the Group's total operating areas) and underlying RoTE was 13%.

Compared to 2019, underlying profit was down 16% in constant euros (-17% in euros), as follows:

- **Total income** increased 1% driven by net interest income (greater stock of loans and revenue actions), while fees fell due to the reduction in new business. Income was partially offset by the European Court of Justice ruling regarding early repayment of loans and interest rate limitations.

- **Administrative expenses and amortizations** were down 2% mainly due to covid-19 mitigation actions and continued efficiency projects, resulting in a 99 bp efficiency improvement to 42.3% and in a 3% growth in net operating income.

- **Net loan-loss provisions** rose significantly affected mainly by covid-related provisions and positive one-offs recorded in 2019. Cost of credit stood at 0.88%, NPL ratio at 2.36% and coverage rose to 111%.

- **Other gains (losses) and provisions** improved, in part due to greater releases and lower impairments of intangible assets (software) which offset regulatory impacts in Poland.

- As a result, **net profit before minority interests** was EUR 1,364 million in 2020, decreased 14% compared to 2019.

- The largest contribution to the underlying attributable profit came from Germany (EUR 360 million), the Nordics (EUR 206 million), Spain (EUR 118 million) and France (EUR 100 million).

Santander Consumer Finance

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	3,832	3,848	(0.4)	1.2
Net fee income	750	823	(8.8)	(8.4)
Gains (losses) on financial transactions[A]	21	(8)	—	—
income	82	47	74.4	77.2
Total income	**4,685**	**4,710**	**(0.5)**	**0.9**
expenses and amortizations	(1,981)	(2,038)	(2.8)	(1.5)
income	**2,703**	**2,672**	**1.2**	**2.8**
provisions	(899)	(477)	88.6	92.3
Other gains (losses) and provisions	65	20	217.7	199.4
Profit before tax	**1,869**	**2,215**	**(15.6)**	**(14.4)**
Tax on profit	(505)	(598)	(15.6)	(14.6)
continuing operations	**1,364**	**1,618**	**(15.6)**	**(14.3)**
discontinued operations	—	—	—	—
Consolidated profit	**1,364**	**1,618**	**(15.6)**	**(14.3)**
interests	(280)	(303)	(7.8)	(7.6)
Underlying attributable profit to the parent	**1,085**	**1,314**	**(17.4)**	**(15.9)**
Balance sheet				
Loans and advances to customers	101,043	102,262	(1.2)	(0.2)
and credit institutions	11,297	8,258	36.8	38.4
Debt instruments	5,658	3,197	77.0	82.3
assets	29	33	(12.5)	(11.6)
Other asset accounts	4,961	4,001	24.0	25.2
Total assets	**122,987**	**117,750**	**4.4**	**5.6**
Customer deposits	39,488	39,602	(0.3)	1.1
Central banks and credit institutions	32,729	25,159	30.1	31.2
securities	34,554	36,776	(6.0)	(5.3)
liabilities	1,175	1,413	(16.9)	(16.1)
accounts	3,763	3,865	(2.7)	(1.9)
Total liabilities	**111,709**	**106,815**	**4.6**	**5.7**
Total equity	**11,279**	**10,935**	**3.1**	**4.8**
Pro memoria:				
Gross loans and advances to customers[B]	103,734	104,783	(1.0)	0.0
Customer funds	39,488	39,602	(0.3)	1.1
Customer deposits[C]	39,488	39,602	(0.3)	1.1
Mutual funds	—	—	—	—
operating data				
Underlying RoTE	12.52	15.26	(2.74)	
Efficiency ratio	42.3	43.3	(1.0)	
NPL ratio	2.36	2.30	0.06	
NPL coverage	111.0	106.1	4.9	
employees	14,376	14,448	(0.5)	
Number of branches	352	416	(15.4)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

United Kingdom

Underlying attributable profit
EUR 530 Mn

2020 Highlights

- **Supporting our customers, people and communities remained our top priority. Although covid-19 materially impacted our results, the decisive management actions and extraordinary work of our colleagues helped deliver a remarkably resilient performance despite the challenging environment.**
- **Our multi-year transformation programme, focused on improved customer experience, digitalization and organizational simplification, is an integral part of the One Santander strategy.**
- **Underlying attributable profit fell 51% in euros year-on-year to EUR 530 million (-50% in constant euros). Net interest income rose amid ongoing focus on business efficiency partially offset by the covid-19 impact.**

Strategy

We are delivering on our strategy with a focus on greater **customer loyalty**. We continue to enhance our operating model, structures and productivity while simplifying, digitalizing and automating the business. We are applying learnings from the covid-19 pandemic, including accelerated customer digital adoption, property strategy, digitalization and automation.

Our strategy, combined with the decisive management actions and the resilience of our balance sheet will deliver on our purpose to help people and business prosper.

We have continued to focus on our **core mortgage business**, having granted over GBP 4.4 billion in new mortgage loans, a strong rebound in application volumes following the Q2 lockdown.

We also supported over 150,000 **businesses**, by granting GBP 4.6 billion under government schemes. We are continuing to develop our international proposition; we held 80 virtual trade events and increased the number of trade corridors, up by 3 to 20. We have helped 373,000 retail customers with payment holidays, including mortgages and consumer loans, a huge operational effort.

In order to deliver excellent customer experience, we further developed our **digital proposition**. The number of digital customers reached 6.3 million, up 8% year-on-year. We retained 68% of refinanced mortgage loans online, an increase of 8 pp year-on-year. We also opened 82% of current accounts and 90% of credit cards through digital channels, up 30 pp and 28 pp year-on-year respectively.

To support this increased digitalization, we introduced *Chat*, a new digital channel providing 24/7 service via a chatbot and access to colleagues via *Live Chat*. Since April, we have seen over 3.7 million conversations, with volumes growing from 1,000 per day to over 25,000. To ensure sufficient capacity, we trained 4,000 colleagues and introduced a continuous optimization model for chatbot.

We also turned our branch fraud and scam workshops into virtual events for customers, colleagues and communities, open for all to attend. Following a June trial, we incorporated feedback for phase two and held 69 events with 1,700 attendees and a satisfaction score of 89%.

Finally, our **multi-year transformation programme continues**, with GBP 330 million invested and GBP 244 million of savings since it commenced in 2019. This programme is an integral part of One Santander strategy.

Loyal customers

December 2020. Thousands

4,450

31% /active customers

Digital customers

December 2020. Thousands

6,267

+8% YoY

Business performance

Loans and advances to customers decreased 5% in euros compared to 2019. In gross terms, excluding reverse repurchase agreements and the exchange rate impact, they rose 3%. Growth was driven by new mortgage loans from the pent up demand and stamp duty relief, and flows in corporates almost exclusively via government schemes.

Customer deposits rose 2% in euros and were 8% higher excluding repurchase agreements and the exchange rate impact. Demand deposits increased 11%, while time deposits fell 16%. Mutual funds were up 2%.

Results

Underlying attributable profit was EUR 530 million in 2020 (8% of the Group's total operating areas), and underlying RoTE was 3.9%.

Compared to 2019, underlying attributable profit was 51% lower in euros and 50% lower in constant euros. By line:

- **Total income** declined 7%, particularly due to a 41% reduction in net fee income (lower customer activity and regulatory changes to overdrafts), asset repricing following the Bank of England base rate reduction, and, to a lesser extent, lower gains on financial transactions.

  Conversely, net interest income picked up strongly in the second half of the year resulting in a 2% increase, due to liability repricing actions, in particular the *1I2I3* Current Account, and stronger volumes.

- **Administrative expenses and amortizations** declined 6% reflecting realized efficiency savings from our transformation programme and lower costs related to commercial activity. This was partially offset by covid-19 related costs.

- **Net loan-loss provisions** increased significantly due to covid-related charges for expected credit losses, however from very low levels. Cost of credit remained low (28 bps) and the NPL ratio was 1.21%. The coverage ratio rose 11 pp to 48%.

- The negative impact from **other gains (losses) and provisions** increased 47%, in part due to potential legal contingencies.

United Kingdom

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	3,808	3,788	0.5	1.9
Net fee income	506	866	(41.6)	(40.8)
Gains (losses) on financial transactions [A]	(26)	12	0.0	0.0
income	51	62	(17.1)	(16.0)
Total income	**4,339**	**4,727**	**(8.2)**	**(7.0)**
expenses and amortizations	(2,642)	(2,835)	(6.8)	(5.6)
Net operating income	**1,697**	**1,892**	**(10.3)**	**(9.1)**
provisions	(733)	(253)	190.0	194.0
Other gains (losses) and provisions	(267)	(184)	44.9	46.8
Profit before tax	**697**	**1,455**	**(52.1)**	**(51.4)**
Tax on profit	(146)	(355)	(58.9)	(58.4)
Profit from continuing operations	**551**	**1,100**	**(49.9)**	**(49.2)**
discontinued operations	—	—	—	—
Consolidated profit	**551**	**1,100**	**(49.9)**	**(49.2)**
interests	(21)	(22)	(4.9)	(3.7)
Underlying attributable profit to the parent	**530**	**1,077**	**(50.8)**	**(50.2)**

Balance sheet				
Loans and advances to customers	261,062	273,528	(4.6)	0.7
and credit institutions	54,576	39,314	38.8	46.5
Debt instruments	11,527	20,187	(42.9)	(39.7)
Other financial assets	712	943	(24.4)	(20.3)
Other asset accounts	9,173	8,498	7.9	13.9
Total assets	**337,050**	**342,470**	**(1.6)**	**3.9**
Customer deposits	232,923	229,361	1.6	7.2
Central banks and credit institutions	29,302	25,075	16.9	23.3
securities	52,562	64,340	(18.3)	(13.8)
liabilities	2,448	2,671	(8.3)	(3.2)
accounts	4,624	4,409	4.9	10.7
Total liabilities	**321,860**	**325,856**	**(1.2)**	**4.3**
Total equity	**15,189**	**16,614**	**(8.6)**	**(3.5)**
Pro memoria:				
Gross loans and advances to customers [B]	242,090	249,214	(2.9)	2.5
Customer funds	223,270	218,944	2.0	7.6
Customer deposits [C]	215,332	210,727	2.2	7.9
Mutual funds	7,938	8,218	(3.4)	2.0

operating data				
Underlying RoTE	3.85	7.28	(3.43)	
Efficiency ratio	60.9	60.0	0.9	
NPL ratio	1.21	1.01	0.20	
NPL coverage	47.9	36.5	11.4	
employees	22,931	24,490	(6.4)	
Number of branches	564	616	(8.4)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Portugal

Underlying attributable profit
EUR 338 Mn

2020 Highlights

- Santander Portugal's priority was to support its customers and the economy by actively mobilizing state-backed lines of credit for businesses as well as through capital and interest payment holidays on mortgages, consumer loans and business loans.
- We strengthened our position as the country’s largest bank in terms of assets and domestic loans and advances to customers, with market shares of 18% in new lending to corporates and 25% in mortgages.
- Commercial and digital transformation was a significant growth driver, mainly for service quality improvement, resulting in Portugal's best NPS.
- Underlying attributable profit decreased 36% year-on-year to EUR 338 million, weighed down by the impact of the crisis on income and provisions, which was only partly mitigated by cost reductions.

Strategy

In 2020, amid the pandemic, Santander Portugal maintained its product and service proposition adapted to customer needs by:

- Continued support through the commercial network, focusing primarily on increasing the use of digital channels. As a result, **digital sales** were higher (and now account for 43% of the total) and the number of **digital customers** increased 20% year-on-year.
- Supporting our customers, giving them the option to take payment holidays and offering government lines of credit set up to support businesses. We also monitored changing customer needs given the complex environment.

We continued to implement **our commercial and digital transformation strategy**, adapting it to the changes accelerated by the pandemic, which became one of the main growth drivers in customers, loyalty and improving service quality:

- As at December 2020, loyal customers rose 4% to 812,000. We opened Boutique Santander, the first virtual marketplace in the country, with instant personal loans and real-time loan simulations.
- Commercial simplification and the proactive approach of our commercial network, enabled us to achieve the **best NPS in Portugal** for our service quality.
- We are the leading digital payments bank, offering services using ApplePay and smartwatches and wearables (Apple, Garmin and Fitbit), in addition to the Santander Wallet App.
- In 2020, we continued to be **recognized for our activity**, named the Best Bank in Portugal and Best Private Banking in Portugal in 2019 by *Euromoney* and *Global Finance*, as well as Best Retail Bank by *World Finance*.
- We remained among *Great Place to Work's* **top 3 best companies to work** for in Portugal.
- We maintained the highest risk ratings, aligned with or above the sovereign’s.

Loyal customers

December 2020. Thousands

812

48% /active customers

Digital customers

December 2020. Thousands

930

+20% YoY

Business performance

Loans and advances to customers increased 7%. Excluding reverse repos, gross loans and advances to customers rose 8% year-on-year, backed by steady growth in corporate loans (underpinned by the state-backed lines of credit) and mortgages.

Customer funds (excluding repos) rose 2% mostly due to demand deposits (+17% year-on-year). In the fourth quarter, mutual funds picked up (+9% compared to September), leading to a 6% year-on-year increase.

Results

Underlying attributable profit was EUR 338 million in the year (5% of the Group's total operating areas), and underlying RoTE was 9%.

Compared to 2019, underlying attributable profit dropped 36%. By line:

- **Total income** decreased 6%, weighed down by the impact of the pandemic in net interest income (lower interest rates) and net fee income (lower volumes and suspension of fees for digital payments and payment holidays in loans). Gains on financial transactions remained flat, but were offset by reduced insurance activity and the higher contribution to the SRF.
- **Administrative expenses and amortizations** fell 5% driven by the ongoing transformation process, resulting in a efficiency ratio around 45.5%.
- Higher **net loan-loss provisions** for possible future impacts of the pandemic, raising the cost of credit to 0.51%. The NPL ratio fell to 3.89%.
- **Other gains (losses) and provisions** remained insignificant. However, the increased in the year driven by foreclosed assets.

Portugal

EUR million

Underlying income statement	2020	2019	%
Net interest income	787	856	(8.1)
Net fee income	388	390	(0.6)
Gains (losses) on financial transactions [A]	111	111	0.2
income	10	17	(41.8)
Total income	**1,296**	**1,375**	**(5.7)**
expenses and amortizations	(590)	(623)	(5.3)
Net operating income	**706**	**751**	**(6.1)**
provisions	(193)	8	—
Other gains (losses) and provisions	(29)	(9)	213.4
Profit before tax	**483**	**750**	**(35.5)**
Tax on profit	(145)	(223)	(35.2)
Profit from continuing operations	**339**	**527**	**(35.7)**
discontinued operations	—	—	—
Consolidated profit	**339**	**527**	**(35.7)**
interests	0	(2)	(76.4)
Underlying attributable profit to the parent	**338**	**525**	**(35.5)**

Balance sheet

Loans and advances to customers	38,058	35,406	7.5
Cash, central banks and credit institutions	5,819	4,675	24.5
Debt instruments	11,569	12,580	(8.0)
Other financial assets	1,487	1,695	(12.3)
Other asset accounts	1,475	1,769	(16.6)
Total assets	**58,408**	**56,125**	**4.1**
Customer deposits	39,881	39,258	1.6
Central banks and credit institutions	9,974	8,003	24.6
securities	2,520	3,384	(25.5)
liabilities	249	276	(9.8)
accounts	1,643	1,516	8.4
Total liabilities	**54,267**	**52,438**	**3.5**
Total equity	**4,141**	**3,688**	**12.3**

Pro memoria:

Gross loans and advances to customers [B]	39,054	36,321	7.5
Customer funds	43,133	42,324	1.9
Customer deposits [C]	39,881	39,258	1.6
Mutual funds	3,252	3,066	6.1

operating data

Underlying RoTE	8.73	12.80	(4.07)
Efficiency ratio	45.5	45.3	0.2
NPL ratio	3.89	4.83	(0.94)
NPL coverage	66.5	52.8	13.7
employees	6,336	6,582	(3.7)
Number of branches	477	542	(12.0)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Poland

Underlying attributable profit

EUR 162 Mn

2020 Highlights

- **Santander Bank Polska strengthened its position as Poland's third largest bank in terms of assets and continued to be recognized as an industry leader in traditional and digital banking.**
- **Management mainly focused on customer relationships and maximizing business income.**
- **Accelerated digitalization and *Smart* omni-channel approach.**
- **Underlying attributable profit in 2020 was EUR 162 million (-54% year-on-year in euros, -52% in constant euros), impacted by interest rate cuts, provisions recorded due to regulatory changes after the European Court of Justice rulings and covid-19 related impairment charges.**

Strategy

In an environment heavily impacted by the pandemic, our **digital growth strategy** focused on end-to-end digitalization and accelerated significantly in all key products: personal loans, new account openings and insurance sales, together with SME loans and mortgages.

Santander Bank Polska continued its aim to become the bank of first choice, anticipating and responding to customer expectations. Digital transformation mainly centred on new services, such as a single login for individuals and businesses, a facility to customize customer login settings for internet and mobile banking and strong customer authentication (SCA).

Retail and SME banking activity was hit hard by the pandemic, which reduced customer and branch activity, as well as sales. We focused on revenue recovery and cost optimization, while improving our products and processes to maximize self-service and increase digital sales.

We also introduced **new customer experience and loyalty solutions**, by:

- Adjusting the credit policy of consumer loans to customer risk.
- Increasing our life insurance proposition for mortgages and creating new bancassurance sales processes.
- Launching new mortgage-related products (personal accounts, credit cards, life and property insurance).
- Promoting the use of remote channels for SME loans.
- Enabling the opening of personal accounts through a selfie.

In Q4'20, we launched iBiznes24 to support our corporate clients' financial management through a new design with more functionalities. This new system provides full online access to company accounts under the best user experience standards.

CIB maintained its leading position in corporate finance advisory services in Poland, especially in the equity capital markets, and was involved in:

- The largest initial public offering in the history of the Warsaw Stock Exchange (Allegro, market cap of EUR 17 bn during the offer).
- The second largest public tender offer in the history of the Warsaw Stock Exchange for a telecommunications client.
- The third largest public tender offer in the history of the Warsaw Stock Exchange for a hospitality client.

Loyal customers

December 2020. Thousands

2,115

55% /active customers

Digital customers

December 2020. Thousands

2,756

+10% YoY

Business performance

Loans and advances to customers were down 7% in euros compared to December 2019. In gross terms and excluding reverse repurchase agreements and the exchange rate impact, loans increased modestly year-on-year in constant euros (+1%). By segment, volumes grew in individuals (+2%) and SMEs (+3%). Corporates fell 5% due to excess liquidity in the market.

Customer deposits increased 4% year-on-year in euros. Excluding repurchase agreements and at constant exchange rates, deposits grew 12% year-on-year, boosted by SMEs (+36%) and corporates (+22%). CIB's deposit base showed an annual decrease of 33%. We continued to actively manage deposits to optimize the cost of funding.

Total customer funds, including mutual funds, were 10% higher (excluding the exchange rate impact).

Results

Underlying attributable profit in 2020 was EUR 162 million (2% of the Group's total operating areas), and underlying RoTE was 5%.

Compared to 2019, underlying profit fell 54% in euros and 52% excluding the exchange rate impact. By line:

- **Total income** fell 8% due to lower net interest income (8%), impacted by interest rate cuts (-140 bps during the year) and a higher Deposit Guarantee Fund (BFG) contribution. Net fee income saw no material change.
- **Administrative expenses and amortizations** dropped 6% year-on-year driven by personnel expenses and general and administrative expenses.
- **Net loan-loss provisions** increased 57% year-on-year due to higher charges in the SME and CIB segments, and, to a lesser extent, higher provisions for individuals. All of them affected by covid-19.
- **Other gains (losses) and provisions** increased 60% due to higher provisions for potential legal claims.

Poland

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	1,037	1,171	(11.4)	(8.5)
Net fee income	452	467	(3.1)	0.2
Gains (losses) on financial transactions [A]	90	93	(3.3)	0.0
income	(55)	(13)	327.6	341.9
Total income	**1,524**	**1,717**	**(11.3)**	**(8.3)**
expenses and amortizations	(629)	(693)	(9.3)	(6.2)
Net operating income	**895**	**1,024**	**(12.6)**	**(9.7)**
provisions	(330)	(217)	52.2	57.3
Other gains (losses) and provisions	(195)	(127)	54.4	59.5
Profit before tax	**370**	**681**	**(45.7)**	**(43.9)**
Tax on profit	(130)	(170)	(23.5)	(21.0)
Profit from continuing operations	**240**	**511**	**(53.1)**	**(51.5)**
discontinued operations	—	—	—	—
Consolidated profit	**240**	**511**	**(53.1)**	**(51.5)**
interests	(78)	(162)	(52.0)	(50.4)
Underlying attributable profit to the parent	**162**	**349**	**(53.5)**	**(52.0)**
Balance sheet				
Loans and advances to customers	28,025	30,034	(6.7)	(0.1)
and credit institutions	2,539	3,398	(25.3)	(20.0)
Debt instruments	14,006	9,285	50.8	61.6
Other financial assets	980	630	55.7	66.7
Other asset accounts	1,341	1,341	0.0	7.1
Total assets	**46,890**	**44,688**	**4.9**	**12.4**
Customer deposits	34,868	33,485	4.1	11.5
Central banks and credit institutions	2,613	2,319	12.7	20.7
securities	2,110	2,171	(2.8)	4.1
liabilities	993	762	30.3	39.6
accounts	1,232	923	33.5	43.0
Total liabilities	**41,816**	**39,659**	**5.4**	**12.9**
Total equity	**5,074**	**5,029**	**0.9**	**8.1**
Pro memoria:				
Gross loans and advances to customers [B]	29,055	30,925	(6.0)	0.6
Customer funds	38,889	37,929	2.5	9.8
Customer deposits [C]	34,865	33,485	4.1	11.5
Mutual funds	4,023	4,444	(9.5)	(3.0)
operating data				
Underlying RoTE	5.05	11.23	(6.17)	
Efficiency ratio	41.3	40.4	0.9	
NPL ratio	4.74	4.31	0.43	
NPL coverage	70.7	66.8	3.9	
employees	10,582	11,049	(4.2)	
Number of branches	502	515	(2.5)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

NORTH AMERICA

Underlying attributable profit
EUR 1,492 Mn

2020 Highlights

- → **The US and Mexico are managed according to their local priorities, while increasing coordination and cooperation between them, creating a joint value proposition, leveraging experience and avoiding duplication.**
- → **Strong volume growth, mainly in customer funds, boosted by higher deposits in SBNA, Mexico and the New York branch.**
- → **Underlying attributable profit was EUR 1,492 million in the year, 10% lower than 2019 due to the increase in pandemic-related provisions. Excluding the FX impact, profit fell only 3% as revenue remained stable and and net operating income increased by 1%.**

Strategy

In line with Grupo Santander's strategy to increase the weight of the most profitable areas, we increased our ownership in Santander Consumer USA (SC USA) to 80.25% through a share buyback programme in 2020.

As for the **regional strategy, coordination increased further** as we continued to run joint initiatives that included:

- Continued development of the USMX trade corridor. SCIB and Commercial Banking are working to deepen relationships with existing customers and gain new customers in both countries, which is reflected in corridor revenue growth (SCIB: +29%; Commercial Banking: +30%).
- Commission-free remittance service from Santander US branches to any bank in Mexico. At the same time, ongoing development of payment alternatives for the USMX trade corridor, such as PagoFX.
- Technology programmes such as operations know-how, digitalization, hubs, front-office and back-office, and addressing common challenges.
- Sharing best practices, such as the success in implementing loyalty programmes in Mexico and the Consumer Banking transformation plan at Santander Bank (SBNA).

In addition, in terms of their **local strategic priorities**:

- **Santander US remains focused on customer experience** and growing core customers and deposits through commercial, operational and digital transformation initiatives. It continues to leverage its deposit base to support and expand its CRE and CIB businesses and strengthen its auto finance partnership.

  The auto business is ideally positioned to benefit from the renewed demand for used vehicles through rigorous risk-adjusted originations via its dealer network, enhancing its partnership with Fiat Chrysler, and disciplined servicing.
- **In Mexico, we geared our commercial transformation** towards the improvement of multi-channel systems, the renewal of infrastructure and systems, strengthening the distribution model and launching new commercial initiatives.

Loyal customers

December 2020. Thousands

3,942

36% /active customers

Digital customers

December 2020. Thousands

6,011

+16% YoY

Business performance

Loans and advances to customers decreased 10%. Gross loans and advances to customers excluding reverse repurchase agreements and the exchange rate impact rose 2% (+4% excluding the impact from Puerto Rico's sale) driven by the US, notably SC USA (+9%). Mexico remained stable, as corporate loans began to normalize following the uptick at the beginning of the pandemic.

Solid trend in customer deposits, increasing 4% year-on-year. Excluding repurchase agreements and the exchange rate impact, they were 16% higher reflecting growth in demand deposits in SBNA, corporate deposits in the New York branch and deposits in Mexico. This strong growth demonstrates the high level of liquidity in the system and the positive performance of our customer attraction and loyalty strategy.

Results

Underlying attributable profit in 2020 was EUR 1,492 million (21% of the Group's total operating areas), with an underlying RoTE of 7.1% (10.7% excluding the excess of capital).

Compared to 2019, underlying attributable profit decreased 10% in euros. Excluding the exchange rate impact, it dropped 3%. By line:

- **Total income** remained stable, as well as net interest income, driven by volume growth. Net fee income was stable despite the lower activity in consumer banking.
- **Administrative expenses and amortizations** were 2% lower, despite the increase in amortizations and technology investments, enabling the efficiency ratio to improve to 42.1% and net operating income to rise 1%.
- **Net loan-loss provisions** grew mainly due to covid-19 related provisions. The NPL ratio improved 3 bps to 2.23% and coverage was higher at 183% (+30 pp in the year). The cost of credit stood at 2.92% (+16 bps year-on-year).
- **Other gains (losses) and provisions** reduced its loss by 35%.
- **Non-controlling interests** were lower due to our increased equity stake in Mexico and SC USA.

NORTH AMERICA

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	8,469	8,926	(5.1)	0.2
Net fee income	1,661	1,776	(6.5)	(0.1)
Gains (losses) on financial transactions [A]	251	230	9.2	16.2
income	630	672	(6.3)	(5.7)
Total income	**11,011**	**11,604**	**(5.1)**	**0.1**
expenses and amortizations	(4,631)	(4,968)	(6.8)	(1.7)
Net operating income	**6,379**	**6,636**	**(3.9)**	**1.5**
provisions	(3,916)	(3,656)	7.1	11.8
Other gains (losses) and provisions	(131)	(205)	(36.0)	(34.7)
Profit before tax	**2,332**	**2,776**	**(16.0)**	**(9.7)**
Tax on profit	(578)	(683)	(15.4)	(9.7)
Profit from continuing operations	**1,754**	**2,092**	**(16.2)**	**(9.7)**
discontinued operations	—	—	—	—
Consolidated profit	**1,754**	**2,092**	**(16.2)**	**(9.7)**
interests	(262)	(426)	(38.4)	(34.2)
Underlying attributable profit to the parent	**1,492**	**1,667**	**(10.5)**	**(3.3)**

Balance sheet

	2020	2019	%	% excl. FX
Loans and advances to customers	120,557	133,726	(9.8)	(0.2)
and credit institutions	28,469	22,885	24.4	39.0
Debt instruments	38,399	33,746	13.8	27.6
Other financial assets	15,363	10,759	42.8	60.9
Other asset accounts	20,526	22,741	(9.7)	(0.5)
Total assets	**223,313**	**223,856**	**(0.2)**	**10.8**
Customer deposits	102,907	98,915	4.0	15.8
Central banks and credit institutions	37,966	38,942	(2.5)	8.5
securities	36,583	44,097	(17.0)	(8.6)
liabilities	16,159	11,763	37.4	55.2
accounts	5,997	6,237	(3.8)	6.9
Total liabilities	**199,613**	**199,954**	**(0.2)**	**10.9**
Total equity	**23,700**	**23,902**	**(0.8)**	**9.8**
Pro memoria:				
Gross loans and advances to customers [B]	120,650	130,592	(7.6)	2.3
Customer funds	117,530	113,407	3.6	15.3
Customer deposits [C]	96,298	92,231	4.4	16.0
Mutual funds	21,233	21,175	0.3	12.6

operating data

	2020	2019	%
Underlying RoTE	7.12	8.52	(1.41)
Efficiency ratio	42.1	42.8	(0.8)
NPL ratio	2.23	2.20	0.03
NPL coverage	182.5	153.0	29.5
employees	38,371	37,866	1.3
Number of branches	1,958	2,043	(4.2)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

United States

Underlying attributable profit

EUR 731 Mn

2020 Highlights

→ **Santander US focused on supporting its customers through the pandemic while preserving the strength of its balance sheet and its upward trend in profitability during the year.**

→ **Leveraging its resilient origination capabilities and network, Santander US improved its year-on-year trend in customer loans and deposits (excluding repos) preserving net interest income despite historically low rates and the uncertain operating environment caused by covid-19.**

→ **We continued to build on recent success with underlying profit increasing 2% in euros year-on-year to EUR 731 million. In constant euros, it rose 4% due to resilient net interest income performance, cost reduction 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), one of the largest banks in north-eastern US, the international private banking unit in Miami, the Bank's branch in New York, Santander Investment Securities (SIS) and Santander Consumer USA (SC USA), an auto finance business based in Dallas (TX). We sold our retail and commercial bank in Puerto Rico in Q3'20.

Santander US has businesses aligned with the Group's global strategy:

- In **auto finance** we are a leading lender in the US with proven asset origination and servicing capabilities positioned to break ground as a full-spectrum independent operator through our combined capabilities.
- The auto business is ideally positioned to benefit from fresh demand for used vehicles with rigorous risk-adjusted originations through its dealer network, enhancing its partnership with Fiat Chrysler, and disciplined servicing.
- **Consumer** is accelerating its digital and branch transformation to enhance customer experience, as well as making the most of its stable deposit base to improve loan mix and profitability.
- **Commercial** continues to deepen client relationships by leveraging its enhanced service and international value proposition while managing the growth of a leading commercial real estate (CRE) franchise with high quality credit structuring.
- **Global Corporate & Investment Bank** generates significant value from the interconnectivity across the global business, particularly in North America, while continuing to increase its presence in the US.
- **International wealth management** benefits from leading brand recognition and the ability to increase fee growth by expanding its US capabilities.

Santander US continued to strengthen its regulatory foundation and improve its financial performance while continuing to demonstrate its commitment to the communities where it operates.

In line with Grupo Santander's strategy to deploy capital in the most profitable country units, **SC USA continued its share buyback programme** and SHUSA upped its stake in SC USA to 80.25%.

Loyal customers

December 2020. Thousands

347

22% /active customers

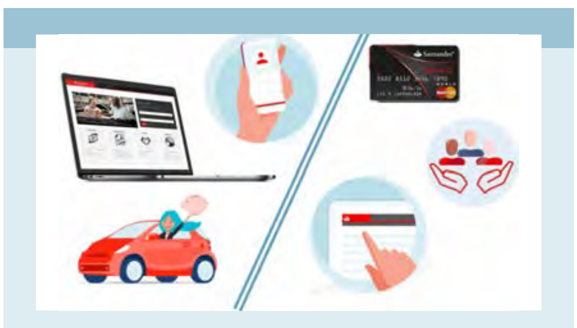
Digital customers

December 2020. Thousands

1,011

+6% YoY

Excluding Puerto Rico disposal impact



Business performance

Loans and advances to customers at Santander US fell 8% in euros in 2020. Excluding the exchange rate impact and reverse repurchase agreements, gross loans and advances to customers grew 3% year-on-year, driven by lending growth in auto, CIB and originations through the Paycheck Protection Program (excluding the impact from the sale of the retail and commercial bank in Puerto Rico, growth was 6%).

Auto originations continued to improve during the second half of the year as shelter-in-place mandates were lifted and dealerships returned to normal. Prime loans remained up on the previous year due to Fiat Chrysler Automobiles (FCA) incentive programmes and Santander US's ability to leverage its strong deposit base.

Customer deposits rose 6% in euros year-on-year. Excluding repurchase agreements and the exchange rate impact, customer deposits were 16% higher, boosted by strong growth in demand deposits and corporate deposits.

Mutual funds increased 16% excluding the exchange rate impact. As a result, customer funds rose 6% (+16% excluding the exchange rate impact).

Results

Underlying attributable profit in the year was EUR 731 million (10% of the Group's total operating areas), and underlying RoTE was 4.7% (8.4% adjusted for excess capital).

Underlying attributable profit was 2% higher in euros. Excluding the exchange rate impact, growth was 4%, underpinned largely by SC USA. By line:

- Net interest income was flat as lower rates offset increased volumes. Net fee income was lower, impacted by covid-19, although partially compensated by gradually improving leasing income. As a result, **total income** was down 1%.
- **Administrative expenses and amortizations** were down significantly, particularly at SBNA, due to disciplined cost control, as reflected in a 1% increase in net operating income.
- **Net loan-loss provisions** rose 7% given the crisis which drove the need for a reinforced coverage ratio. Asset quality ratios improved or were stable: cost of credit flat at 2.86%, NPL ratio down 16 bps to 2.04% and coverage increased to 210% (+49 pp).
- **Other gains (losses) and provisions** improved 52% due to lower provisions for legal claims.
- Positive impact from lower **non-controlling interests** following the SC USA share buyback programme.

United States

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	5,645	5,769	(2.2)	(0.3)
Net fee income	889	947	(6.1)	(4.3)
Gains (losses) on financial transactions [A]	118	131	(10.0)	(8.3)
income	709	759	(6.5)	(4.8)
Total income	**7,360**	**7,605**	**(3.2)**	**(1.4)**
expenses and amortizations	(3,079)	(3,297)	(6.6)	(4.8)
Net operating income	**4,281**	**4,309**	**(0.6)**	**1.2**
provisions	(2,937)	(2,792)	5.2	7.2
Other gains (losses) and provisions	(93)	(200)	(53.2)	(52.3)
Profit before tax	**1,250**	**1,317**	**(5.0)**	**(3.2)**
Tax on profit	(318)	(370)	(13.8)	(12.2)
Profit from continuing operations	**932**	**947**	**(1.6)**	**0.3**
discontinued operations	—	—	—	—
Consolidated profit	**932**	**947**	**(1.6)**	**0.3**
interests	(201)	(230)	(12.4)	(10.7)
Underlying attributable profit to the parent	**731**	**717**	**1.9**	**3.8**

Balance sheet				
Loans and advances to customers	90,992	98,707	(7.8)	0.7
and credit institutions	16,614	12,829	29.5	41.5
Debt instruments	14,084	16,677	(15.5)	(7.8)
Other financial assets	4,381	4,320	1.4	10.8
Other asset accounts	17,003	18,882	(10.0)	(1.6)
Total assets	**143,074**	**151,415**	**(5.5)**	**3.2**
Customer deposits	67,450	63,371	6.4	16.3
Central banks and credit institutions	20,989	25,126	(16.5)	(8.8)
securities	29,737	37,132	(19.9)	(12.5)
liabilities	4,329	4,146	4.4	14.0
accounts	3,369	4,093	(17.7)	(10.1)
Total liabilities	**125,874**	**133,868**	**(6.0)**	**2.7**
Total equity	**17,200**	**17,547**	**(2.0)**	**7.1**
Pro memoria:				
Gross loans and advances to customers [B]	90,459	95,742	(5.5)	3.2
Customer funds	76,972	72,604	6.0	15.8
Customer deposits [C]	66,385	62,608	6.0	15.8
Mutual funds	10,586	9,996	5.9	15.7

operating data				
Underlying RoTE	4.66	4.78	(0.13)	
Efficiency ratio	41.8	43.3	(1.5)	
NPL ratio	2.04	2.20	(0.16)	
NPL coverage	210.4	161.8	48.6	
employees	16,125	17,372	(7.2)	
Number of branches	585	621	(5.8)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Mexico

Underlying attributable profit
EUR 762 Mn

2020 Highlights

→ **Our multichannel innovation and focus on digital channels enhanced our value proposition with new products and services, enabling us to make a headway with our customer attraction and loyalty strategy.**

→ **Gross loans and advances to customers (excluding reverse repos) remained flat year-on-year, as corporate loans began to normalize following the uptick at the beginning of the pandemic. With respect to individuals, of note were mortgages and auto loans. Customer funds rose 14%.**

→ **Underlying attributable profit was EUR 762 million, 20% lower than 2019 in euros, and down 9% in constant euros, impacted by higher provisions and costs (amortizations and technology). Positive performance in customer revenue (+3%) driven by net interest income, net fee income and gains on financial transactions.**

Strategy

The major challenges posed in 2020 required a swift response from Santander México. We effectively implemented our strategy to support customers while achieving a better-than-expected portfolio performance. We helped more than 600,000 customers through our support programme (individuals and SMEs) which deferred loan payments for up to four months.

We geared our **commercial transformation** strategy towards improving multi-channel systems, renewing infrastructures and systems, strengthening the distribution model and launching commercial initiatives to increase customer attraction and loyalty through innovative products and services.

In line with our goal to **enhance customer experience**, we continued to run projects such as the transformation of 576 branches and increasing the number of full function ATMs to 1,375.

Regarding our **digital strategy**, we ran initiatives such as:

- New features for SuperMóvil, including Mis Metas, a tool to help customers meet their savings goals.
- The consolidation of Hipoteca Online platform.
- The strategy to boost the use of digital channels, which resulted in a 51% increase in digital transactions and a 60% increase in digital sales, thus increasing digital adoption by our customers.

We also complemented our **commercial strategy** with **new products and services**, for example:

- We maintained a dynamic mortgage offering: we lowered the Hipoteca Plus interest rate to 7.75%, one of the lowest in the market, and introduced Hipoteca Free, Mexico's first commission- and insurance-free mortgage. In 2020, we posted the largest mortgage origination in the Mexican banking system and increased market share.
- In auto financing, we teamed up with Mazda to become its only financial partner, and Tesla, to become its main financing partner and promote green financing for the purchase of hybrid cars. These alliances, together with those already in place, align with our goal to become a major player in this segment, reaching a market share of more than 5% compared to 1% in 2019.
- We launched a numberless credit card, the first bank in Mexico to do so, that does not reveal sensitive data and provides greater security for our customers. Virtually 100% our credit card base uses this new system.

Loyal customers

December 2020. Thousands

3,595

39% /active customers

Digital customers

December 2020. Thousands

5,000

+20% YoY

- We rolled out e-SPUG, an innovative system to help stores and private sellers practice simple, agile and secure distance selling.
- Santander Plus, our main loyalty programme, continued to perform well, reaching more than 7.5 million customers at year-end (54% new).
- We were named the Best Bank for Financial Inclusion in Mexico by the *International Finance Magazine (IFM)* for our Tuiio initiative, which promotes financial inclusion and empowerment to more than 171,000 customers, generating a measurable social impact.

Business performance

Loans and advances to customers decreased 16% in euros, compared to 2019. Gross loans and advances to customers, excluding reverse repurchase agreements and the exchange rate impact, remained stable year-on-year, as corporate loans began to normalize following the uptick at the beginning of the pandemic. Of note was the growth in mortgages.

Customer deposits saw no material change in euros. Excluding repurchase agreements and the exchange rate impact, they were up 16%. The focus on reducing the cost of deposits resulted in a 18% rise in demand deposits, notably from individuals (+24%) and 13% growth in time deposits. Mutual funds rose 10%, and customer funds 14%.

Results

Underlying attributable profit was EUR 762 million in the year (11% of the Group's total operating areas), with an underlying RoTE was 14.4%.

Compared to 2019, underlying attributable profit was 20% lower. Excluding the exchange rate impact, underlying attributable profit fell 9%. By line:

- **Total income** increased 3% spurred on by net fee income (+5%) mainly from transactional fees. Net interest income was up 1% underpinned by higher volumes, and gains on financial transactions increased 52% driven by volatility management.
- **Administrative expenses and amortizations** were up 5%, mainly driven by the increase in amortizations and technology investment.
- **Net loan-loss provisions** increased 28% due to covid-19 related charges and a one-off provision recorded for a corporate customer. Cost of credit was 3.03%, the NPL ratio reached 2.81% and coverage stood at 121%.
- At Banco Santander's extraordinary general meeting on 23 July 2019, shareholders approved a capital increase to acquire shares Santander México from minority interests. Consequently, minority interests in the H1'19 were higher than in 2020, thus dampening results growth in 2019 more than in 2020.

Mexico

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	2,825	3,157	(10.5)	1.2
Net fee income	772	829	(7.0)	5.2
Gains (losses) on financial transactions [A]	134	99	34.4	52.0
income	(79)	(87)	(8.6)	3.3
Total income	**3,651**	**3,998**	**(8.7)**	**3.2**
expenses and amortizations	(1,552)	(1,671)	(7.1)	5.0
Net operating income	**2,098**	**2,327**	**(9.8)**	**2.0**
provisions	(979)	(863)	13.4	28.3
Other gains (losses) and provisions	(37)	(5)	637.1	733.4
Profit before tax	**1,082**	**1,459**	**(25.8)**	**(16.2)**
Tax on profit	(259)	(314)	(17.3)	(6.5)
Profit from continuing operations	**823**	**1,145**	**(28.2)**	**(18.8)**
discontinued operations	—	—	—	—
Consolidated profit	**823**	**1,145**	**(28.2)**	**(18.8)**
interests	(61)	(196)	(68.9)	(64.9)
Underlying attributable profit to the parent	**762**	**950**	**(19.8)**	**(9.3)**
Balance sheet				
Loans and advances to customers	29,565	35,019	(15.6)	(2.8)
and credit institutions	11,854	10,056	17.9	35.8
Debt instruments	24,315	17,069	42.5	64.1
Other financial assets	10,982	6,439	70.6	96.4
Other asset accounts	3,523	3,859	(8.7)	5.1
Total assets	**80,239**	**72,441**	**10.8**	**27.6**
Customer deposits	35,457	35,544	(0.2)	14.9
Central banks and credit institutions	16,977	13,816	22.9	41.5
securities	6,847	6,965	(1.7)	13.2
liabilities	11,830	7,617	55.3	78.9
accounts	2,628	2,144	22.5	41.1
Total liabilities	**73,739**	**66,086**	**11.6**	**28.5**
Total equity	**6,500**	**6,355**	**2.3**	**17.8**
Pro memoria:				
Gross loans and advances to customers [B]	30,191	34,850	(13.4)	(0.2)
Customer funds	40,558	40,803	(0.6)	14.5
Customer deposits [C]	29,912	29,624	1.0	16.3
Mutual funds	10,646	11,179	(4.8)	9.7
operating data				
Underlying RoTE	14.38	20.61	(6.23)	
Efficiency ratio	42.5	41.8	0.7	
NPL ratio	2.81	2.19	0.62	
NPL coverage	120.8	128.3	(7.5)	
employees	22,246	20,494	8.5	
Number of branches	1,373	1,422	(3.4)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

SOUTH AMERICA

Underlying attributable profit
EUR 2,927 Mn

2020 Highlights

- **We implemented work protocols in all countries to protect our employees, while supporting our customers through products and services to mitigate the impact of the pandemic, and ensuring activity continuity across the region.**
- **We continued to focus on delivering profitable growth backed by operational excellence as well as cost and risk control.**
- **Double-digit growth in loans and advances to customers and customer deposits, with volumes and transactionality gradually recovering in H2, reflecting the countries' capacity to adapt to the new environment.**
- **Underlying attributable profit fell 25% in euros to EUR 2,927 million, and dropped just 4% in constant euros, affected by additional covid-19 related provisions, as net operating income rose 5% backed by net interest income and gains on financial transactions.**

Strategy

Our extensive experience in the region enabled us to maintain profitable and sustainable business growth. We remain confident in its great growth potential and focused on increasing our presence in the region by leveraging the scarce banking penetration. We have innovative ways to reach potential customers and offer existing ones solutions to cover their different needs.

For instance, **we prioritized support programmes for individuals**, corporates and society, providing liquidity through initiatives such as state-guaranteed loans to SMEs, lines of credit at special rates, extending terms and modifying maturity profiles.

We continued to identify **growth opportunities** across business units to capture synergies and foster collaboration:

- In **consumer finance**, Santander Brasil exported its new and used vehicle financing platform to other South American countries, Argentina launched the Santander Consumer company, Santander Chile increased car insurance sales despite reduced financing activity. In Peru, we continued to specialize in consumer credit and used vehicle financing.

  In Colombia, the priority was to make the auto finance business profitable and to increase customer loyalty through insurance and digitalization.

- In line with our strategy to expand our **acquiring business**, we rolled out Getnet in Argentina and Chile, based on the successful model of Brazil.
- We continued our **digital transformation and innovation of our products and services**, helping to enhance customer service. In Chile, we posted record account openings and prepaid card sales through Santander Life and Superdigital. Santander Argentina made progress in its digital transformation by launching new products and digital recoveries. In Uruguay, we focused on modernizing our technological infrastructure to offer our customers more stable and efficient platforms, with initiatives such as the launch of its digital branch, SUMO.
- We continued to **promote inclusive and sustainable businesses**, such as Prospera, which continued its expansion in Uruguay and was implemented in Peru and through the granting of green loans in Brazil and Chile.
- Collaboration between countries continued to increase, with projects such as the joint SCIB business initiative, that seeks to consolidate and deepen relationships with multinational clients, leveraged on Santander's infrastructure.

All these initiatives led to strong year-on-year increases in both loyal (+9%) and digital customers (+17%).

Loyal customers

December 2020. Thousands

8,614

27% /active customers

Digital customers

December 2020. Thousands

20,200

+17% YoY

Business performance

Loans and advances to customers declined 9%. Excluding reverse repos and the exchange rate impact, gross loans were 15% higher, with double-digit rises in all country units except Chile, which grew 6%.

Customer deposits fell 3% in euros compared to 2019. Excluding repurchase agreements and exchange rate impact, they rose 30% and also increased at double digit rates across all country units except Chile (+8%), mainly due to the strong performance of demand deposits (+39%) and to a lesser extent, time deposits (+25%). Mutual funds dropped 2% dampened by the fall recorded in Brazil.

Results

Underlying attributable profit in the year was EUR 2,927 million (42% of the Group's total operating areas), with an underlying RoTE of 18.1%.

Compared to 2019, underlying attributable profit decreased 25% in euros. Excluding the exchange rate impact, it was down 4%. By line:

- **Total income** increased 5% underpinned by net interest income and gains on financial transactions, which broadly offset weak net fee income performance. Net interest income rose 5%, with growth across countries, notably Argentina.

  Gains on financial transactions were 68% higher, with rises in all country units except Chile. Conversely, net fee income dropped 2% with falls recorded in all countries except Uruguay and Peru, mainly due to the sharp fall of transactional fee income in H1'20, together with regulatory impacts in Brazil and Argentina.

- **Administrative expenses and amortizations** increased 4%, largely due to higher costs in Argentina (inflation and peso depreciation). Of note was cost management in Brazil, which recorded only a slight increase (+1%) and Chile, which remained flat. The efficiency ratio stood at 35.8%.

- **Net loan-loss provisions** grew by 35% driven by covid-19 related provisions. In credit quality, the NPL ratio fell to 4.39%, coverage was 97% (+9 pp in the year) and the cost of credit was 3.32%.

- **Other income and provisions** decreased its negative impact 42%, due to the lower charge for potential legal contingencies in Brazil.

SOUTH AMERICA

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	10,723	13,316	(19.5)	4.6
Net fee income	3,566	4,787	(25.5)	(2.1)
Gains (losses) on financial transactions [A]	766	565	35.6	68.1
income	(209)	(243)	(13.9)	24.0
Total income	**14,845**	**18,425**	**(19.4)**	**4.7**
expenses and amortizations	(5,312)	(6,656)	(20.2)	4.0
Net operating income	**9,533**	**11,769**	**(19.0)**	**5.1**
provisions	(3,923)	(3,789)	3.5	35.1
Other gains (losses) and provisions	(319)	(748)	(57.4)	(42.0)
Profit before tax	**5,291**	**7,232**	**(26.8)**	**(5.8)**
Tax on profit	(1,927)	(2,644)	(27.1)	(5.0)
Profit from continuing operations	**3,364**	**4,588**	**(26.7)**	**(6.2)**
discontinued operations	—	—	—	—
Consolidated profit	**3,364**	**4,588**	**(26.7)**	**(6.2)**
interests	(437)	(664)	(34.2)	(18.5)
Underlying attributable profit to the parent	**2,927**	**3,924**	**(25.4)**	**(4.1)**

Balance sheet	2020	2019	%	% excl. FX
Loans and advances to customers	113,731	125,122	(9.1)	14.6
and credit institutions	42,957	51,360	(16.4)	11.8
Debt instruments	49,300	45,619	8.1	46.3
Other financial assets	17,266	14,802	16.6	37.5
Other asset accounts	15,009	16,901	(11.2)	17.0
Total assets	**238,263**	**253,804**	**(6.1)**	**21.1**
Customer deposits	111,791	114,817	(2.6)	26.0
Central banks and credit institutions	41,990	41,989	0.0	30.3
securities	21,280	29,840	(28.7)	(11.2)
liabilities	35,433	34,062	4.0	33.1
accounts	8,302	10,613	(21.8)	5.5
Total liabilities	**218,796**	**231,321**	**(5.4)**	**21.9**
Total equity	**19,466**	**22,483**	**(13.4)**	**12.6**
Pro memoria:				
Gross loans and advances to customers [B]	118,769	131,048	(9.4)	14.5
Customer funds	153,224	170,707	(10.2)	17.6
Customer deposits [C]	103,302	101,575	1.7	30.3
Mutual funds	49,922	69,131	(27.8)	(2.2)

operating data	2020	2019	%	% excl. FX
Underlying RoTE	18.07	20.58	(2.51)	
Efficiency ratio	35.8	36.1	(0.3)	
NPL ratio	4.39	4.86	(0.47)	
NPL coverage	97.4	88.4	9.0	
employees	65,252	69,508	(6.1)	
Number of branches	4,431	4,572	(3.1)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Brazil

Underlying attributable profit
EUR 2,113 Mn

2020 Highlights

→ **Commercial activity in H2'20 exceeded pre-covid-19 levels, boosting revenue growth for the year. Likewise, our continuous cost control efforts through process transformation resulted in a new improvement of the efficiency ratio.**

→ **Credit quality indicators remained at controlled levels, backed by loan expansion towards lower risk products, mainly with guarantees, and the effectiveness of our risk models.**

→ **Underlying attributable profit was EUR 2,113 million, -28% year-on-year in euros and -5% excluding the exchange rate impact, affected by covid-19 related provisions. Net operating income was 3% higher, receiving an uplift from total income and cost control.**

Strategy

In the year, we once again demonstrated our **capacity to innovate and adapt** to the new needs of our customers, offering the best customer service and ensuring continuous support to our communities.

This enabled us to quickly provide our customers with the necessary liquidity, deferring payments and granting state-backed loans, mainly to SMEs and corporates. As social responsibility is embedded in our identity and covers all businesses, we also launched campaigns to raise funds and donate medical supplies.

We continued to make headway with our **commercial strategy**:

- In **mortgages**, we were on the cutting edge for digital portability and we were the first privately-owned bank to grant BRL 2 billion per month. In home equity, we reached 30% market share in new lending.
- In **payroll loans**, we continued to digitalize, enabling online loan completion to reach 86% of the total.
- In **auto**, maintained market share leadership (25%) in individuals and introduced Troca+Troco, in collaboration with Webmotors. In addition, our consumer finance unit performed very positively.
- In **cards**, we continued to focus on segments and channels with a better risk profile and greater profitability.
- We expanded to **strategic regions** in the country, ending the year with 40 specialized Agro shops and 100 Santander Prospera Microcrédito shops.
- In **digitalization**, we launched GENTE, a virtual assistant capable of answering more than 10,000 questions, reaching more than 37 million interactions. We also rolled out the SX credit card, which benefits the most transactional customers, with more than 723,000 cards issued.
- In **SMEs**, we dispensed BRL 12,505 million in loans through state-backed programmes and we made progress in our digital channels, with full functionality. For **large corporates**, we increased transactionality and expanded to new markets, contributing to the diversification of our products and services.

In H2'19 and in 2020 we also created **several companies** that are delivering outstanding results:

- Sim, which offers loans though a digital platform and has a BRL 700 million portfolio.
- EmDia, our user-friendly debt renegotiation platform, which recovered BRL 646 million in loans in 2020 and has 4 million customers.

Loyal customers

December 2020. Thousands

6,382

23% /active customers

Digital customers

December 2020. Thousands

15,556

+16% YoY

1. Combined business. Pending regulatory approvals.

- Santander Auto, a digital insurance company which continues to be boosted by Santander Financiamentos.
- Ben, which aims to transform the employee benefits industry (meal voucher and related activities), and already includes 1,400 corporate customers.
- The acquisition of Toro, with experience in equity and which, together with Pi and its wide range of fixed income products, makes for a solid investment platform.

We were named Bank of the Year in Brazil and in the Americas by *The Banker* and, for the 11th year running, we are part of the portfolio of the B3 Corporate Sustainability Index (ISE). We were also recognized as one of the Best Companies to Work for in the country, according to the *GPTW* survey, with emphasis on the ethnic-racial diversity and women categories, and received the Notáveis CNN 2020 award in the social responsibility category.

Business performance

Loans and advances to customers decreased 15% in euros year-on-year. In gross terms, excluding reverse repos and the exchange rate impact, they rose 19%. We saw positive performances across segments, particularly in SMEs, corporates and SCIB.

Customer deposits fell 6% in euros with respect to 2019. Excluding repos and the exchange rate impact, growth was 41% driven by the increase in demand deposits (+33%) and time deposits (+44%). On the other hand, mutual funds decreased.

Results

Underlying attributable profit was EUR 2,113 million in 2020 (30% of the Group's total operating areas), with an underlying RoTE of 19.2%.

Compared to 2019, underlying attributable profit declined 28% in euros. Excluding the exchange rate impact, it was 5% lower. By line:

- **Total income** rose 3% boosted by gains on financial transactions. Net interest income remained practically flat as larger volumes offset margin pressures from interest rate cuts. Net fee income fell 2% affected by reduced transactionality amid the pandemic.
- **Administrative expenses and amortizations** increased just 1% and declined in real terms, due to our continued work on efficiency improvement. This increase was lower than revenue growth, which enabled efficiency to improve by 42 bps to 32.6%, the best in the last seven years.
- **Net loan-loss provisions** increased 31%, due to higher provisions related to the pandemic. Cost of credit was 4.35%, the NPL ratio was 4.59% and coverage was high at 113%, after increasing 13 pp in the year.
- The negative impact of **other gains (losses) and provisions** reduced by 51%, due to lower provisions for legal claims.

Brazil

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	7,625	10,072	(24.3)	(0.2)
Net fee income	2,824	3,798	(25.6)	(2.0)
Gains (losses) on financial transactions [A]	467	167	180.6	270.0
income	(51)	(86)	(41.1)	(22.4)
Total income	**10,866**	**13,951**	**(22.1)**	**2.7**
expenses and amortizations	(3,541)	(4,606)	(23.1)	1.4
Net operating income	**7,325**	**9,345**	**(21.6)**	**3.3**
provisions	(3,018)	(3,036)	(0.6)	31.1
Other gains (losses) and provisions	(263)	(704)	(62.7)	(50.8)
Profit before tax	**4,045**	**5,606**	**(27.8)**	**(4.9)**
Tax on profit	(1,693)	(2,295)	(26.2)	(2.7)
Profit from continuing operations	**2,352**	**3,311**	**(29.0)**	**(6.4)**
discontinued operations	—	—	—	—
Consolidated profit	**2,352**	**3,311**	**(29.0)**	**(6.4)**
interests	(238)	(373)	(36.0)	(15.7)
Underlying attributable profit to the parent	**2,113**	**2,939**	**(28.1)**	**(5.2)**
Balance sheet				
Loans and advances to customers	63,974	75,618	(15.4)	19.4
and credit institutions	31,466	37,470	(16.0)	18.5
Debt instruments	37,655	39,611	(4.9)	34.2
Other financial assets	6,877	6,790	1.3	42.9
Other asset accounts	10,600	12,545	(15.5)	19.3
Total assets	**150,573**	**172,033**	**(12.5)**	**23.5**
Customer deposits	70,083	74,745	(6.2)	32.3
Central banks and credit institutions	26,350	30,334	(13.1)	22.6
securities	11,901	18,952	(37.2)	(11.4)
liabilities	23,536	23,589	(0.2)	40.8
accounts	6,157	8,631	(28.7)	0.7
Total liabilities	**138,026**	**156,251**	**(11.7)**	**24.7**
Total equity	**12,547**	**15,782**	**(20.5)**	**12.2**
Pro memoria:				
Gross loans and advances to customers [B]	67,424	80,150	(15.9)	18.7
Customer funds	100,351	121,752	(17.6)	16.3
Customer deposits [C]	61,627	61,789	(0.3)	40.8
Mutual funds	38,725	59,964	(35.4)	(8.9)
operating data				
Underlying RoTE	19.16	21.16	(2.00)	
Efficiency ratio	32.6	33.0	(0.4)	
NPL ratio	4.59	5.32	(0.73)	
NPL coverage	113.2	99.8	13.4	
employees	43,258	46,682	(7.3)	
Number of branches	3,571	3,656	(2.3)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Chile

Underlying attributable profit
EUR 432 Mn

2020 Highlights

→ Santander Chile remains the country's leading privately-owned bank by assets and customers and is ranked first in Net Promoter Score, demonstrating the strength of our digital channels.

→ Positive business performance: +42% in demand deposits, with growth in all segments, and +6% year-on-year in gross loans and advances to customers (excluding reverse repos), boosted by the state-guaranteed programme for SMEs (Fogape).

→ Record growth in account openings underscored by Cuenta Life and Superdigital, and backed by the technological developments that made digital relationship with customers easier.

→ Underlying attributable profit was EUR 432 million, 31% lower year-on-year in euros and down 21% excluding the exchange rate impact, weighed heavily by covid-19 related charges. Net operating income grew 4% driven by the positive performance of net interest income and cost control.

Strategy

Santander is the largest privately-owned bank in Chile by assets and customers, and has a marked retail (individuals and SMEs) and transactional focus. In 2020, we continued to pursue our strategy to offer high returns in a low-risk country, launching several measures:

- In line with our commitment to **be more responsible**, we were the first bank in the country to be included in the DJSI for Emerging Markets, and the Sustainable Leaders Agenda 2020 (ALAS20) recognized us as the leading company for sustainability in Chile.
- **Santander Life**, our financial education proposition, gained momentum through Cuenta Life, our fully digital account that rewards good savings behaviour, welcoming close to 300,000 new customers in the year (+545%).
- Since its launch in April, our financial inclusion programme **Superdigital**, reached close to 130,000 customers, driven by its high transactionality and access to the digital economy.

These initiatives led to an high growth in new accounts (current and demand) during the year (+20% in current accounts), with net current account openings of around 272,000 (compared to 80,450 in the Chilean market, according to the information available as at November 2020). As a result, market share in current account openings rose to 25.3% from 21.7%in 2019.

We also introduced our **green product range** which includes: the choice for customers to offset their carbon footprint by contributing to environmental projects or purchasing green bonds; the first ESG mutual fund in Chile, which enables investment in companies in different geographical areas with a strong sustainable focus; a green mortgage for new homes and sustainable projects with a preferential interest rate; and benefits for purchases from environmentally friendly brands.

We continued our "***phygital*" transformation** to bring together the best of the digital and physical worlds, making progress in:

- Branch network transformation towards more digital models, through the opening of new Work Café branches.
- Opening of the new marketplace Tienda.Santander.cl, which offers exclusive benefits for customers.

These initiatives led to an increase in the number of loyal and digital customers in the year (+9% and 24%, respectively).

Lastly, our efforts to be the best bank for our customers propelled us to first in NPS, and our responsible banking strategy was recognized through ESG and sustainability rankings and awards.

Loyal customers

December 2020. Thousands

764

44% /active customers

Digital customers

December 2020. Thousands

1,547

+24% 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 6%, underpinned by large corporates and the state-backed scheme for SMEs.

Customer deposits rose 4% year-on-year, up 8% excluding repurchase agreements and the exchange rate impact, reflecting the positive performance of demand deposits (+42%). Current accounts continued to rise strongly across all segments driven by openings through digital channels. Mutual funds rose 22% and customer funds were 11% higher.

Results

Underlying attributable profit was EUR 432 million in 2020 (6% of the Group's total operating areas), with an underlying RoTE of 13.2%.

Compared to 2019, underlying attributable profit fell 31% in euros. Excluding the exchange rate impact it was 21% lower. By line:

- **Total income** rose 2%, as the climb in net interest income (+10%) was partially offset by the fall in gains on financial transactions and net fee income, dampened by reduced transactionality and economic activity.

- **Administrative expenses and amortizations** remained broadly stable, as higher IT expenses were closely matched by lower costs related to commercial activity. As a result, the efficiency ratio improved to 39.8% and net operating income was 4% higher.

- **Net loan-loss provisions** were 54% higher due to covid-19 related charges, placing the cost of credit at 1.50%. The NPL ratio stood at 4.79% and coverage was 61%.

- **Other gains (losses) and provisions** stood at EUR 16 million (EUR 63 million in 2019).

Chile

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	1,787	1,867	(4.3)	9.9
Net fee income	335	404	(17.2)	(5.0)
Gains (losses) on financial transactions A	174	266	(34.7)	(25.0)
income	(32)	2	0.0	0.0
Total income	**2,263**	**2,539**	**(10.9)**	**2.4**
expenses and amortizations	(900)	(1,031)	(12.7)	0.3
Net operating income	**1,363**	**1,508**	**(9.6)**	**3.8**
provisions	(594)	(443)	34.1	54.0
Other gains (losses) and provisions	16	63	(75.2)	(71.5)
Profit before tax	**785**	**1,129**	**(30.5)**	**(20.2)**
Tax on profit	(155)	(210)	(25.9)	(15.0)
Profit from continuing operations	**629**	**919**	**(31.5)**	**(21.4)**
discontinued operations	—	—	—	—
Consolidated profit	**629**	**919**	**(31.5)**	**(21.4)**
interests	(197)	(289)	(31.8)	(21.7)
Underlying attributable profit to the parent	**432**	**630**	**(31.4)**	**(21.2)**

Balance sheet	2020	2019	%	% excl. FX
Loans and advances to customers	39,381	38,584	2.1	5.2
and credit institutions	5,836	7,557	(22.8)	(20.4)
Debt instruments	8,365	5,062	65.2	70.3
Other financial assets	10,221	7,856	30.1	34.1
Other asset accounts	3,076	3,091	(0.5)	2.6
Total assets	**66,880**	**62,151**	**7.6**	**10.9**
Customer deposits	28,362	27,344	3.7	6.9
Central banks and credit institutions	11,611	8,224	41.2	45.6
securities	9,247	10,722	(13.8)	(11.1)
liabilities	11,162	9,662	15.5	19.1
accounts	1,519	1,294	17.4	21.1
Total liabilities	**61,902**	**57,246**	**8.1**	**11.5**
Total equity	**4,978**	**4,905**	**1.5**	**4.6**
Pro memoria:				
Gross loans and advances to customers B	40,593	39,640	2.4	5.6
Customer funds	37,873	35,095	7.9	11.3
Customer deposits C	28,330	27,060	4.7	7.9
Mutual funds	9,543	8,035	18.8	22.4

operating data	2020	2019	%
Underlying RoTE	13.19	18.08	(4.89)
Efficiency ratio	39.8	40.6	(0.8)
NPL ratio	4.79	4.64	0.15
NPL coverage	61.4	56.0	5.4
employees	10,835	11,580	(6.4)
Number of branches	346	375	(7.7)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Argentina

Underlying attributable profit
EUR 179 Mn

2020 Highlights

→ As a leader in the country's financial system, Santander Argentina has worked to be part of the solution to the crisis caused by the global pandemic.

→ We continued to focus on our four strategic pillars: operational excellence, profitable growth, being customer-centric and culture and talent.

→ Underlying attributable profit soared to EUR 179 million, growing both in euros and at constant exchange rates (+25% and +91%, respectively), boosted by higher net interest income and improved efficiency.

Strategy

Amid the pandemic, Santander Argentina implemented measures to look after the health of its customers and employees, enhancing digital channels and ensuring service quality in our branches.

To combat the crisis, we continued to grant loans and set up corporate credit lines to buy medical equipment through *Cuenta Blanca* and introduced *Academia Salud* (alongside Swiss Medical Group), a fully digital training platform for health workers that can be accessed from any device, at any time and free of charge.

The **commercial strategy** focused on transactional business and customer service, through innovation, an enhanced customer care model and the digital transformation of the main processes and products. We launched various initiatives:

- We made headway in building an **open financial services platform**. We rolled-out Getnet in Argentina, created a USD 20 million investment plan for Santander's collection and services solution, and will create 200 jobs in the next two years. The aim is to encourage digitalization, reduce the use of cash and boost financial inclusion.
- We set up **Santander Consumer**, a company specialized in consumer financing and secured loans, providing an agile customer experience.
- **Openbank Argentina**, Santander's fully digital bank, obtained its banking licence.
- Around 356,000 accounts were opened through fully **digital** means and the issuance of electronic cheques increased. We also implemented a new digital business model aimed at foreign trade products. Digital customers increased 21% in the year.
- Together with 21 banks, we launched MODO, a systematic payment solution to boost digital payments and financial inclusion.

Thanks to all these initiatives, *The Banker* named Santander Argentina as the Best Digital Bank in the country, highlighting the acceleration of its digital transformation in the current environment, new technical staff, positioning in consumer loans and deposits, and the new products and services launched for female entrepreneurs and young customers.

Loyal customers
December 2020. Thousands

1,356

44% /active customers

Digital customers
December 2020. Thousands

2,650

+21% YoY

Business performance

Loans and advances to customers fell 13% year-on-year in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers were 35% higher driven by SME loans and cards. Dollar balances declined in the currency of origin.

Customer deposits increased 3% compared to 2019 in euros. Excluding repurchase agreements and the exchange rate impact, deposits rose 57%, spurred on by local currency deposits (demand and time deposits), as foreign currency balances declined.

Santander maintained a high dollar liquidity ratio and the excess liquidity in pesos was placed in central bank notes.

Results

Underlying attributable profit was EUR 179 million in the year (3% of the Group's total operating areas), with an underlying RoTE of 26.2%.

Compared to 2019, underlying attributable profit was 25% higher in euros. Excluding the exchange rate impact, growth was 91%. Both year's results were affected by the high inflation adjustment.

As regards business activity, excluding the exchange rate impact:

- **Total income** grew 31%. Net interest income rose 49%, underpinned by liquidity management and the lower cost of funds. Net fee income fell 6%, dampened by regulatory impacts and lower economic activity. Gains on financial transactions rose 18%.

- **Administrative expenses and amortizations** increased 27%, at a slower pace than total income and inflation, improving the efficiency ratio by 187 bps to 56.0%. Net operating income rose 37%.

- **Net loan-loss provisions** were higher (+47%) due to covid-19 related provisions. The NPL ratio improved 128 bps to 2.11% and coverage was 275%, after increasing 151 pp in the year.

- **Other gains (losses) and provisions** recorded no material change.

Argentina

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	912	940	(3.0)	48.8
Net fee income	273	446	(38.8)	(6.1)
Gains (losses) on financial transactions [A]	62	80	(22.9)	18.2
income	(119)	(150)	(20.8)	21.5
Total income	**1,128**	**1,316**	**(14.3)**	**31.5**
expenses and amortizations	(632)	(762)	(17.0)	27.2
Net operating income	**496**	**554**	**(10.5)**	**37.3**
provisions	(226)	(235)	(3.9)	47.3
Other gains (losses) and provisions	(70)	(101)	(30.5)	6.5
Profit before tax	**200**	**217**	**(8.2)**	**40.8**
Tax on profit	(19)	(72)	(73.3)	(59.1)
Profit from continuing operations	**180**	**145**	**24.2**	**90.5**
discontinued operations	—	—	—	—
Consolidated profit	**180**	**145**	**24.2**	**90.5**
interests	(1)	(2)	(12.2)	34.7
Underlying attributable profit to the parent	**179**	**144**	**24.6**	**91.1**

Balance sheet

Loans and advances to customers	4,151	4,792	(13.4)	32.9
and credit institutions	3,048	3,911	(22.1)	19.5
Debt instruments	1,897	429	342.5	578.7
Other financial assets	59	87	(31.8)	4.5
Other asset accounts	832	836	(0.5)	52.7
Total assets	**9,988**	**10,054**	**(0.7)**	**52.4**
Customer deposits	7,179	7,002	2.5	57.2
Central banks and credit institutions	840	1,033	(18.6)	24.8
securities	20	71	(71.5)	(56.3)
liabilities	657	747	(11.9)	35.1
accounts	359	392	(8.4)	40.5
Total liabilities	**9,056**	**9,244**	**(2.0)**	**50.3**
Total equity	**931**	**810**	**15.0**	**76.3**
Pro memoria:				
Gross loans and advances to customers [B]	4,395	4,993	(12.0)	35.0
Customer funds	8,795	8,099	8.6	66.6
Customer deposits [C]	7,179	7,002	2.5	57.2
Mutual funds	1,616	1,097	47.3	126.0

operating data

Underlying RoTE	26.24	22.20	4.04
Efficiency ratio	56.0	57.9	(1.9)
NPL ratio	2.11	3.39	(1.28)
NPL coverage	275.1	124.0	151.1
employees	9,159	9,178	(0.2)
Number of branches	408	438	(6.8)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Uruguay

Underlying attributable profit
EUR 134 Mn

2020 Highlights

→ **Santander Uruguay is the country's leading privately-owned bank, strengthening its position and market share, while continuing to develop a technological and digital strategy that enables us to enrich service quality.**

→ **Activity rebounded in H2'20, adapting to the new normal. We gave support to 11% of Santander Uruguay's portfolio and 30% of its financial entities.**

→ **Underlying attributable profit was EUR 134 million, down 11% in euros compared to 2019, but up 8% excluding the exchange rate impact, spurred on by total income and improved efficiency.**

Strategy

In a year blighted by the pandemic, we focused on mitigating its impact, preparing our teams for remote work, protecting our employees and adapting our products to customers' needs.

We continued to make progress in o technological transformation, signing an agreement with IBM to provide Santander Uruguay greater technological support. To add new digital capabilities, we launched A Sola Selfie for online loans, and SUMO, the country's first fully mobile branch. We further expanded Prosperá as an inclusive offering, as well as Santander Locker.

The efforts to consolidate our value proposition enabled us to gain market share and grow our customer base, increasing loyal and digital customers by 2% and 14%, respectively.

Business performance

Loans and advances to customers dropped 9% year-on-year in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers rose 12%.

Customer deposits were 4% higher in euros compared to 2019. Excluding the exchange rate impact and repurchase agreements, they increased 28%.

Loyal customers

December 2020. Thousands

111

23% /active customers

Digital customers

December 2020. Thousands

448

+14% YoY

Results

In 2020, underlying attributable profit was EUR 134 million with an underlying RoTE of 27.9%.

Compared to 2019, underlying attributable profit decreased 11% in euros and rose 8% excluding the exchange rate impact. By line:

- **Total income** grew 3% mainly driven by net fee income (+17%) and gains on financial transactions (+38%).
- **Administrative expenses and amortizations** rose 2%, at a slower pace than total income, improving the efficiency ratio to 41.4% (-62 bps year-on-year).
- **Net loan-loss provisions** increased 17%. The cost of credit stood at 2.30% and coverage remained high (104%).

Uruguay

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	267	333	(19.8)	(2.8)
Total income	380	447	(14.8)	3.3
expenses and amortizations	(157)	(188)	(16.1)	1.8
income	223	259	(13.9)	4.4
provisions	(61)	(63)	(3.8)	16.6
Profit before tax	161	189	(14.8)	3.3
Underlying attributable profit to the parent	**134**	**150**	**(10.6)**	**8.4**
Balance sheet				
Total assets	**5,102**	**5,051**	**1.0**	**24.6**
Gross loans and advances to customers A	2,552	2,804	(9.0)	12.3
Customer funds	4,356	4,197	3.8	28.1
Customer deposits B	4,318	4,162	3.8	28.0
Mutual funds	38	36	7.1	32.1

A. Excluding reverse repos.
B. Excluding repos.

Peru

Underlying attributable profit
EUR 53 Mn

2020 Highlights

- We continued to focus on the corporate segment, large enterprises and Grupo Santander's global customers.
- Underlying attributable profit rose 12% year-on-year to EUR 53 million, +19% excluding the exchange rate impact, spurred on by revenue growth.

Strategy

The strategy remained focused on the corporate segment, the country's large companies and Grupo Santander's global customers, by providing support to customers, as well as greater liquidity and flexibility. We also boosted the distribution of derivative instruments to reduce our customers' financial risks and increased deposit taking.

The auto loan financial entity continued to expand its business as a part of Grupo Santander's strategy to increase presence in this business, underpinned by local teams and our best practices in South America.

We continued to drive the digitalization of our services and internal processes to improve customer experience and operational efficiency. 60% of transactions were made digitally through our office banking platform.

Business performance

Loans and advances to customers decreased 1% year-on-year in euros (+19% on a gross basis, excluding reverse repurchase agreements and the exchange rate impact), and customer deposits surged 16% (+39% excluding the exchange rate impact and repurchase agreements).

Results

Underlying attributable profit of EUR 53 million in 2020 was 12% higher year-on-year, equivalent to an RoTE of 21.9%. Excluding the exchange rate impact, underlying attributable profit increased 19%. By line:

- **Total income** grew 30% mainly due to the positive performance of customer revenue and gains on financial transactions, reflecting greater customer and market activity.
- The efficiency ratio improved to 29.2% (-3.7 pp year-on-year).
- **Net loan-loss provisions** increased sharply due to covid-19 related charges.
- The NPL ratio was 0.80% and coverage was very high (149%).

Colombia

Underlying attributable profit
EUR 19 Mn

2020 Highlights

- The strategy focused on companies, large corporates and SCIB customers.
- We formed new alliances in auto finance to strengthen our position in the market with digital propositions.
- Underlying attributable profit of EUR 19 million in the year, up 22% on 2019 in euros, 40% higher excluding the exchange rate impact.

Strategy

We remained focused on SCIB clients, large corporates and companies, contributing solutions in treasury, risk hedging, foreign trade, confirming, custody and investment banking products to support the country's infrastructure plan. In consumer finance, our priority was to make the auto business profitable through value propositions for customers and manufacturers, increased customer loyalty and digitalization.

We signed two major agreements in the automotive sector, reaching a market share of 3.4% (+110 bps) in loan origination. Despite the reactivation of this sector in Q4'20, we recorded a c.30% year-on-year reduction in vehicle sales due to the pandemic.

Santander Colombia acted as joint bookrunner in an international bond issuance for the Republic of Colombia with 10- and 30-year terms, and as lead arranger in the first fast track facility transaction guaranteed by MIGA for BANCOLDEX worth USD 400 million, mainly to support SMEs affected by covid-19.

Great Place to Work recognized us as a company with an outstanding working environment.

Business performance

Loans and advances to customers rose 28% year-on-year in euros. In gross terms, excluding reverse repurchase agreements and the exchange rate impact growth was 45%, notably in consumer finance, corporates and CIB.

Customer deposits rose 22% in euros and 39% excluding the exchange rate impact and repurchase agreements, driven by time deposits.

Results

Underlying attributable profit of EUR 19 million in the year was 22% higher than 2019 in euros with an underlying RoTE of 13.6%.

Excluding the exchange rate impact, underlying attributable profit rose 40%, backed by total income (+26%) spurred by growth in net interest income (+55%), and gains on financial transactions (+24%). Administrative expenses and amortizations grew less than total income, enabling the efficiency ratio to improve 2.1 pp to 47.9%. Cost of credit was 0.56%.

4.4 CORPORATE CENTRE

Corporate Centre

Underlying attributable profit
EUR -1,844 Mn

2020 Highlights

→ **The Corporate Centre aims to aid the operating units by adding value and through oversight and control. It also performs financial and capital management functions.**

→ **Underlying attributable loss decreased 12% compared to 2019, mainly due to higher gains on financial transactions related to FX hedging and lower costs driven by ongoing measures.**

Strategy and functions

The Corporate Centre adds value to Grupo Santander in various ways:

- More solid governance, through global control frameworks and supervision.
- It fosters the exchange of best practices in cost management and generating economies of scale, enabling us to be one of the most efficient banks.
- It contributes to the launch of global business projects that leverage our worldwide presence to develop solutions once that can be used by all business units, generating economies of scale.

It also coordinates our relationship with European regulators and performs the following financial and capital management functions:

- **Financial management**:
  - Structural management of the liquidity risk associated with funding our recurring activity, financial stakes and management of net liquidity related to the needs of some business units.
  - This is carried out by the different funding sources (issuances and other), maintaining an adequate profile in volumes, maturities and costs. The price of these operations with other group country units is the market rate plus a premium, which in liquidity terms, we support by immobilizing funds during the operation's term.
  - Interest rate risk is actively managed to soften the impact of interest rate changes on net interest income, conducted via high credit quality, and very liquid and low capital consumption derivatives.
  - Strategic management of exposure to exchange rates in equity and dynamic in the countervalue of the country units' annual results in euros. At year-end, net investments in equity are currently hedged by EUR 21,326 million (mainly Brazil, the UK, Mexico, Chile, the US, Poland and Norway) by various instruments (spot, fx, forwards).
- **Management of total capital and reserves:** efficient capital allocation to each country unit in order to maximize shareholder return.

Global Headquarters. Boadilla del Monte

Global Headquarters. Boadilla del Monte

Results

In 2020, underlying attributable loss of EUR 1,844 million was 12% lower than in 2019 and driven by:

- Greater negative impact of **net interest income**, from -EUR 1,252 million in 2019 to -EUR 1,374 million, impacted by the increase in the liquidity buffer.
- Growth of EUR 583 million in **gains on financial transactions** mainly due to foreign currency hedging, the negative counterpart of which is in the conversion of results to euros in certain countries.
- **Administrative expenses and amortizations** improved 12% on the back of streamlining and simplification measures.
- Lower **net loan-loss provisions**, down from EUR 36 million in 2019 to EUR 31 million in 2020.
- **Other gains (losses) and provisions** includes provisions, intangible assets, cost of the state guarantee on deferred tax assets, pensions, litigation, one-off provisions for stakes whose value was affected by the crisis, etc. The net impact went from -EUR 237 million in 2019 to -EUR 412 million in 2020.

Pereda building. Global Headquarters in Boadilla del Monte (Madrid)

CORPORATE CENTRE

EUR million

Underlying income statement	2020	2019	%
Net interest income	(1,374)	(1,252)	9.7
Net fee income	(29)	(50)	(41.6)
Gains (losses) on financial transactions [A]	287	(297)	—
income	(25)	(18)	34.3
Total income	**(1,141)**	**(1,617)**	**(29.4)**
expenses and amortizations	(329)	(373)	(11.8)
Net operating income	**(1,470)**	**(1,990)**	**(26.1)**
provisions	(31)	(36)	(13.8)
Other gains (losses) and provisions	(412)	(237)	74.0
Profit before tax	**(1,912)**	**(2,262)**	**(15.5)**
Tax on profit	69	157	(56.2)
Profit from continuing operations	**(1,844)**	**(2,105)**	**(12.4)**
discontinued operations	—	—	—
Consolidated profit	**(1,844)**	**(2,105)**	**(12.4)**
interests	0	9	—
Underlying attributable profit to the parent	**(1,844)**	**(2,097)**	**(12.0)**

Balance sheet

Loans and advances to customers	5,044	5,764	(12.5)
Cash, central banks and credit institutions	61,173	32,803	86.5
Debt instruments	1,918	840	128.4
Other financial assets	1,645	2,406	(31.6)
Other asset accounts	112,807	126,539	(10.9)
Total assets	**182,587**	**168,352**	**8.5**
Customer deposits	825	793	4.0
Central banks and credit institutions	38,555	12,254	214.6
securities	57,240	54,495	5.0
liabilities	493	636	(22.5)
accounts	9,443	9,810	(3.7)
Total liabilities	**106,556**	**77,989**	**36.6**
Total equity	**76,031**	**90,362**	**(15.9)**

Operating data

Number of employees	1,692	1,651	2.5

A. Includes exchange differences.

4.5 Secondary segments

Retail banking

Underlying attributable profit
EUR 4,196 Mn

2020 Highlights

→ We supported our customers, corporates and governments in all our countries through a series of extraordinary measures to ensure necessary financial support amid the global health crisis, while still providing our usual products and services.

→ We remained committed to our digital transformation and multi-channel strategy. By the end of December, we exceeded 148 million customers, of which 23 million are loyal, 42 million are digital customers and more than 35 million are mobile customers.

→ Underlying attributable profit of EUR 4,196 million, strongly affected by covid-19-related provisions.

Strategy

As our commitment to society became even more important against the backdrop of the global pandemic, we strengthened our offering by implementing a series of measures to ensure the necessary financial support through pre-approved lines of credit, payment holidays and special policies.

The crisis has strengthened and accelerated our **digital transformation**, focusing on our multi-channel strategy and the digitalization of processes and businesses. As a result, the number of digital transactions rose 27%, sales through digital channels represented 44% of total sales and digital customers surged 15%, underpinned by:

- strategic transformation through digital acceleration in the UK. In 2020 we opened 82% of current accounts and 90% of credit cards through digital channels.
- the opening of Boutique Santander in Portugal, the country's first virtual marketplace.
- our digital channels in Spain, which led the Aqmetrix ranking.
- new solutions in Poland to boost customer experience and loyalty, such as a chatbot on the santander.pl website.

Loyal customers

December 2020. Thousands

22,838

32% /active customers

Digital customers

December 2020. Thousands

42,362

+15% YoY

- new functionalities for SuperMóvil and Hipoteca Online, a digital platform, in Mexico.
- the introduction of GENTE in Brazil, a virtual assistant capable of answering more than 10,000 questions, reaching more than 37 million interactions.
- a record rise in account openings and prepaid card sales in Chile through *Santander Life* and Superdigital.
- Openbank Argentina obtaining its banking licence.
- the launch of SUMO in Uruguay, its digital branch and A Sola Selfie for online loans.

We continued to launch **commercial initiatives**, with specialized products and services for each segment:

- In **individuals**, we introduced Hipoteca Free in Mexico, the country's first commission-free mortgage. In Brazil, we launched the SX credit card, which benefits our most transactional customers. In Argentina, we rolled out Getnet and set up Santander Consumer, specialized in consumer financing and secured loans. In Spain, we have a new commercial proposition for individuals, Santander One, a pioneering subscription-based financial service model, centred on customer loyalty and personalized services.
- In **auto finance**, SCF continued to focus on remaining the leader in auto finance, acquiring 46% stake in Sixt Leasing. In Poland, we ran a promotional offer to finance electric and hybrid vehicles. In Brazil, we retained the highest market share and introduced Troca+Troco, in collaboration with Webmotors. The auto business in the US is ideally positioned, and we strengthened our partnership with Fiat Chrysler. In Colombia, we remained focused on improving profitability in the auto business.

- In the **corporate segment**, all countries granted state-guaranteed loans to corporates. In SMEs, we continued to move forward with products such as Prospera, our micro-credit programme for entrepreneurs in Brazil and Uruguay, which was implemented in Peru in 2020. We launched new value-added products in Poland, such as a medical service for SME customers alongside MasterCard and Luxmed.

Regarding our **branch network transformation**, we remain committed to boosting our multi-channel proposition. In addition to digital channels, we have 11,236 branches and are working on optimizing and adapting them to our customers' needs. Our aim is to improve customer experience and offer advice on everything they need through the channel that best suits their preferences and requirements.

Smart Red branch, Spain

These measures helped us to gain market recognition, with several awards in the countries and segments where we operate:

- We were named the World's Best Bank for SMEs by *Euromoney* and also won *Euromoney's* Best Bank for Diversity and Inclusion global award for the first time. We were named best bank in Spain and Portugal and best investment bank in Portugal.

- Santander also received the Bank of the Year award in Spain and the Americas, including Brazil and Argentina.

Business performance

Loans and advances to customers decreased 3% year-on-year. Excluding reverse repurchase agreements and the exchange rate impact, gross loans rose 4%.

Customer deposits were 2% higher in euros compared to 2019. Excluding repurchase agreements and the exchange rate impact, they were 9% higher, driven by growth in demand deposits (+13%).

Results

Underlying attributable profit was EUR 4,196 million (61% of the Group's operating areas).

Compared to 2019, underlying attributable profit fell 45% in euros. Excluding the exchange rate impact, it was 39% lower, as follows:

- **Total income** fell 3% impacted by the fall in net fee income (-10%). Net interest income remained flat and gains on financial transactions were up 8%.

- **Administrative expenses and amortizations** decreased 3% benefiting from positive cost management in most countries.

- **Loan-loss provisions** soared 44% strongly affected by covid-19 related provisions.

- **Other gains (losses) and provisions** improved 13% primarily driven by Brazil and the US.

RETAIL BANKING

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	29,544	32,862	(10.1)	0.1
Net fee income	6,850	8,561	(20.0)	(9.6)
Gains (losses) on financial transactions [A]	961	871	10.3	8.0
Other operating	(141)	304	0.0	0.0
Total income	**37,215**	**42,599**	**(12.6)**	**(3.1)**
Administrative expenses and	(16,847)	(18,926)	(11.0)	(2.6)
Net operating	**20,368**	**23,672**	**(14.0)**	**(3.5)**
Net loan-loss	(11,608)	(9,101)	27.5	44.1
Other gains (losses) and	(1,229)	(1,619)	(24.1)	(13.2)
Profit before tax	**7,531**	**12,953**	**(41.9)**	**(35.2)**
Tax on profit	(2,452)	(4,048)	(39.4)	(30.7)
Profit from continuing	**5,078**	**8,905**	**(43.0)**	**(37.2)**
Net profit from discontinued	—	—	—	—
Consolidated	**5,078**	**8,905**	**(43.0)**	**(37.2)**
Non-controlling	(883)	(1,325)	(33.4)	(26.7)
Underlying attributable profit to the parent	**4,196**	**7,580**	**(44.6)**	**(39.0)**

A. Includes exchange differences.

Santander Corporate & Investment Banking

Underlying attributable profit
EUR 1,823 Mn

2020 Highlights

→ **The covid-19 health crisis strongly influenced SCIB's performance in the year, as we continued to support our global clients, covering their funding needs and helping them access global capital markets.**

→ **The creation of the global Environmental, Social and Governance (ESG) solutions team will increase the support SCIB gives to our clients in their transition towards more sustainable business models.**

→ **Underlying attributable profit was 6% higher year-on-year in euros (23% in constant euros) at EUR 1,823 million, driven by double-digit revenue growth and cost reduction, which enabled us to absorb the increase in 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.

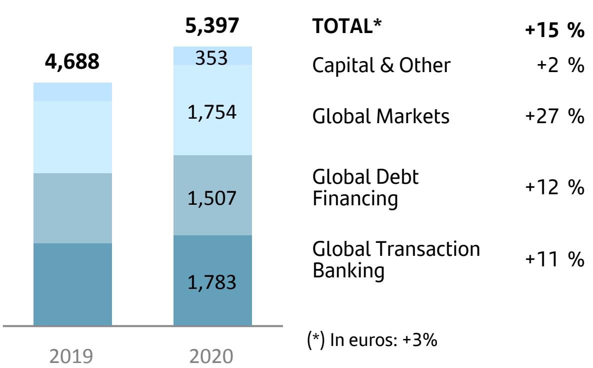
Our long-term strategy remains focused on becoming our clients' strategic advisor of choice. The transformation we started three years ago continues to bear fruit, delivering sound results.

The key areas we are focusing on are:

- accelerating balance sheet rotation through efficient capital management to maximize the return on risk-weighted assets. To this end, SCIB focused on strengthening its distribution teams, which resulted in greater origination capacity to distribute and run profitable transactions.
- increasing diversification, by countries, customers and products:
  - by country, through the promotion of our business in the US, the UK and Continental Europe, as well as strengthening our franchises in Peru and Colombia, completing our value proposition in Latin America.
  - as for the diversification of our customer base, we are increasing business with institutional and financial entities, offering a wide range of products throughout our markets.
  - we continued to expand our product range by introducing new, more complex and tailored products to fully cover our clients' needs.
- continuing to strengthen our environment and control mechanism, investing in strategic projects to make our processes more robust and to respond to regulatory requirements.
- becoming the leader in advising on sustainable and responsible financing (ESG) to support our clients in the transition towards a more sustainable and low-carbon economy. In 2020, SCIB created a global team to provide solutions and support our clients in their search for strategic solutions.
- digitalizing our business, exploring market opportunities that allow us to improve processes, offer new products and services to clients, add new technologies, etc.

Total income breakdown

Constant EUR million



In line with Grupo Santander's strategy, SCIB aims to be one of the leading wholesale banks in Europe by creating a pan-European platform that simplifies our structure and will enable us to better serve our clients' needs and to support our business growth initiatives. Furthermore, SCIB aims to maintain its leadership position in South America and also to turn the US franchise into a fierce competitor in North America.

Business performance

In the complex humanitarian and macroeconomic environment arising from covid-19, the year's activity was strongly conditioned by the effort to protect our employees and ensure the continuity of our and our clients' businesses. Our strong relationship with our global clients (corporates, governments, corporations, institutions, etc.) enabled us to act quickly and decisively, providing them with strategic advice, tailored financing solutions and helping them access the capital markets to cover their capital needs and maintain high levels of liquidity during the worst months of the pandemic.

Main actions performed in the year by business line:

- **Global markets**: significant business growth in all countries despite high volatility, and strong overall activity due to an increase in our clients' funding and coverage needs.

  Positive both corporate and institutional sales performance, particularly in Asia, Argentina, the UK, Mexico and Brazil, as well as book management, notably in Brazil, Spain, Portugal, the US, the UK and Mexico.

- **Debt Capital Markets**: sharp growth boosted by the positive performance in the US and Europe, while Latin American markets remained tepid.

  We continued to focus on sustainable financing, and are a reference for the issuance of green and social bonds, particularly those aimed at softening the effects of the pandemic.

- **Syndicated Corporate Loans**: we supported our clients during the year, meeting their funding and liquidity needs by increasing loan volumes and participating in operations backed by government programmes across Europe.

  We upheld our responsible banking strategy by increasing our range of sustainable finance products via green loans or loans linked to sustainable metrics.

- **Structured Financing**: Santander consolidated its leadership position in Project Finance, ranking first globally (by number of transactions as at December 2020), in Europe, Middle East and Asia (EMEA) and Latin America.

  We remained at the forefront of financing of renewable energy projects (one of the main priorities of our ESG strategy) also ranking first globally, in EMEA and Latin America. As for financial advisory services, we continued to be a global reference in 2020: first in Latin America, and fifth in the world.

- **Cash management:** in this challenging year, reacting rapidly to the issues arising from the pandemic, the digitalization of our products and the close relationship with our clients were key to delivering sustained growth in the transactional business and becoming our clients' transactional bank of choice.

- **Export & Agency Finance**: we continued to support our clients in their export and import activities through structured financing solutions backed by export credit agencies.

  We were particularly active in programmes to mitigate the impact of covid-19 implemented by the CESCE (Spanish Export Credit Insurance Company) and the World Bank through guaranteed loans in Latin America. We maintained our leadership position with solid growth, especially in the UK, Mexico and Brazil.

- **Trade & Working Capital Solutions**: strong business growth across markets, especially in Europe, the US, Brazil and Asia.

  We continued to support our clients, strengthening our capabilities in the global confirming and receivables platforms, which allowed us to maintain our leadership in these products. Likewise, commercial activity increased in structured trade, especially in Brazil, helping to gain market share and diversify into new sources of income.

- **Corporate Finance**: some sectors succeeded in maintaining greater dynamism, in terms of the number of transactions and business and asset valuations, particularly those related to energy transition and renewable energy. In M&A, regarding regulated electricity grids businesses, of note was the transaction announced by State Grid, the largest in the history of Chile's electricity sector and the second largest in Latin America, where Santander acted as the buyer's financial advisor.

  In 2020, CIB reached a record high for income from share placement operations for the second year running, holding leading positions in Europe and Latin America. The year's most significant operations include our participation in the two largest European initial public offerings (JD Peets for EUR 2.6 billion and Allegro for EUR 2.4 billion), as well as leadership in the Soltec operation. In Latin America, Santander led more than 20 IPOs and capital increases in Brazil.

Ranking 2020

Award / ranking	Source	Area
Best Supply Chain Finance Provider for Western Europe	Global Trade Finance Magazine	GTB / T&WC
Best Trade Finance Bank in Latin America (Regional)	Global Trade Finance Magazine	GTB / T&WC
World´s Best Payment Hub Solution for 2020 (Globally)	Global Trade Finance Magazine	GTB / Cash Management
Global Advisor of the year	PFI	GDF
Offshore Wind Deal of the Year	PFI	GDF
Deal of the Year	PFI	GDF
Bonds; Corporates: Enel $1.5bn SDG-linked bond and E2.5bn SDG-linked bond issuance	The Banker	GDF (DCM)
Loans: Carrefour E3.9bn sustainability-linked loans	The Banker	GDF (DCM)
South American ECA - backed Finance Deal of the Year Award	TXF	GTB (E&AF)
European ECA - backed Finance Deal of the Year Award (ESG)	TXF	GTB (E&AF)
Asia - Pacific ECA - backed Finance Deal of the Year Award (ESG)	TXF	GTB (E&AF)
Best Project & Infrastructure Financing Bank: Brazil	Latin Finance	GDF (PF)
Best Trade Finance Bank in Latin America	GTR	GTB (T&WC)
Most Impressive Bank for Latin America Bonds	Global Capital	GDF (DCM)
Best Transaction of the year (Project Meno)	SCI Capital Relief Trades Awards 2020	GDF (PDM)
Issuer of the year	SCI Capital Relief Trades Awards 2020	GDF (PDM)
Best Bank for Latin American Currencies	FX	Markets

Results

Underlying attributable profit in 2020 was up 6% in euros. Excluding the exchange rate impact, growth was 23%, backed by double-digit hikes in our core businesses, particularly Global Markets and Global Debt Finance.

- **Total income** growth was spurred on by the strong increase in all revenue lines: net fee income (+12%), gains on financial transactions (+23%) and net interest income (+20%).
- **Administrative expenses and amortizations** fell 3%, which enabled efficiency to improve 5 pp and net operating income to grow 30%.
- Sound revenue performance and prudent cost management was enough to fully absorb **net loan-loss provisions** growth, derived from the general macroeconomic deterioration, and significantly increase underlying attributable profit.

SANTANDER CORPORATE & INVESTMENT BANKING

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	2,953	2,728	8.3	20.4
Net fee income	1,550	1,520	2.0	12.5
Gains (losses) on financial transactions [A]	690	689	0.1	22.9
income	203	289	(29.8)	(31.0)
Total income	**5,397**	**5,227**	**3.3**	**15.1**
expenses and amortizations	(2,069)	(2,281)	(9.3)	(2.7)
Net operating income	**3,328**	**2,945**	**13.0**	**29.8**
provisions	(467)	(155)	200.4	209.9
Other gains (losses) and provisions	(135)	(91)	48.7	60.2
Profit before tax	**2,726**	**2,699**	**1.0**	**17.1**
Tax on profit	(783)	(815)	(3.9)	12.0
Profit from continuing operations	**1,944**	**1,884**	**3.1**	**19.3**
discontinued operations	—	—	—	—
Consolidated profit	**1,944**	**1,884**	**3.1**	**19.3**
interests	(121)	(171)	(29.5)	(15.9)
Underlying attributable profit to the parent	**1,823**	**1,713**	**6.4**	**22.7**

A. Includes exchange differences.

Wealth Management & Insurance

Underlying attributable profit
EUR 868 Mn

2020 Highlights

- → In 2020, despite the challenges we faced and the prioritization of everyone's health and safety, we implemented various improvements in terms of processes, agility, close relationships with our clients and flexibility in our teams. The continued monitoring of, and interaction with, clients during the crisis enhanced communication through remote and digital channels.
- → As a result, underlying attributable profit was up 2% compared to 2019 in constant euros.
- → Total fee income generated, including that ceded to the branch network, amounted to EUR 3,108 million, in line with the previous year, and accounted for 31% of the Group's total (30% in 2019).
- → Assets under management reached EUR 370 billion, in line with 2019 in constant euros, affected by custody valuation differences. Customer funds rose 8% in Private Banking and 1% in Santander Asset Management (SAM), which has recorded positive cumulative net sales since May.

Strategy

Within our strategy developed with the aim of becoming the best responsible wealth manager in Europe and Latin America, of note were:

- Positive net sales and business growth rates in **Private Banking,** despite the market situation and the cuts in interest rates in the US, Latin America and the UK. Our goal was to complete the value proposition in all our countries, particularly in advisory services.

  Regarding alternative funds, our value proposition is centred on selecting a range of funds from leading national and international management companies, notably the launches made through our international platform in Ireland. We continued to expand the ESG investment range via SAM and third party products, supported by the continuous training of our managers and advisers.

  Launch of Future Wealth, a joint initiative with SAM, consisting of a platform to invest in leading innovation companies grouped into 18 disruptive themes (such as health, energy transition technology and smart cities) with the SAM Future Wealth fund as the core product.

  We received numerous awards in 2020 from prestigious publications (*Professional Wealth Manager, Euromoney, The Banker* and *Global Finance*) for our technology, various business segments and local private banks in several countries.

  The total volume of shared business across our markets reached EUR 6.8 billion, 34% more than 2019, mainly driven by operations in Mexico, Chile, Miami and Switzerland.

- In **Santander Asset Management**, we continued to improve and complete our product offering. Of note was growth in the the Santander GO range, with a volume of more than EUR 2.3 billion and the positive performance of our platform in Luxembourg, reaching EUR 8.2 billion. We are also working on the implementation of an alternative product offering with infrastructure funds and leasing, with the launch of the Alternative Leasing fund for SME machinery and equipment.

  We continued our operational and technological transformation which involved the implementation of the *Aladdin* platform, which has already been successfully rolled-out in six countries and virtually implemented in another three in Latin America.

  We made further headway in our ESG strategy, becoming a member of the Principles for Responsible Investment (PRI) as well as the International Investors Group on Climate Change (IIGCC), which places us at the heart of a global community seeking to build a more sustainable financial system. We currently have over 20 ESG products and assets under management of EUR 6.9 billion (+90% vs. 2019).

- In **Insurance**,our main growth driver continued to be the non-credit-related business, which has a longer portfolio duration. We continued to increase the number of insurance policies distributed through our digital channels, which now account for 10% of the total sales volume.

  In Latin America we continued to successfully develop our auto-related business, working with various insurance companies and new mobility products. In Chile, we launched Grupo Santander's first On/Off insurance through Klare, our fully digital insurance broker, which allows customers to activate coverage on a daily basis. In Argentina, we improved the end-to-end digital sales process for personal protection insurance (customers and non-customers).

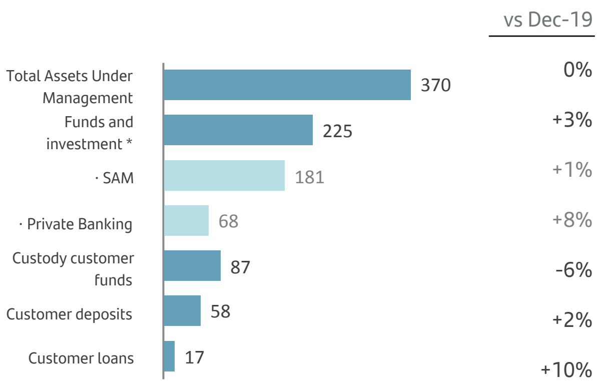
  In Europe, we introduced a new multi-risk insurance proposal for SMEs in Spain and Portugal through our joint venture with Mapfre. In the UK, we enhanced the digital experience for our tailored Home & Life insurance, optimizing the use of data to offer personalized products and simplify purchasing. In Poland, we have a new fully-digital life insurance offer, which had a great response from customers as it enables them to build their own tailored coverage.

Business performance

Total assets under management amounted to EUR 370 billion, in line with December 2019 in constant euros. In the quarter, growth was 4% and 10% compared to March 2020.

Business performance: SAM and Private Banking

December 2020. EUR billion and % change in constant euros



Note: Total assets marketed and/or managed in 2020 and 2019.

(*) Total adjusted customer funds of private banking managed by SAM. 2019 data Pro forma including Popular asset management Joint Ventures, fully integrated in 2020.

- In **Private Banking**, the volume of customer assets and liabilities grew 1% year-on-year to EUR 230 billion. This was mainly due to the impact of covid-19 on markets which particularly affected the custody business. However, quarter-on-quarter growth in Q4 was 7% induced by market improvement and strong commercial activity.

  Underlying attributable profit in 2020 was EUR 414 million, down 2% compared to 2019 (excluding the exchange rate impact). Of note were Mexico, Poland, Brazil and Miami.

- In **SAM**, total assets under management increased 1% compared to 2019, despite the negative impact of markets driven by the covid-19 crisis. Cumulative net sales remained in positive figures since May, mainly in Chile, Luxembourg, Argentina and Mexico.

  Underlying attributable profit was EUR 120 million, 16% lower year-on-year, due to lower average volumes and margins. Of note was the performance in Mexico, Portugal and Argentina. Total contribution to the Group's profit (including ceded fee income) was EUR 494 million.

- In **Insurance**, the volume of gross written premiums amounted to EUR 7.9 billion (-3% year-on-year), affected by lower loans and savings activity amid the crisis. Of note was the 9% growth in fee income generated by the non-credit related protection business.

  Despite lower activity, the underlying attributable profit generated in 2020 by the insurance business amounted to EUR 333 million, 18% higher than in 2019. Total contribution to profit (including ceded fee income) amounted to EUR 1,220 million.

Results

Underlying attributable profit was EUR 868 million in 2020, down 7%. Excluding the exchange rate effect, it was 2% higher:

- **Total income** increased mainly driven by net fee income (+7%) due to the greater contribution from private banking and insurance.
- Total fee income generated, including fees ceded to the branch network amounted to EUR 3,108 million and represented 31% of the Group's total.
- **Administrative expenses and amortizations** were in line with 2019, due to the optimization measures that absorbed the impact of investments.
- As a result, **net operating income** increased 6%.

The total contribution to the Group (including net profit and total fees generated net of taxes) **was EUR 2,145 million**, 2% lower than in 2019 in constant euros.

Total contribution to profit

EUR million and % change in constant euros

WEALTH MANAGEMENT & INSURANCE

EUR million

Underlying income statement	2020	2019	%	% excl. FX
Net interest income	454	570	(20.4)	(15.3)
Net fee income	1,194	1,199	(0.4)	6.5
Gains (losses) on financial transactions A	103	117	(12.0)	(4.5)
income	383	339	13.0	26.9
Total income	**2,135**	**2,226**	**(4.1)**	**3.3**
expenses and amortizations	(906)	(955)	(5.1)	(0.4)
Net operating income	**1,229**	**1,271**	**(3.3)**	**6.2**
provisions	(28)	23	—	—
Other gains (losses) and provisions	(1)	(12)	(92.8)	(92.3)
Profit before tax	**1,199**	**1,281**	**(6.4)**	**2.6**
Tax on profit	(291)	(302)	(3.7)	4.2
Profit from continuing operations	**909**	**979**	**(7.2)**	**2.1**
discontinued operations	—	—	—	—
Consolidated profit	**909**	**979**	**(7.2)**	**2.1**
interests	(41)	(50)	(18.3)	(0.6)
Underlying attributable profit to the parent	**868**	**929**	**(6.6)**	**2.3**

A. Includes exchange differences.

Santander Global Platform (SGP)

Underlying attributable profit
EUR 39 Mn

2020 Highlights

- **The development of global payments and financial solutions for enterprises and individuals in high-growth and large addressable markets continues to be a top priority for Grupo Santander.**
- **Despite the covid-19 environment, we delivered significant progress on our plan, expanding our global payments technology platforms by adding new services and functionalities, and reaching new customers.**
- **We continued to focus on accelerating growth in three business areas: Merchant Solutions, Trade Solutions and Consumer Solutions.**

Strategy

Grupo Santander is recognized as one of the best global payments providers, and we aspire to continue offering faster and better solutions to all our customers, which we develop based on customer experience and to drive loyalty. We offer these solutions to both our banks (B2C) and third parties (B2B2C), generating significant new revenue opportunities and expanding our customer base to new customers and geographies.

The three business areas made significant progress against the plan in last quarter:

Merchant solutions (Global Merchant Services), our initiative to create a global acquiring business under the Getnet global brand based on a single open platform, provides end-to-end payments solutions for merchants, ranging from accepting payments to value-added services.

In Q4, Getnet Brasil achieved record growth of 200% year-on-year in online transactions on Black Friday, reaching a 30% market share. Getnet platform developments continued to incorporate additional functionalities.

At the end of 2020, Getnet reached an agreement to acquire several highly-specialized technology assets and teams from Wirecard's European merchant payments business. This acquisition will further reinforce and accelerate Getnet´s growth plans in the region.

Trade solutions (Global Trade Services), the group's strategic initiative to develop the global platform OneTrade, provides the services needed to trade internationally including international payments, FX, international treasury management and foreign trade.

In Q4, we connected our customers in Portugal and Colombia to the OneTrade platform, adding to those from Brazil, Spain, the UK and Chile. With the latest roll outs, more than 150,000 companies now have access.

Regarding new services added to the OneTrade platform, we tested and deployed an internal FX and liquidity model for transactions between the UK and Spain. This service will be rolled out to other countries and currencies in the next two quarters.

Getnet

One Trade

Consumer solutions (Superdigital), our financial inclusion platform for individuals, offers simple and flexible basic financial services to meet the financial needs of the underbanked in Latin America.

In Q4, we began rolling out our new global Superdigital platform, which efficiently supports operations in different countries, across Latin America, starting with Brazil and then to Argentina, Uruguay, Colombia, Peru, Chile and Mexico.

Superdigital Brazil's active customers increased almost 25% and the value of transactions rose by about 60% in the year.

Other activities

Openbank, our full-service digital bank offers the current accounts and cards of neobanks, but also successfully sells loans and mortgages, as well as providing a state-of-the-art robo-advisory and open platform brokerage services.

Openbank is currently active in Spain, the Netherlands, Germany and Portugal. In July, it was granted a banking licence to operate in Argentina and plans to start operations in the first half of 2021.

In 2020, Openbank increased its loan book of digital mortgages and unsecured personal loans by 31.2%, deposits by 15.4% and new customers by 107% year-on-year.

Customers with investment products increased by 31% and the number of securities transactions rose by 131%. Loyal customers keep showing a leading industry benchmark engagement ratio of 4.5 products per customer. As a result of the strong business results, fee income increased 38% year-on-year.

Looking towards our future strategy, back in October we announced the creation of PagoNxt, an upgrade to Santander Global Platform, which will enable us to combine our payment businesses into an autonomous company, providing world-class technology solutions for our banks and new open market customers.

As previously mentioned in other sections of this report, Openbank and SCF will be combined into the new Digital Consumer Bank.

Results

Looking at SGP's activity in 2020 in a broad sense, i.e. in addition to considering the results generated by the digital platforms, including 50% of the results generated by the country units for the platform-related products, SGP's **total income** as a secondary segment was EUR 994 million in 2020 and *pro forma* **underlying attributable profit was positive at EUR 39 million**.

This is the net result of two components; the investment in building the platforms and 50% of the profit obtained from commercial relationships with our customers:

- **Total income** rose 9% in constant euros to almost EUR 1 billion, backed by net interest income.
- **Administrative expenses and amortizations** rose 21% year-on-year, with most of the spend concentrated on building the platforms. We are making progress in technology development and process improvements, as well as designing new services to be offered via our platforms and rolling them out.
- **Net loan-loss provisions** fell 17% vs 2019, with no material impact on the P&L.
- **Other gains (losses) and provisions** remained insignificant at -EUR 9 million.

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 income statement	2020	2019	%	% sin TC
Net interest income	416	375	11.0	25.7
Net fee income	449	549	(18.2)	(1.7)
Gains (losses) on financial transactions [A]	146	149	(2.4)	4.8
Other operating income	(17)	(13)	28.2	34.3
Total income	**994**	**1,061**	**(6.2)**	**8.7**
Administrative expenses and amortizations	(816)	(745)	9.5	20.6
Net operating income	**178**	**315**	**(43.5)**	**(25.0)**
Net loan-loss provisions	(39)	(52)	(24.2)	(17.1)
Other gains (losses) and provisions	(9)	(5)	76.8	68.9
Profit before tax	**130**	**258**	**(49.7)**	**(29.8)**
Tax on profit	(59)	(95)	(38.4)	(12.4)
Profit from continuing operations	**71**	**163**	**(56.3)**	**(39.7)**
Net profit from discontinued operations	0	0	—	—
Consolidated profit	**71**	**163**	**(56.3)**	**(39.7)**
Non-controlling interests	(32)	(36)	(11.1)	1.7
Underlying attributable profit to the parent	**39**	**127**	**(69.3)**	**(54.9)**

A. Includes exchange differences.

5. Research, development and innovation (R&D&I)

Research, development and innovation activities

Innovation and technological development are strategic pillars of Grupo Santander. We aim to respond to fresh challenges that emanate from digital transformation, focusing on operational excellence and customer experience.

Moreover, the information from our new technological platforms will help us better understand our customers' journey and enable us to design a more accurate digital profile to generate more confidence and increase customer loyalty.

As well as competition from other banks, financial entities must watch out for new financial system entrants, whose differentiating factor and competitive advantage is their use of new technology.

Developing a competent strategic technology plan must provide:

- greater capacity to adapt to customers' needs (customized products and services, full availability and excellent service across all channels).
- enhanced processes for Grupo Santander's professionals to ensure greater reliability and productivity; and
- proper risk management, supplying teams with the necessary infrastructures to support the identification and assessment of all business, operational reputational, regulatory and compliance risks.

As a global systemically important bank, Santander and its subsidiaries face increasing regulatory demands that impact system models and their underlying technology. This requires additional investments to guarantee compliance and legal security.

As in previous years, the latest European Commission ranking (2020 EU Industrial R&D Investment Scoreboard, based on 2019 data) ranked our technological effort first among Spanish companies and we are the second global bank for investment in R&D.

The equivalent investment in R&D&I to that considered in this ranking amounted to EUR 1,123 million. See note 18 to the consolidated financial statements.

Technological strategy

To meet business and customer needs, we must integrate new digital capabilities such as agile methodologies, public- and private-Cloud-based products and core systems development. We must also broaden our data and technological capabilities (APIs - Application Programming Interface, artificial intelligence, robotics, blockchain, etc.).

Our technological strategy aligns with the three pillars of the group's strategy: One Santander, PagoNxt and Digital Consumer Bank. Our technological pillars (Cloud, Agile, Data, Core evolution and Deep tech skills), a flexible and common architecture and a global operating model, as well as better management of risk and associated costs, help us achieve this.

Our governance model includes an inter-organizational forum called the Santander Architecture Review Board (SARB) to oversee the correct implementation of the technological strategy through its projection in technical architectures. The SARB brings together the technological architecture heads of the group entities on a monthly basis and is responsible for efficiently and collaboratively sharing local and global innovation, as well as reviewing Grupo Santander's architecture. It also guarantees consistent architectures, strengthens the recycling of components and bolsters the use of new technologies to meet changing business needs.

Our implementation of this strategy is based on our set of rules, a committed and experienced organization in relationships with our country units, and a governance model that articulates projects and initiatives that help crystallize the strategy in all our markets.

The development of our technology and operations (T&O) model will help us cultivate new business, focusing on global products and digital services. Almost 2,700 Santander Global Tech professionals in Spain, the UK, Portugal, the US, Mexico, Brazil and Chile are gradually incorporating the global product portfolio agreed by the country units, our global businesses and the T&O division, guaranteeing the quality of digital services and products, and also their security.

Technological infrastructure

Grupo Santander has a network of high-quality data centres (CPDs) interconnected by a redundant communications system. The CPDs are spread across strategic countries to support and develop Grupo Santander's activity and combine traditional information technology (IT) systems with the capabilities supplied by an on-premise private Cloud, which thanks to its swift adoption enables integrated management of the business areas' technology, accelerates the digital transformation and allows significant cost savings.

The gradual implementation of the Cloud strategy will enable the public Cloud to support other strategic group projects. Thanks to the Local Cloud Centres of Excellence (local CCoEs), coordinated under the Global CCoE, we can guarantee consistent and rigorous adoption of the Cloud across our entities. This minimizes risks in accordance with the Public Cloud policy.

Cybersecurity

Cybersecurity is one of Grupo Santander's main priorities and a crucial element in supporting our 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. We are constantly updating our defence against current and emerging cybersecurity threats and our 24/7, 350-employee cybersecurity centre in Madrid serves all group entities.

In 2020, our Cybersecurity team was a key component of the group's response to the covid-19 crisis, through four key areas: the increase in remote access capacity to enable employees to maintain the bank's services safely and efficiently; constant monitoring of new cyber-threats and suspicious activities; increased communication with employees and customers on how to stay "cyber-safe" online and when working remotely; and the constant analysis of new risks and implementation of additional controls.

For further information on the different actions for measuring, monitoring and controlling risks related to cybersecurity, and their respective mitigation plans, see section 6.2 'Operational risk management' of the Risk management and compliance chapter.

Digitalization and fintech ecosystem

In addition to the technological strategy, infrastructure development and cybersecurity initiatives, and to make headway in our digital transformation, in November we announced the creation PagoNxt, the new brand to grow our payments business in the digital age and enhance Santander Global Platform. Further details are given in section 4 'Financial information by segment' of this chapter and examples of digital and innovative products and services for individuals and corporates, as well as references to cybersecurity policies are given in section 2 'Inclusive and sustainable growth' of the Responsible Banking chapter.

Data centre Cantabria

Alhambra building. Boadilla del Monte

6. Significant events since year end

No significant events occurred between 1 January 2021 and the date of preparation of this consolidated directors' report.

7. Trend information 2021

This director's report contains certain prospective information on the directors' plans, forecasts and estimates, based on what they consider to be reasonable assumptions.

Readers of this report should take into account that such prospective information must not be considered a guarantee of our future performance. As the plans, forecasts and estimates are subject to numerous risks and uncertainties, our future performance may not match initial expectations. These risks and uncertainties are described in the Risk management chapter of this report and in note 53 of the consolidated financial statements.

The announcement of a number of highly effective vaccines in the prevention of covid-19 has led to a substantial improvement in expectations for 2021, and in particular, reduced the probability of the most adverse scenarios. However, the resurgence of the virus in early 2021 and the consequent containment measures may have tangible impacts on the economy in the first months of the year, even if experience in the second wave shows that the public and private sectors have learnt to better manage the pandemic and contain its economic effects.

The expected acceleration on the pace of vaccination, particularly among high-risk populations, in our core markets and that expansive economic policies will be maintained suggests that economies will see a marked recovery. However, in general, we do not expect to regain pre-crisis levels until 2022.

The macroeconomic forecast for 2021 **by country/region** is as follows:

Euro area

We expect that economic expansion will be linked to vaccine dissemination and the degree of implementation of the EU Recovery Plan. The consensus expects that vaccination will have reached a sufficiently high percentage of the population around the middle of the year to normalize much of the economic activity. Some sectors will take time to achieve full recovery (depending on how dependant they are on international mobility as it will still be affected). We believe that monetary policy will continue to be expansionary, but the exit from the crisis will depend more heavily on fiscal policy and economic reforms. The EU recovery plan, which depends largely on the countries' proposed fiscal expansion, should be the basis for modernizing the economies, strengthening potential growth, sustainability and digitalization.

Spain

Economic recovery projections by international bodies are in the range of 5%-7%, which could be greater due to European funds from the recovery plan. Spain is one of the countries that can receive the most funds and it plans to concentrate most of the investments in the first few years. There is some uncertainty around the performance of the unemployment rate, as employment support policies dampened its rise in 2020 but this could prevent it from falling in 2021. Inflation could return to positive territory, accompanied by the estimated improvement in domestic demand, although we expect it to remain below the ECB target (2%).

United Kingdom

The UK economy is expected to grow around 4.5%. Covid-19 vaccinations support a faster projected normalization by gradually eliminating many containment measures that curb activity. However, 2021 will be a year of adaptation to the new situation outside the European Union, which will undoubtedly generate some friction that will affect investment and monetary policy, which we expect to continue to be accommodative.

Portugal

Economic growth is forecast around 2.0% in 2021, with a recovery that will not begin at least until Q2'21 due to the strong outbreak of the pandemic early in the year. and the task of reviewing the production model (which will be supported by European funds), as the most labour-intensive sectors, such as tourism, will continue to be a drag on the economy. Unemployment could reach 10% and inflation unchanged. We expect the fiscal deficit to ease .

Poland

The Polish economy, having contracted 2.8% in 2020, is expected to grow around 4%. Uncertainties remain regarding the first quarter covid-19 related problems, but hopes are that a vaccine in the second quarter will lead to normalization of activity. Private consumption is expected to be the growth driver with positive contributions from investment, on the back of the European recovery plan, and net exports.

United States

The presence of covid-19 will make the start of the year difficult. Vaccination, other pandemic control tools and virus seasonality could allow normalization to commence and have positive effects on growth from the second quarter. The new fiscal stimulus packages will also drive GDP growth in 2021 of around 5%. Inflation is expected to uptick but still at moderate rates (2.2% vs. 1.4% in 2020). The Federal Reserve is expected to maintain an expansive monetary policy.

Mexico

We expect the economy to continue its recovery in 2021, with growth of around 4% driven by exports, in particular to the US. However, we expect domestic demand growth to be modest and it will take several years to recover pre-pandemic GDP levels. Monetary policy could become more expansive in a context of inflation in line with targets.

Brazil

GDP is expected to continue to recover with growth projected around 3.5%. The withdrawal of the broad fiscal stimuli implemented in 2020 will be one of the main challenges, although controlled inflation, expansive monetary policy and progress on the reform agenda will contribute to a favourable climate that supports economic growth.

Chile

Economic growth (between 5% and 6%) is expected to be supported by a more favourable international environment, the maintenance of part of the fiscal stimulus programmes approved in recent years, and expansive monetary policy with low interest rates.

Argentina

The economy is expected to grow around 4.5% after following the normalization of its relationships with international creditors and its new economic programme that will have the technical and financial support of the International Monetary Fund.

→Financial markets

We believe that the cyclical recovery expected in 2021 will guide financial markets' performance. We believe that the unprecedented liquidity injection from central banks will continue to support risk weighted assets, together with the favourable conclusion of some risk sources: i) the arrival of a vaccine has reduced global uncertainty regarding economic recovery, mitigating the fact that increasing covid-19 cases and pressure on health care systems are still leading to tighter lockdown measures. ii) the control of both Houses of Congress by the Democrats in the US could give the new administration greater discretion in implementing its fiscal stimulus plans, iii) the UK's negotiated withdrawal from the EU prevented a hard exit in January and normalized relationships between the two regions.

In this environment, risk-free rates are expected to rise slowly in line with the continued improvement in economic and inflation expectations, particularly in the long-term, leading to a steepening of the yield curve. Some Federal Reserve members are starting to discuss the possibility of carrying out a balance sheet reduction later this year, but official rates will remain unchanged for a long time.

The dollar, which depreciated against the euro at year-end, is expected to recover in 2021, followed by an early rebound in the US backed by greater fiscal stimulus.

We believe that this year, the banking and economic environment, are going to be conditioned by the pandemic's evolution, the speed of vaccination and the withdrawal of public sector aids to families and businesses. The ending of financial support measures and payment holidays will drive an increase in delinquency rates, which will depend on the level of economic normalization and will affect economic sectors unevenly, having a greater impact in those that suffered greater permanent impacts.

In general, the banking sector is in a stronger position to face this NPL increase than in previous crises, as demonstrated in the stress tests carried out by agencies such as the International Monetary Fund. However, difficulties cannot be ruled out in some entities, in both mature and developing banking systems.

In an environment of very low rates and business growth, digitalization and pressure on profitability will continue to boost banking consolidation, especially in the more fragmented systems, as well as adjustments to improve efficiency.

→Financial regulation

In 2021, financial and prudential regulation will continue to reflect the materialization of various multi-year initiatives in the area of solvency and resolution, combined with the measures that authorities will continue to take or maintain in force to manage the difficult effects of the pandemic.

Supervisors and regulators believe policy response should be adapted to the specific needs of this new phase. They also consider that banks must face medium-term challenges, particularly their low profitability at both the European and national level. In its 2020 transparency report, the European Banking Authority (EBA) concluded that banks' capital and liquidity positions are solid but warned of asset quality performance and structurally low profitability.

The European Central Bank itself emphasised that uncertainty surrounding the evolution of the pandemic and vaccine distribution remains high. It extended the relaxation of eligibility criteria adopted in April 2020 until June 2022 to ensure all banks in all countries can obtain the necessary liquidity to provide credit to all sectors of the economy.

The ECB has also extended the range of Eurosystem eligible marketable assets with the decision to accept bonds with coupon structures linked to certain sustainability objectives as collateral from 1 January 2021. This demonstrates the Eurosystem’s support for innovation in the area of sustainable finance.

Regarding the regulation of own funds requirements, the Capital Requirements Regulation (CRR2) is expected to come into force in general during 2021, including most of the points that were not yet in place in 2019 and 2020. The Commission’s proposal for CRR3 is expected to be adopted in 2021. This milestone marks the end of the implementation of the Basel framework in Europe, which, amongst other things, significantly modifies the credit risk framework. A CRR fix quick fix relating to the securitizations framework will enter into force at the beginning of the year, which would include the STS (simple, transparent and standardised) treatment for synthetic securitisations.

With regard to resolution legislation, the transposition of the Bank Recovery and Resolution Directive (BRRD 2) will be completed in 2021. In this regard, in response to covid-19, the Single Resolution Board has stated its intention to adopt a prospective approach to existing MREL requirements. It also stated that, for the 2020 resolution cycle, it considered the 2022-2024 transitional periods that were established in BRRD2.

In 2021, the following particularly relevant EBA guidelines will apply:

- The loan approval and monitoring guidelines (EBA/GL/2020/06) will apply from June 2021. This guide covers processes from governance to loan approvals, pricing for new transactions, collateral valuation (personal property and real estate) and monitoring and reporting frameworks.
- The guidelines on the application of the definition of default according to Article 178 of Regulation (EU) No 575/2013 are also of particular relevance. With effect from January 2021, guidelines state that institutions must include the EBA’s requirements in their internal procedures and IT.

The management priorities of the principal geographic areas for 2021 are set out below:

EUROPE

With the aim of accelerating transformation, increasing volumes and having a more efficient business model, the priorities for the region in 2021 are to:

- **Transform how we manage our mass-market business, simplifying our value proposition and improving customer experience, through the creation of Regional Business Owners.**
- **Leverage our global businesses (SCIB and WM&I) and the connection with PagoNxt to accelerate profitable growth in the region.**
- **Accelerate our digital agenda, with a common mobile experience across the region.**
- **Deliver a significant share of the EUR 1 billion additional cost savings commitment for the next two years, transforming our operating model.**
- **Excel in risk management, maintaining and reinforcing our balance sheet strength.**

In Spain, the covid-19 health crisis entailed significant changes in the macroeconomic and competitive environment. This required us to adapt our strategic priorities for the short- and medium-term:

- Continue to develop our distribution, operational and organizational model in order to reduce costs and accelerate progress in our digital transformation.
- Boost revenue by focusing on developing the corporate segment and moving towards a simple and complete offer for individuals, with continuous customer experience improvement. In addition, strengthen our leadership position in Private Banking and CIB.
- Adapt the risk management model and policies, strengthening the recovery management model and mitigating operational risks.
- Optimize the use of capital, focusing on value-added segments and higher profitability products.
- Foster a responsible banking culture across the organization.

Santander UK's priorities remain largely unchanged, with a 2021 specific focus on managing margins and simplifying the business to improve efficiency and returns:

- Deliver growth through customer loyalty and outstanding customer experience.
- Simplify and digitalize the business.
- Engage, motivate and develop a talented and diverse team.
- Be a responsible and sustainable business.

In Portugal, the priorities for the year are to:

- Further the digital and commercial transformation, to make it simpler, more agile and closer to customers.
- Grow organically in terms of profitable market share, improving our lending leadership position and leveraging our position in the corporate and, especially, the SME segments.
- Improve efficiency backed by our digital capabilities to better serve our customers.
- Maintain an appropriate risk policy, with improved monitoring, to maintain a low cost of credit.
- Maintain a strong capital and liquidity position in the current economic environment.

In Poland our strategy focuses on five key initiatives:

- Simplify the structure, based on the One Purpose - One Process approach of One Santander.
- Improve customer satisfaction to be among the Top 3 in NPS.
- Increase profitability through effective net interest income management, higher fee income and cost control.
- Progress in the responsible banking agenda.
- Strengthen our employees' skills to support the transformation of Santander Bank Polska.

NORTH AMERICA

While focusing on further developing the USMX trade corridor, the priorities in the region will be to:

- **Boost the execution of our regional collaboration strategy, increasing our common value proposition and profitability, while we continue to leverage our global presence.**
- **Consolidate regional IT under a single leadership.**
- **Continue to reduce duplications in the operating model, platform and architecture.**
- **Optimize expenses, in part through third party cost optimization.**
- **Continue to boost our remittance service to drive new customer acquisition.**

In the US, management will remain focused on improving profitability by:

- Digital and branch transformation initiatives to improve customer experience and the profitability of consumer banking business.
- Continuing to leverage our auto finance capabilities and the interconnectivity of our CIB and Wealth Management businesses.
- Adapting the business strategy to mitigate revenue impact from lower rates.
- Cost management to continue improving efficiency.

In Mexico, we developed a strategic agenda with the aim of becoming the best bank for our customers, with the following goals:

- To become the leading bank in terms of customer experience, leveraging new tools and process improvement.
- Make headway in our transformation, adapting to new customers' needs and habits arising from the pandemic.
- Maintain strong growth rates in loyal customers through initiatives to attract payrolls and high-value collectives, as well as increase presence in high-potential businesses.
- Strengthen our corporate business to maintain our position as market leaders in value-added products.
- Accelerate technological transformation and digitalization, by implementing a multi-year plan that will increase our capabilities to improve the operating model, IT performance and information security.

SOUTH AMERICA

The Group's priorities in the region are to:

- **Accelerate profitable growth, with a strategy that seeks to boost conectivity across South America through regional projects.**
- **Continue to progress in digital transformation through the development of digital platforms and a more efficient model.**
- **Maintain the strong growth of loyal and digital customers.**
- **Conduct strict risk controls regarding the impact of covid-19.**

Santander Brasil's management priorities for 2021 are to:

- Anticipate trends through our capacity to capture business opportunities in different potential scenarios.
- Increase our customer base maximizing transactionality across our new businesses while we improve and redefine the banking experience.
- Grow the high credit quality portfolio, mainly in secured products, through the expansion of the core business and the consolidation of new businesses.
- Improve operational efficiency, enhancing the high productivity culture.
- Maintain profitability levels by adapting and innovating rapidly in the current environment.

Santander Chile's strategy will focus on:

- Maintaining our leadership position in local banking in an increasingly dynamic economic environment.
- Continuing to progress in our technological developments in order to improve efficiency.
- The expansion of our digital platforms such as Life and Superdigital, improving our customer service indicators, and increasing the number of loyal and digital customers.

In Argentina, the strategy will focus on:

- Increasing our customer base, and loyalty and ensuring the best customer service.
- Further developing new businesses.
- Continuing our process of efficiency and simplification through digital transformation.
- Boosting profitable growth, focusing on the transactional business and optimizing the use of capital.

In Uruguay, the priorities for 2021 are to:

- Continue to invest in technology and process automation to further improve efficiency.
- Accelerate digitalization.
- Continue to increase our presence and market share.
- Combine and coordinate the implementation of local and regional projects.

In the Andean region, strategy will focus on:

- In Peru, increasing Corporate Finance's activity, continuing to boost advisory services in investment banking, corporate issuances and public infrastructures,and expanding our auto and consumer finance entity by widening our product range, improving distribution channels and diversifying funding sources while we maintain customer satisfaction.

- In Colombia, implementing different regional initiatives such as Cockpit and Pioneer, in line with the strategy of One Santander.
- Launch of Prospera and Superdigital

DIGITAL CONSUMER BANK

The main priorities for 2021 are to:

- Secure leadership by focusing on growth and transformation to achieve our aim of building a global digital consumer lending business:
  - Strengthen Auto leadership and gain leadership in consumer lending, by leveraging the global insurance model and expanding into new markets.
  - Transformation driven by simplification, redefinition of our distribution model, streamlining IT (leveraging Openbank's platform) and increased automatization.
- Help our partners with digitalization and transformation, proactively manage brand agreements and develop digital projects in all business lines.
- Execute the strategic operations initiated in 2020 (Sixt Leasing in Auto, the joint consumer finance operation with Telecom Italia Mobile and Openbank expansion to Argentina) to maintain high profitability and best-in-class efficiency.
- Accelerate combined business digitalization to drive sustainable long-term growth, especially following a sustained period of rapid growth in digital channel use during the pandemic.
- Define and begin executing the path to convert creditors into full customers taking advantage of SCF's lead generation power and Openbank's digital retail banking platform.

SECONDARY SEGMENTS

SCIB

In 2021, we will continue to focus on:

- Expanding our content and product offerings to continue to become our clients' strategic advisors, while accelerating the digitalization of our businesses.
- Developing a powerful ESG platform to support our clients in their transition towards more sustainable business models.
- Creating a pan-European platform with the aim of becoming the benchmark wholesale bank in the region and offering a more differentiated service to our clients.
- Accelerating business growth in the US under a robust control environment by exploring new business opportunities.
- Consolidate our leadership position in South America, strengthening our franchises in Peru and Colombia.

PagoNxt

In 2021, PagoNxt will expand its product offering and global platforms, leveraging the group's scale and reaching out to new customers. The main priorities by business are as follows:

- In global merchant solutions, Getnet will focus on enhancing our global acquiring platform, leveraging the Wirecard asset acquisition, and on expanding the platform into new countries in Latin America and Europe.
- In global trade solutions, the priorities are to connect the OneTrade platform to serve additional Santander customers covering our entire footprint, deploy new core functionalities on a quarterly basis, and reach customers beyond our current base.
- In global consumer solutions, Superdigital will continue to promote financial inclusion, focusing on rolling out the global multi-country platform in all our footprint in Latin America, and launching additional banking services on the platform. Pago FX will continue to improve its simple, low cost and secure international payment solution, rolling it out in new countries.

WM&I

In 2021, the key management drivers will be:

- In Private Banking, we want to continue to strengthen the leadership of our global platform All Access, following the 34% increase in cross-country volumes in 2020. To this end, we will complete our value proposition in all Private Banking countries, particularly in advisory services, alternative products and the Future Wealth investment platform, our joint initiative with SAM. We will also continue to drive Private Wealth, our business for high net worth clients.
- In Santander Asset Management, we will continue to develop value-added products through our global and open product platform, also boosting the institutional business and strengthening our alternative product offering. We will continue with Santander GO's open architecture strategy, which has already reached more than EUR 2 billion, and once our ESG strategy has been developed, we will continue to promote the sustainable range in which we are experiencing very significant demand. On the other hand, we will continue to expand our GMAS systematic investment team and consolidate our presence in two hubs, one in Europe and the other in Latin America.
- In insurance, we have the opportunity to continue to increase penetration in our customer base. With 20 million clients and around 30 million insurance policies, we believe we have high growth potential in non-credit related business, such as auto, SMEs, as well as more traditional segments. In pensions, we have also made headways in several countries, where macroeconomic trends foresee significant growth.
- The digital transformation of our business, with investments in digital platforms and developments such as online and mobile private banking.

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 'Results' of this chapter.

In addition, the results by business areas in section 4 'Financial information by segment' 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 51.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.
Underlying RoE	Underlying 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 excluding results from operations outside the ordinary course of our business.
RoTE (Return on Tangible Equity)	Attributable profit to the parent [B] / Average stockholders' equity [A] (excl. minority interests)	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 of our business.
RoA (Return on Assets)	Consolidated profit / Average total assets	This metric 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 assets in generating profit over a given period.
Underlying RoA	Underlying consolidated profit / Average total assets	This metric measures the profitability of a company as a percentage of its total assets excluding results from operations outside the ordinary course of our business. It is an indicator that reflects the efficiency of the Bank's total assets 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 results from operations outside the ordinary course of our business) to the Group's risk weighted assets.
RoRAC (Return on Risk-Adjusted Capital)	Underlying consolidated profit / Average economic capital	This is the return on economic capital required internally (necessary to support all risks inherent in our activity).
Economic Value Added	Underlying consolidated profit – (average economic capital x cost of capital)	Economic value added is the profit generated in excess of the cost of economic capital employed. This measures risk adjusted returns in absolute terms, complementing the RoRAC approach.
Efficiency (Cost-to-income)	Operating expenses [C] / 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. Excluding the adjustment to the valuation of goodwill.
C. Operating expenses = Administrative expenses + amortizations.

Profitability and efficiency [A B] (EUR million and %)	2020	2019	2018
RoE	**-9.80%**	**6.62%**	**8.21%**
Attributable profit to the parent	-8,771	6,515	7,810
Average stockholders' equity (excluding minority interests)	89,459	98,457	95,071
Underlying RoE	**5.68%**	**8.38%**	**8.48%**
Attributable profit to the parent	-8,771	6,515	7,810
(-) Net capital gains and provisions	-13,852	-1,737	-254
Underlying attributable profit to the parent	5,081	8,252	8,064
Average stockholders' equity (excluding minority interests)	89,459	98,457	95,071
RoTE	**1.95%**	**11.44%**	**11.63%**
Attributable profit to the parent	-8,771	6,515	7,810
(-) Goodwill impairment	-10,100	-1,491	46
Attributable profit to the parent (excluding goodwill impairment)	1,329	8,006	7,764
Average stockholders' equity (excluding minority interests)	89,459	98,457	95,071
(-) Average intangible assets	21,153	28,484	28,331
Average stockholders' equity (excl. minority interests) - intangible	68,306	69,973	66,740
Underlying RoTE	**7.44%**	**11.79%**	**12.08%**
Attributable profit to the parent	-8,771	6,515	7,810
(-) Net capital gains and provisions	-13,852	-1,737	-254
Underlying attributable profit to the parent	5,081	8,252	8,064
Average stockholders' equity (excl. minority interests) - intangible	68,306	69,973	66,740
RoA	**-0.50%**	**0.54%**	**0.64%**
Consolidated profit	-7,708	8,116	9,315
Average total assets	1,537,552	1,508,167	1,442,861
Underlying RoA	**0.40%**	**0.65%**	**0.66%**
Consolidated profit	-7,708	8,116	9,315
(-) Net capital gains and provisions	-13,866	-1,710	-231
Underlying consolidated profit	6,158	9,826	9,546
Average total assets	1,537,552	1,508,167	1,442,861
RoRWA	**-1.33%**	**1.33%**	**1.55%**
Consolidated profit	-7,708	8,116	9,315
Average risk weighted assets	578,517	609,170	598,741
Underlying RoRWA	**1.06%**	**1.61%**	**1.59%**
Consolidated profit	-7,708	8,116	9,315
(-) Net capital gains and provisions	-13,866	-1,710	-231
Underlying consolidated profit	6,158	9,826	9,546
Average risk weighted assets	578,517	609,170	598,741
RoRAC	**8.51%**	**12.91%**	**12.60%**
Consolidated profit	-7,708	8,116	9,315
(-) Net capital gains and provisions	-13,866	-1,710	-231
Underlying consolidated profit	6,158	9,826	9,546
Average economic capital	72,389	76,105	75,755
Economic value added	**-2,529**	**3,509**	**2,835**
Underlying consolidated profit	6,158	9,826	9,546
(-) Average economic capital x cost of capital	-8,687	-6,317	-6,711
Average economic capital	72,389	76,105	75,755
Cost of capital	12.00%	8.30%	8.86%
Efficiency ratio	**47.0%**	**47.0%**	**47.0%**
Underlying operating expenses	20,967	23,280	22,779
Operating expenses	21,130	23,280	22,779
Net capital gains and provisions impact in operating expenses [C]	-163	—	—
Underlying total income	44,600	49,494	48,424
Total income	44,279	49,229	48,424
Net capital gains and provisions impact in total income [C]	321	265	—

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 51.c to the consolidated financial statements.

Efficiency ratio by business area (EUR million and %)

	2020			2019		
	%	Total income	Operating expenses	%	Total income	Operating expenses
EUROPE	**52.4**	**19,693**	**10,314**	**52.6**	**21,001**	**11,044**
Spain	53.2	6,782	3,607	53.6	7,506	4,021
Finance	42.3	4,685	1,981	43.3	4,710	2,038
United Kingdom	60.9	4,339	2,642	60.0	4,727	2,835
Portugal	45.5	1,296	590	45.3	1,375	623
Poland	41.3	1,524	629	40.4	1,717	693
NORTH AMERICA	**42.1**	**11,011**	**4,631**	**42.8**	**11,604**	**4,968**
US	41.8	7,360	3,079	43.3	7,605	3,297
Mexico	42.5	3,651	1,552	41.8	3,998	1,671
SOUTH AMERICA	**35.8**	**14,845**	**5,312**	**36.1**	**18,425**	**6,656**
Brazil	32.6	10,866	3,541	33.0	13,951	4,606
Chile	39.8	2,263	900	40.6	2,539	1,031
Argentina	56.0	1,128	632	57.9	1,316	762

Underlying RoTE by business area (EUR million and %)

	2020			2019		
	%	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	**5.48**	**2,656**	**48,424**	**10.00**	**4,878**	**48,794**
Spain	3.30	517	15,674	10.48	1,585	15,124
Finance	12.52	1,085	8,663	15.26	1,314	8,611
United Kingdom	3.85	530	13,755	7.28	1,077	14,795
Portugal	8.73	338	3,875	12.80	525	4,101
Poland	5.05	162	3,204	11.23	349	3,104
NORTH AMERICA	**7.12**	**1,492**	**20,971**	**8.52**	**1,667**	**19,556**
US	4.66	731	15,690	4.78	717	14,997
Mexico	14.38	762	5,298	20.61	950	4,607
SOUTH AMERICA	**18.07**	**2,927**	**16,198**	**20.58**	**3,924**	**19,065**
Brazil	19.16	2,113	11,027	21.16	2,939	13,888
Chile	13.19	432	3,278	18.08	630	3,485
Argentina	26.24	179	681	22.20	144	647

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)	Non-performing loans and advances to customers, customer guarantees and customer commitments granted / 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	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	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	Allowances for loan-loss provisions over the last 12 months / 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 %)	2020	2019	2018
NPL ratio	**3.21%**	**3.32%**	**3.73%**
Non-performing loans and advances to customers, customer guarantees and customer commitments granted	31,767	33,799	35,692
Total risk	989,456	1,016,507	958,153
Coverage ratio	**76%**	**68%**	**67%**
Provisions to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	24,272	22,965	24,061
Non-performing loans and advances to customers customer guarantees and customer commitments granted	31,767	33,799	35,692
Cost of credit	**1.28%**	**1.00%**	**1.00%**
Underlying allowances for loan-loss provisions over the last 12 months	12,173	9,321	8,873
Allowances for loan-loss provisions over the last 12 months	12,431	9,321	8,873
Net capital gains and provisions impact in allowances for loan-loss provisions	-258	—	—
Average loans and advances to customers over the last 12 months	952,358	935,488	887,028

NPL ratio by business areas (EUR million and %)

	2020			2019		
	%	customers customer guarantees and customer commitments granted	Total risk	%	customers customer guarantees and customer commitments granted	Total risk
EUROPE	**3.15**	**22,792**	**722,429**	**3.25**	**23,519**	**722,661**
Spain	6.23	13,796	221,341	6.94	14,824	213,668
Santander Consumer	2.36	2,455	104,032	2.30	2,416	105,048
United Kingdom	1.21	3,202	263,671	1.01	2,786	275,941
Portugal	3.89	1,584	40,693	4.83	1,834	37,978
Poland	4.74	1,496	31,578	4.31	1,447	33,566
NORTH AMERICA	**2.23**	**2,938**	**131,611**	**2.20**	**3,165**	**143,839**
US	2.04	2,025	99,135	2.20	2,331	105,792
Mexico	2.81	913	32,476	2.19	834	38,047
SOUTH AMERICA	**4.39**	**5,688**	**129,575**	**4.86**	**6,972**	**143,428**
Brazil	4.59	3,429	74,712	5.32	4,727	88,893
Chile	4.79	2,051	42,826	4.64	1,947	42,000
Argentina	2.11	93	4,418	3.39	171	5,044

Coverage ratio by business areas (EUR million and %)

	2020			2019		
	%	customers, customer guarantees and customer commitments granted	customers customer guarantees and customer commitments granted	%	customers, customer guarantees and customer commitments granted	customers customer guarantees and customer commitments granted
EUROPE	**57.3**	**13,056**	**22,792**	**49.8**	**11,714**	**23,519**
Spain	47.1	6,495	13,796	41.1	6,098	14,824
Santander Consumer	111.0	2,726	2,455	106.1	2,563	2,416
United Kingdom	47.9	1,535	3,202	36.5	1,018	2,786
Portugal	66.5	1,053	1,584	52.8	969	1,834
Poland	70.7	1,058	1,496	66.8	967	1,447
NORTH AMERICA	**182.5**	**5,363**	**2,938**	**153.0**	**4,842**	**3,165**
US	210.4	4,261	2,025	161.8	3,773	2,331
Mexico	120.8	1,103	913	128.3	1,069	834
SOUTH AMERICA	**97.4**	**5,540**	**5,688**	**88.4**	**6,164**	**6,972**
Brazil	113.2	3,880	3,429	99.8	4,717	4,727
Chile	61.4	1,260	2,051	56.0	1,090	1,947
Argentina	275.1	257	93	124.0	212	171

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 and Santander Insurance to Santander, net of taxes, excluding Private Banking customers	Metric to assess Wealth Management & Insurance's total contribution to Group's profits

A Tangible book value = Stockholders' equity - intangible assets.

Other indicators (EUR million and %)	2020	2019	2018
TNAV (tangible book value) per share [B]	**3.79**	**4.18**	**4.01**
Tangible book value	65,568	72,384	67,912
Number of shares excl. treasury stock (million) [B]	17,312	17,332	16,930
Price / tangible book value per share (X)	**0.67**	**0.86**	**0.95**
Share price (euros) B	2.538	3.575	3.807
TNAV (tangible book value) per share [B]	3.79	4.18	4.01
Loan-to-deposit ratio	**108%**	**114%**	**113%**
Net loans and advances to customers	916,199	942,218	882,921
Customer deposits	849,310	824,365	780,496
PAT + After tax fees paid to SAN (in WM&I) (Constant EUR million)	**2,145**	**2,179**	
Profit after taxes	909	889	
Net fee income net of tax	1,236	1,289	

B. 2018 and 2019 data adjusted for the capital increase in December 2020.

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 2020 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 1 '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 2020 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 1 'Economic, regulatory and competitive context'.

SUPPORTING INITIATIVES WITH A SOCIAL IMPACT

Agroatlas is a green bean producer with almost 2,000 employees, 70% of whom are women. Its founder, Ricardo Menoyo, has made a firm commitment to improve lives through initiatives that promote equal opportunity. Backed by the bank's Smart Fund, he has received funding to boost his expansion plans.

Hafssa and Llatifa collecting bobby beans at a plant in Agadir, Morocco.

Risk management and compliance

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1. Risk management and compliance overview

Santander's Risk Management and Compliance function is key to making sure we remain a robust, safe and sustainable bank that helps people and businesses prosper

In 2020, our priority was safeguarding the health and interests of our stakeholders and mitigating the economic and financial impact of the covid-19 crisis.

Santander supported 6 million customers across our markets by providing liquidity, credit facilities and payment deferrals through government and internal programmes aimed to relieve the economic consequences of the pandemic.

Santander's risk management, compliance and control model contributes to sustainable growth, the conservation of the environment and the protection of human rights.

1.1 Executive summary and 2020 highlights

This section provides an overview of Santander's risk management and risk profile in 2020 based on key risk factors, indicators and developments.

More details on each factor and our analysis of top and emerging risks can be found in the sections of this chapter using the links provided.

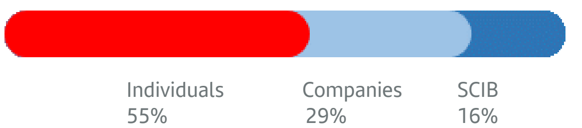
Credit Risk

Section 3

Our strong risk culture, a proven track record in crisis management and diversification make us more resilient.

Total risk by region[6]

Total risk by segment



In a complex environment, impact on credit quality indicators was limited, owing to good performance of customer relief programmes and collections and recoveries planning.

Non-performing Loans

Loan growth in constant euros and customer support programmes drove the rate down.

Cost of credit[7]

Cost of credit improved on estimates made at the beginning of the pandemic.

[5] Includes gross lending to customers, guarantees and documentary credits.
[6] Others' not included represent 1% (Santander Global Platform and Corporate Centre).
[7] Cost of credit is the ratio of 12-month loan-loss provisions to average lending on the same period.

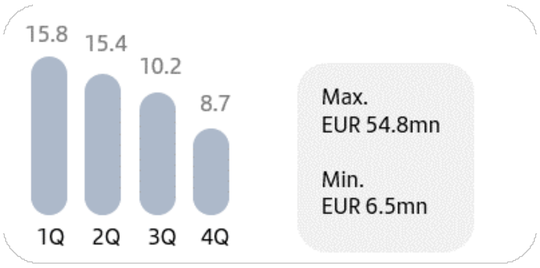
Market, structural and liquidity risk

Section 4

Low market risk: SCIB's trading is mainly interest-rate driven and focused on serving clients' needs.

2020 Avg. Value at Risk (VaR)

EUR million



VaR was stable despite market volatility in Q1'20 caused by the covid-19 pandemic.

▲168% Ample short-term Group liquidity ratio (LCR) +21 pp in 2020

Santander maintained a comfortable liquidity position. Ratios remained well above regulatory limits, thanks to customer deposits and robust, diversified buffers.

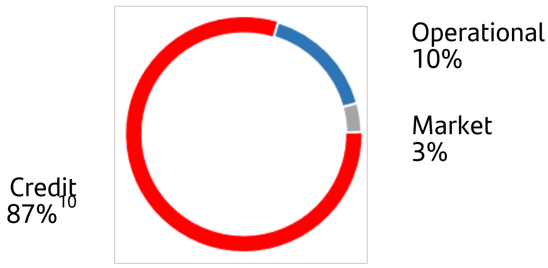
Our balance sheet kept its prudent structure and mitigated the potential effect of changing interest rates on net interest income and equity.

Capital risk

Section 5

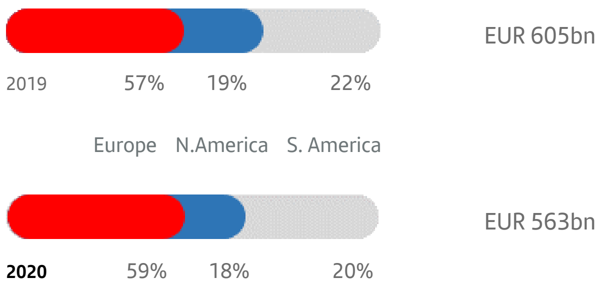
RWA by risk type[8]

Credit risk, which is our core business, stands out among RWA.



RWA by region[9]

Diversified and balanced distribution.



CET1 phased-in 2020[11]

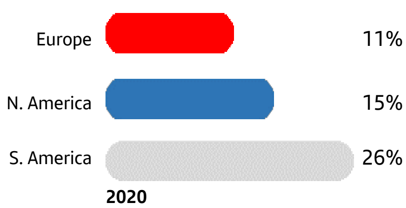
▲12.34%

▲69 bps in 2020, placing CET1 above our 11-12% target

The CET1 ratio increased due to strong organic capital generation based on underlying profits and efficient RWA management.

The strength of our diversified retail banking business model is demonstrated by our positive performance in all 7 regulatory stress tests performed since 2008.

RoRAC[12]



▼8.5%

▼4 pp in 2020

RoRAC allows to compare the return on loans, customers, portfolios and businesses on a like-for-like basis, helping to identify those that obtain a risk-adjusted return above the cost of capital.

[8] Risk weighted assets.
[9] 'Others' not included, represent 3% (Santander Global Platform & Corporate Centre).
[10] Includes counterparty risk, securitizations and amounts below deduction thresholds.
[11] Phased-in IFRS 9 ratios include the temporary treatment on the impact of IFRS 9, calculated in accordance with Article 473 bis of the Capital Requirements Regulation (CRR), and subsequent amendments introduced by the Regulation (EU) 2020/873 (known as the "CRR Quick Fix").
[12] The Group's total RoRAC includes the operative units, the Corporate Centre and SGP, reflecting the Group's economic capital and its return.

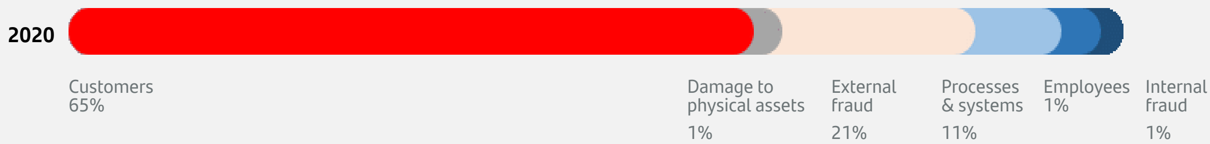
Operational risk

Section 6

Our operational risk profile remained stable despite the current backdrop.
To reinforce controls, we focused on:

Effective operational risk management	Successful deployment of business continuity plans. New operating guidelines in all our subsidiaries.
Customer service	Availability and performance, especially in online banking and at call centres. Processing of new loans granted through customer support programmes.
Cyber and data security plans	Cyber threats and risks stemming from increased remote working. Stronger detection, response and protection mechanisms.
Fraud management	Reinforced fraud control (data protection, patching, browsing control). Monitoring as a fundamental preventive measure.

Operational losses by Basel category



Compliance and conduct risk

Section 7

Initiatives in 2020:

- Compliance & Conduct worked to be part of the solution to the crisis. With special focus on customers facing hardship, it implemented and monitored measures relating to covid-19 relief programmes.
- Our core subsidiaries applied the common standards of the single channel model called Canal Abierto.
- One FCC, our strategic transformation plan that includes homogenous sanctions controls (embargoes or restrictions on international activity).
- We revised our policies on data protection. Our subsidiaries applied new guidelines and operating criteria according to supervisory guidance.

Model risk

Section 8

- Our strategic Model Risk Management plan, MRM 2.0, made further progress. We accomplished two objectives: better internal model management and compliance with supervisory expectations.
- Further digitalization enhanced real-time decision-making.

Strategic risk

Section 9

- In 2020, our focus was the uncertain economic outlook brought on by covid-19, which acted as a catalyst for previously identified risks.
- The main tasks we carried out were challenging strategic plans, identifying and monitoring top risks, assessing and validating new products and coordinating the risk assessment of corporate development transactions.

Grupo Santander's risk profile could be affected by the macroeconomic environment, regulations and competition.

This financial information, prepared with the same Group-wide principles, aggregates figures for our various markets and business subsidiaries, based on accounting data and management system reporting.

The segments shown 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.

The notes to the consolidated financial statements contain additional information on Grupo Santander's provisions, legal proceedings, taxes and other risks.

For additional information on segments, please see '4.1 Description of segments' of the Economic and financial review chapter.

1.2 2020 key achievements

We delivered simple, innovative processes that empowered our people to make better and faster decisions for our customers and created sustainable value for our shareholders.

Covid-19 crisis management

- Unprecedented response: EUR 112bn in customer support measures
- Continuous adapted reporting to the board and committees
- Clearer segmentation to identify vulnerable industries/customers
- Preparedness for collections and recoveries
- Impact estimation under various scenarios to determine provision needs

Operational excellence

- Our target operating model prepared us for a turn in the cycle with pre-approvals and early warnings
- Digitalisation reduced *time to yes* and *time to cash* in core mortgage markets
- Cybersecurity risk challenge and oversight helped monitor automation, data gathering and reporting
- IT, cyber, third-party, internal control and fraud risk operating models were reinforced

Creating value

- Capital accuracy strengthened key models according to ECB Model Simplification Plan
- Capabilities improved to handle climate risk, one of our top risks
- Our strategic One FCC and Conduct Risk transformation projects set common standards

New ways of working

- One Santander: global models & data hub and SCIB hub
- New regional CRO and leads: Europe, N. America and S. America
- More efficient, integrated risk compliance processes
- Our risk culture is key to managing the covid-19 crisis successfully

1.3 Santander's top and emerging risks

Our forward-looking risk management and control practices detect, examine and monitor threats to our strategic plan through regular analysis of top and emerging risks under various scenarios. The aim is to identify and understand relevant internal and external threats that could undermine our profitability, solvency and strategy.

Top risk detection is a bottom-up process. It considers risks in our subsidiaries and across Grupo Santander; these are identified in our first line of defence and then challenged by the second line of defence. We also use those risks as inputs for idiosyncratic scenarios in our ICAAP, ILAAP and the Group's recovery plan.

The pandemic caused an unprecedented downturn in the global economy while accelerating changes long underway. It acted as a catalyst for previously identified threats (detailed below), whose severity varies with the duration and shape of our recovery scenarios. It is already changing market dynamics and consumer behaviours, and accelerating the digitalization of the economy.

Our top management monitors and takes mitigating actions against major strategic risks such as:

A longer and more severe ("L" shaped) economic recession: the worldwide spread of the coronavirus and the measures taken to contain it brought on an economic downturn unlike any other. If the pandemic grows more intense, it may lead to a deeper, more protracted economic recession, political instability and global protectionism in core markets. Particularly, in the eurozone, under persistently low interest rates and potential tensions on trade and financial relations with the UK after Brexit, as well as in Latin American markets, also affected by uncertainty.

Balanced diversification between mature and developing markets and our product mix make Santander resilient to macroeconomic risks. Several mitigating actions we took this year helped reduce the severity of our exposure. These include:

- Robust risk policies, procedures and proactive risk management, which keep our risk profile within the parameters of our risk appetite statement. Amid the pandemic, Grupo Santander shared with subsidiaries guidelines on treating affected assets, credit risks models, loan moratoria and other topics. This promoted the exchange of best practices and proved to be key in managing the crisis.

- Strengthened disciplined risk management and recovery and collection plans.

- Frequent follow-up meetings to monitor the liquidity risk profile, contingency plans and commercial, market and macroeconomic dynamics.

- Continuous monitoring of the political and social situation in countries where we hold material exposures. Where necessary, we adjusted limits and exposures to our risk appetite.

Regulatory capital requirements: Despite the temporary flexibility of central banks and regulatory bodies to aid the financial system, we remain mindful of risks stemming from ever intense requirements of new Basel IV guidelines and the Targeted Reviews on Internal Models (TRIM).

Our key mitigating actions were:

- Risk contribution to capital optimization: models enhancement and management, market and operational risk initiatives, and Credit Valuation Adjustment (CVA) improvement.

- Managing capital to offset the effects of covid-19.

- Adapting risk models to upcoming regulatory requirements.

Greater cyber-risk exposure: The new environment, with more people working remotely as a consequence of covid-19, heightens exposure to cyberattacks, phishing and malware. Espionage, data leaks, system failures and other digital risks are gaining importance in finance, much less the entire economy.

Our key mitigating actions were:

- Expanding Global Cybersecurity alerts and monitoring to prevent attacks.

- Making defence capabilities more agile, sustainable and risk-based to further standardize and strengthen internal defences, controls and insider threat protections.

Digital transformation and new competitive environment: In this new environment spurred on by covid-19, competition from existing players and new entrants increased, redefining business, customer experience and market expectations and accelerating the digitalization of companies. Regulation plays a key role, and can sometimes create asymmetries between new and traditional competitors.

Our key mitigating actions were:

- Digitalising the bank to become a global platform. This has become paramount in this environment, and our partnerships and joint ventures are playing an important role in our transformation.

- Prioritizing e-commerce lending, SMEs initiatives, collections reinforcement and other projects to mitigate the effects of covid-19.

- Continuously embedding a group-wide culture of rapid experimentation, sharing best practises and business solutions.

Risks related to climate change: The initiatives governments, international organizations, supervisors and regulators are launching to assess the impact of climate change on the financial sector demand greater transparency and reporting of the risks it might pose to banks performance, resilience and business strategies. Proactive climate risk management is vital so banks can identify, and respond to, risks in a timely manner.

Climate-related risks fall into two categories: (1) risks relating to the transition to a low-carbon economy and (2) risks from the physical impacts of climate change.

In an interconnected world where global problems demand global solutions, the pandemic highlighted the importance of coordination and cooperation to combat the health crisis and its economic consequences and therefore, the need to address climate change risks under that approach to avoid its potential consequences.

Our key mitigating actions were:

- Direct involvement of our top management through the established governance.
- A climate project jointly led by Responsible Banking, SCIB and Risk to develop risk measurement methodologies, climate related metrics, strategy, policies and products. The project also progresses in implementing the recommendations of the Task Force for Climate-related Financial Disclosures, the European Central Bank and other authorities on climate-related and environmental
- Continue disclosing our progress in integrating climate initiatives into our processes and policies.
- Working together with customers to support them in their transition to reduce carbon emissions. Supporting inclusive, sustainable growth and the transition to a low-carbon economy by financing renewable energy and smart infrastructures, always mindful of social and environmental risks and rewards.
- Taking an active role in international forums and working groups to promote the energy transition scheme, including the United Nations Environment Programme Finance Initiative (UNEP FI) pilot to develop scenarios, models and metrics to assess climate-related risks and opportunities in the future.

Additionally, we identified "game changers" that could shape our long-term strategy and transformation plan, such as: asymmetry on natural resource availability, new consumer behaviours, the changing geopolitical landscape, political fragmentation, social and demographic changes, legal loopholes and others.

2. Risk management and control model

Our risk management and control model is underpinned by common principles, a strong risk culture, a solid governance structure and advanced risk management processes and tools

2.1 Risk principles and culture

Our risk principles below are compulsory. They comply with regulatory requirements and are inspired by best market practices:

1. **All employees are risk managers.** Employees must understand the risks inherent in their jobs, avoiding them wherever the impact is unknown or exceeds our risk appetite.
2. **Engagement of top management,** who must act and communicate to manage risks consistently, supervise our risk culture and make sure we keep our risk profile within our risk appetite.
3. **Independent risk management and control functions**, consistent with our model of three lines of defence, which is further explained in section 2.3 'Risk and Compliance governance' of this chapter.
4. **A forward-looking, comprehensive approach to risk management and control** for all businesses and risk types.
5. **Detailed, timely information** to detect, assess, manage and report risks to the appropriate level of management.

Grupo Santander's holistic control structure stands on these principles, plus a series of strategic tools and procedures embedded in our risk appetite statement, such as: our risk profile assessment, scenario analysis, our risk reporting structure and the annual planning and budget process.

Risk culture - *Risk Pro*

Our strong risk culture, called *Risk Pro*, is based on the principle that all employees are risk managers. It is part of *The Santander Way* and covers all risks to promote socially responsible management that supports long-term sustainability.

More details available in the 'Risk pro: our risk culture' section of the Responsible Banking chapter.

2.2 Risk factors

Grupo Santander's classification of risks ensures effective risk management, control and reporting. Our risk framework distinguishes these key risk types:

1 **Credit risk** relates to financial loss arising from the default or credit quality deterioration of a customer or counterparty, to which Santander has directly provided credit or assumed a contractual obligation.

2 **Market risk** results from changes in interest rates, exchange rates, equities, commodities and other market factors, and from their effect on profits or capital.

3 **Liquidity risk** occurs if liquid financial resources are not enough to meet due obligations or can only be obtained at a high cost.

4 **Structural risk** relates to the changing value or margin of assets or liabilities in the banking book owing to changes in market factors and balance sheet behaviour. It includes risks from insurance, pension activities or an inadequate quantity or quality of capital to fulfil internal business objectives, regulatory requirements or market expectations.

5 **Operational risk** is the possibility of losses from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk and conduct risk.

6 **Regulatory compliance risk** is the risk of not fulfilling legal and regulatory requirements and supervisors' expectations, and may lead to fines, financial penalties or other sanctions.

7 **Model risk** involves potential losses resulting from inaccurate predictions that lead to sub-optimal decision-making, or from a misuse or inadequate implementation of a model.

8 **Reputational risk** consists of potential losses from damage to its reputation amongst employees, customers, shareholders/investors and the wider community.

9 **Strategic risk** relates to losses or damage to the medium- and long-term interests of key stakeholders owing to strategic decision-making, poor execution of strategy or failure to adapt to external developments.

We also consider environmental and climate-related risk drivers (whether physical or transition-led) as factors that could impact the exiting risks in the medium and long-term.

2.3 Risk and Compliance governance

Grupo Santander's robust risk and compliance governance structure allows us to conduct effective oversight in line with our risk appetite. It stands on three lines of defence, a structure of committees and strong Group-subsidiary relations, guided by our risk culture, *Risk Pro*.

Lines of defence

Our model of three lines of defence effectively manages and controls risks:

First line	Second line	Third line
Businesses and functions that originate risks make up the first line of defence, which identifies, measures, controls, monitors and reports risks. It adheres to all risk management policies and procedures, making sure risks fit within risk appetite and other limits.	The Risk and Compliance & Conduct functions form the second line of defence to provide independent oversight and challenge to risk management decisions from the first line. The second line of defence ensures risks are managed according to risk appetite, strenghtening our risk culture across Grupo Santander.	The Internal Audit function is independent to assure senior management about the quality and effectiveness of internal controls, risk management. governance and systems, helping to safeguard our value, solvency and reputation.

The Risk, Compliance & Conduct and Internal Audit functions are separate and independent. Each has its own direct access to the board of directors and its committees.

Risk and Compliance committees structure

The board of directors' duties include risk and compliance management and control. It regularly revises and approves risk appetite and frameworks, strengthening and promoting our risk culture. In its duties, the board is supported by the risk supervision, regulation and compliance committee and the Grupo Santander executive committee.

For more details, see section 4.8 'Risk supervision, regulation and compliance committee activities in 2020' of the chapter on Corporate governance.

The **Group chief risk officer (Group CRO)** is responsible for devising risk strategy, overseeing all risks, and challenging and advising business lines on their risk management.

The **Group chief compliance officer (Group CCO)** promotes the adherence to rules, supervisory requirements, principles of good conduct and values. This role determines the compliance and conduct strategy, and independently oversees and challenges the compliance and conduct risk management of the first line of defence.

Both the Group CRO and CCO have direct access, and report to, the risk supervision, regulation and compliance committee and the board of directors.

The executive risk, risk control and general compliance committees are also at the top of our risk and compliance governance, with authority delegated by the board of directors. Further detail is provided in the table below:

	Executive risk committee (ERC)	Risk control committee (RCC)	General compliance committee
Duties:	This committee is responsible for risk management duties delegated by the board, being authorized to accept, modify or scale those actions or transactions that may expose the entity to a relevant risk as well as the most significant models. It takes the highest-level risk-related decisions within the group's risk appetite.	This committee is responsible for risk control and for providing a holistic view of all risks. It determines if the risks business lines are being managed according to risk appetite. It also identifies, monitors and evaluates the impact of current and emerging risks on the group's risk profile.	The committee is responsible for reviewing significant compliance and conduct risk events, and evaluating related measures. It devises and assesses corrective actions for compliance risks owing to shortcomings in management and control or new risks.
Chair:	CEO	Group CRO	Group CCO
Composition:	Nominated executive directors and other senior managers from the Risk, Finance and Compliance & Conduct functions (the Group CRO has veto power over committee resolutions).	Senior managers from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions (CRO from subsidiaries regularly report on their own risk profiles).	Senior managers from the Compliance & Conduct, Risk, Accounting and Management functions. The committee chair has a casting vote over committee resolutions.

Risk functions have forums and regular meetings to manage and control the risks under their scope. Their responsibilities include:

- Reporting to the Group CRO, Group CCO, the risk control committee and general compliance committee on risk management according to risk appetite.
- Monitoring each risk factor regularly.
- Overseeing measures to meet supervisor and auditor expectations.

Grupo Santander may set up additional governance for special cases:

- Amid the covid-19 pandemic, coordination and communication with our subsidiaries is essential to making sure our actions were effective, underpinned by written communication, meetings, reporting and enhanced governance. In early March, we implemented specific weekly reporting mechanisms so all units could provide detailed, standardized information.

  We monitored the pandemic intensively through special situation forums such as the credit risk war room, in addition to our regular governance framework. Close coordination between our subsidiaries and Group-wide and local contingency plans (including scenario analysis) strengthened resources and governance. As the crisis developed, it became a multidisciplinary task force composed of members from relevant functions to steer units in managing credit risk with these special work streams in place: i) monitoring and reporting; ii) sectorial intelligence; iii) portfolio management; iv) credit strategy; v) regulatory assurance; vi) credit forecasting and vii) collections and recoveries.

- Furthermore, in view of Brexit, Grupo Santander and Santander UK set up steering committees and separate working groups to monitor the transition; develop contingency plans; and escalate and make decisions to minimise impact on our business and customers.

The Group's relationship with its subsidiaries

Our subsidiaries' risk and compliance management and control models are aligned with frameworks established by the group's board of directors. Their own boards enforce them in consideration of local market conditions and regulations.

As part of the aggregate supervision function for all risks, Grupo Santander challenges and validates subsidiaries' policies and transactions.This creates a common risk management and control model across the group.

In 2020, a new approach was taken in the relationship with our subsidiaries with the creation of three regions (Europe, North America and South America) and the appointment of three risk regional leaders.The aim is to enhance the identification of synergies under a common operating model and common platforms, leveraging the Group's global and regional scale, as well as simplifying processes and strengthening control mechanisms to support business growth while optimizing capital allocation and better serving our customers.

In this sense, each local CRO must regularly interact with, and report to, the risk regional leaders, the Group CRO and the Group CCO. Additionally, periodic follow-up meetings are held between the different risk areas and the local counterparts.

Furthermore, the Group CRO, the Group CCO, and Risk Regional Leaders take part in appointments, target setting and local CRO evaluations and remuneration to make sure risks are appropriately controlled.

We undertook various initiatives to enhance the relationship between the Group and its subsidiaries and apply an advanced risk management model:

- It is worth highlighting, the close collaboration in relation to covid-19 to share best practices, experiences, provide support in scenario analysis, additional provision estimations, etc.
- Development of organizational structures, subsidiary benchmarks and a strategic vision of the Risk and Compliance function to promote the most advanced and efficient risk management infrastructures and practices.
- Cooperation to share best practices, strengthen processes and drive innovation for a quantitative impact.
- Identification of talent in the Risk and Compliance teams, encouraging international mobility through the global risk talent programme.
- Risk Subject Matter Experts to bring together a community of specialists.

For more details on our relationship with our subsidiaries, see section 7 'Group structure and internal governance' of the chapter on Corporate Governance.

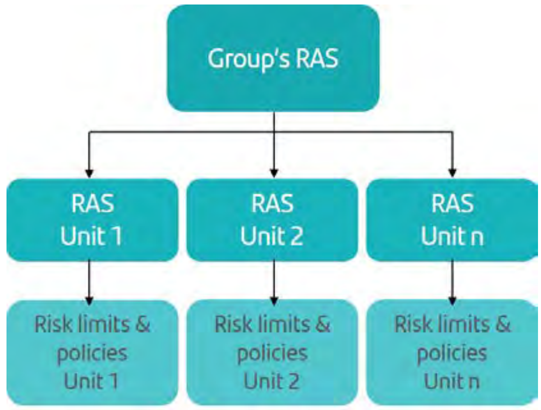
2.4 Risk management processes and tools

Grupo Santander has these effective risk management processes and tools:

Risk appetite and structure of limits

Risk appetite is the volume and type of risks deemed prudent to assume for our business strategy, even under unexpected circumstances. It considers adverse scenarios that could have a negative impact on capital and liquidity, profitability and/or the share price.

The board sets the group's risk appetite statement (RAS) every year. The boards of our subsidiaries also set their own risk appetites annually, in line with the consolidated Group-wide RAS. Each of those risk appetites cascades down into specific, detailed limits and policies based on risk type, portfolio and segment.



Business model and risk appetite fundamentals

Grupo Santander's risk appetite is consistent with our risk culture and our unique business model built on customer focus, scale and diversification. At the core of our risk appetite are:

- a medium-low target risk profile that is predictable, centred on retail and commercial banking, internationally diversified operations and strong market share;
- stable, recurrent earnings and shareholder remuneration, sustained by sound capital, liquidity and sources of funding;
- self-run subsidiaries with their own sources of capital and liquidity and risk profiles that do not compromise Grupo Santander's solvency;
- an independent risk function with active senior management that embeds a strong risk culture and drives a sustainable return on capital;
- a global, holistic view through extensive control and monitoring of risks, businesses and markets;
- a focus on products we know well;
- a conduct model that protects our customers;
- a remuneration policy that reconciles employees and executives' interests to risk appetite and long-term results.

Santander's risk appetite principles

The principles informing our risk appetite are:

- **the board and senior management's responsibility** for risk appetite.
- **an enterprise-wide view, risk profile back-testing and challenge,** using quantitative metrics and qualitative indicators.
- **a forward-looking approach** based on plausible assumptions and adverse/stress scenarios to reflect our desired risk profile in the short and medium term.
- **strategic and business plans** embedded in daily management by policies and limits.
- **common standards** aligning each subsidiary with Grupo Santander.

- **regular reviews, regulatory requirements and best practices** with mechanisms in place to keep the risk profile stable and mitigate non-compliance.

Limits structure, monitoring and control

Our risk appetite is expressed in qualitative terms and limits structured on these five core elements.

1 **Earnings volatility**
The maximum loss Grupo Santander can tolerate in an acute stress scenario.

2 **Solvency**
- The minimum capital position Grupo Santander can tolerate in an acute stress scenario.
- The maximum leverage we can accept in an acute scenario.

3 **Liquidity**
- Minimum structural liquidity position.
- Minimum liquidity horizon Grupo Santander is willing to accept in 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**
- Maximum operational risk losses.
- Maximum risk profile.
- Non-financial risk indicators:
  - Fraud
  - Technological
  - Security and cyberrisk
  - Reputational
  - Others

While risk appetite limits are regularly monitored, specialized control functions report on risk profile and compliance with limits to the board and its committees every month.

Risk appetite limits cascade down to business units, risk types and portfolios. This makes risk appetite an effective tool for managing risks. Management policies and limits are directly based on the principles and limits in the risk appetite statement (see sections 3.2 'Credit risk management', 4.2 'Market risk management' and 4.4 'Structural balance sheet risk management' of this chapter).

Key 2020 developments

Grupo Santander thoroughly reviewed the impact of covid-19 and the adequacy of our risk appetite to cope with the new environment. Risk appetite limits remained broadly unchanged despite extraordinarily challenging conditions. Management focused on enhancing control over market volatility, better representation and visibility of emerging risks such as cyber security and other non-financial risks.

Our risk appetite statement also strengthened our commitment to corporate social responsibility, the environment and the Paris Agreement's transition to a low-carbon and climate-resilient economy.

Risk profile assessment

In Grupo Santander we routinely identify risk types to systematically and objectively evaluate our risk profile. This helps address major threats to our business plan and strategic objectives.

Risk identification results inform our risk profile assessment (RPA), which involves all lines of defence. It reinforces our risk culture in analysing how risks evolve and identifying improvement areas. Our RPA methodology covers these areas:

- **Risk performance**, to understand residual risks by type with international standard and indicators.

- **Control environment**, to measure the target-operating model of our advanced risk management according to regulatory requirements and best market practices.

- **Forward-looking**, based on stress metrics and top risks to our strategic plan.

In 2020, we upgraded our control environment standards and reviewed risk performance metrics, focusing on strategic, compliance and conduct metrics. The inclusion of the "control score" in the non-financial risks control environment enabled us to better capture our risk profile.

Covid-19 had a negative impact on Grupo Santander's risk performance. In triggering all scenarios we consider (including those most severe), it led to a higher risk profile, driven by higher provisions and budgetary deviations with respect to profits. Non-financial risk profile remained stable, with operational losses below 2019 figures, and better liquidity performance.

The impact of covid-19 as a catalyst for relevant and emerging risks was also key in the deterioration of our risk profile in 2020. This deterioration has been contained by a solid control environment, especially in credit risk, driven by ATOMiC and collections and recovery preparation plans. All of this has allowed us to maintain our risk profile at a 'medium-low' level.

For more detail on Collections & Recoveries preparedness plans, please go to 3.2 'Credit risk management'.

Scenario analysis

The scenarios we analyse include macroeconomic and other variables that can affect our risk profile in those markets in which we operate. Scenario analysis is a useful tool for managing risks at all levels, so we can gauge our resilience under stressed conditions and formulate mitigating actions on income, capital and liquidity if needed. For this, our Research and Public Policy team is key in defining scenarios, as well as our governance and control, including the review of our top management and the three lines of defence.

Our scenario analyses are consistent and robust because we:

- create and run models that estimate how metrics such as credit losses will perform in the future.

- back-test and regularly challenge model results.

- rely on expert opinions and a vast understanding of our portfolios.

- exert robust control over models, scenarios, assumptions, results and mitigating management actions.

Grupo Santander has recurrently achieved excellent quantitative and qualitative results in the European Banking Authority (EBA) stress tests.

The global economic uncertainty caused by the covid-19 crisis made it exceptionally difficult for businesses to plan ahead. Our scenario analyses were key in identifying new action points, developing business responses, adjusting our risk strategy and preserving our strength and solvency.

Scenario analysis applications

Grupo Santander run scenario analysis at all levels under a forward-looking approach that helps us anticipate potential impacts on our solvency or liquidity. We run a systematic review of our risk exposure under a baseline scenario and various adverse and favourable scenarios.

These exercises are fundamental to several core processes:

- **Regulatory exercises** under the guidelines of the EU supervisor and national supervisors.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP), for which Grupo Santander follows its own methodology to assess capital and liquidity under stress scenarios and support planning and management.
- **Risk appetite**, which includes stressed metrics to set the maximum risk we can assume. The risk appetite and capital and liquidity scenario exercises are closely interrelated but have different frequencies and granularity.
- **Climate change analyses** to identify scenarios of risks and opportunities. Pilot analyses are covering the wholesale portfolio.

For more details, see 'Climate change and risk management' in this section located in 2.6 'Environmental and social risk' of this report

- **Recurrent risk management** in:
  - **budget and strategic planning:** when implementing a new risk approval policy, in Grupo Santander's risk profile assessment by senior management or when monitoring specific portfolios or lines of business
  - the systematic process of identifying and analysing our **top risks,** each of which is associated with a macroeconomic or idiosyncratic scenario to assess their potential impact.
  - the **recovery plan**, which is drawn up every year to determine Grupo Santander's tools to overcome an extremely severe financial crisis. The plan provides financial and macroeconomic stress scenarios with degrees of severity as well as idiosyncratic and systemic events.
  - **IFRS 9.** Since 1 January 2018, regulatory provision requirements have included scenario analyses in related processes, models and methodologies.
  - **Credit and market risk stress test exercises** not only as a response to regulatory exercises but also as a key tool integrated in Grupo Santander's risk management.

For more details on scenario analysis, see sections 3.2 'Credit risk management', 4.2 'Market risk management' and 4.6 'Liquidity risk management' in this report

Amid the covid-19 pandemic and following supervisory guidelines, our Research department created a set of additional macroeconomic scenarios under a long-term stable outlook approach to account for the observed worsening in most indicators and assess expected losses. Grupo Santander developed the scenarios through a robust process with great effort from the teams involved, ensuring their consistency.

For more details on scenario analysis during the covid-19 pandemic, see section 3.3 'Covid - 19 Credit risk management' in this report

Risk reporting structure

Our reporting continues to streamline processes, controls and reports to senior management. The Enterprise Wide Risk Management team updates and compiles the risk profile overview under a forward-looking approach so senior management can assess actual and future risks and take appropriate actions.

There are three main types of risk reports: the weekly and monthly risk reports distributed to senior management; subsidiaries' risk reports; and reports on each risk factor identified in the risk framework.

Our strong risk reporting structure is characterized by:

- balancing data, analysis and qualitative comments, including forward-looking measures, risk appetite alerts, limits and emerging risks.
- covering all risk factors in our risk framework.
- combining a holistic and reliable view with deeper analysis of each risk factor, our subsidiaries and markets.
- following the same structure and criteria and provides a consolidated view to analyse all risks.
- following risk data aggregation (RDA) criteria to report on metrics, ensuring data quality and consistency.

To respond to the covid-19 crisis, the reporting function, as acknowledged by the ECB's Single Supervisory Mechanism (SSM), increased the frequency, customized reports and produced new ones for the board and committees. It focused on critical topics such as macroeconomic conditions, health indicators, customer support measures and risk areas to enable close monitoring and easier decision-making.

2.5 Models & Data Unit

Grupo Santander created the Models & Data Unit on May 2020. Because of the close link between models and data, we merged Santander Analytics and the Data Unit. However, Internal Validation remains a separate team, allowing full independence between the first and second lines of defence.

The Models & Data Unit sets about having an end-to-end view of the models and the data value chain for better data governance, quality, and a cross-functional scope of risk and business models.

The unit's main priority is to develop regulatory models. In particular, it focuses on internal rating based (IRB) implementation, fostering excellence in risk modelling with best-in-class analytics and quality data to ensure compliance, accuracy, stability and robustness. The new unit oversees all of our regulatory models and services our needs, paying special attention to machine learning and other digital transformation initiatives at the top of the agenda.

The Models & Data Unit's role is crucial in Grupo Santander. It boosts analytical capabilities to help us better understand our customers, tailor our value proposition to them and inspire their loyalty, which is at the core of our strategy.

This unit also supports subsidiary and parent businesses through successful initiatives in place. These include the use of machine learning on customer experience, operational process automation with cognitive robots and financial crime detection. The Models & Data Unit also helps Grupo Santander in developing new data-driven business models aligned with our digital strategy.

Since the outbreak of covid-19, Grupo Santander's risk models have taken our payment holidays and other support measures into account. They are assessed with the best analytical tools to improve risk monitoring. Our priority is to make sure our risk models remain predictable and give management and regulatory processes the right support.

We updated model ratings based on a long-term outlook and reinforced monitoring. In calculating IFRS 9 provisions and other processes, model outputs were sometimes supplemented with expert opinions to fully capture the expected impact of the pandemic.

Grupo Santander commits to using data and artificial intelligence responsibly and following international standards and regulations. In fact, our advanced analytics global tools developed internally have engrained a number of functionalities ensuring non-discrimination, transparency and accountability.

2.6 Environmental and social risk

Grupo Santander's risk management and control model contributes to our sustainable growth by promoting the conservation of the environment, the protection of human rights and the transition to a low-carbon economy.

The board has approved environmental and social policies that describe those activities in oil, gas, power generation, mining and metals, and soft commodities sectors to which the group cannot provide financial products or services as well as other activities that require an in-depth analysis of potential impacts on the environment and society.

The annual review of these policies is led by the global environmental and social risk management (ESRM) function who, in consultation with our credit risk, responsible banking and reputational risk functions and business areas, proposes updates to the board to make sure the policies continue to meet international practices and standards and are aligned to the group's sustainability strategy.

In 2020, we have continued to evolve our criteria and, in January 2021, the board approved additional prohibitions on the financing of projects involved in the exploration, development, construction or expansion of unconventional oil & gas (e.g. tar sands/fracking/coal bed methane); the construction or development of infrastructure associated to coal-fired power plants or coal mines; and new clients with coal mining operations. In addition, the three previous policies were merged into a single document.

Grupo Santander's environmental and social policy can be found at the corporate website

To ensure the application of these criteria, Santander relies on environmental and social (E&S) risk assessments of customers and transactions, especially in the Santander Corporate and Investment Banking (SCIB) division, which holds most customers and exposures outlined in the policies. In a detailed questionnaire, SCIB clients are first reviewed by our business areas; then a dedicated team of 'green analysts' provide overall assessments on E&S risks. In 2020, and continuing into 2021, the questionnaires are being enhanced with the inclusion of climate change related customer information.

Additionally, we have applied the Equator Principles to our project finance since 2009 and continue to promote them through the Equator Principles Association working groups. To support the changes introduced by the Equator Principles IV, over 150 front office and support staff were trained in the new questionnaires to review and classify transactions.

Equator Principles reporting from Santander is available in section 'Environmental and social risk analysis' of the Responsible Banking chapter.

Climate change and risk management

2020 has been a landmark year in the advancement of climate change as a key risk topic. The risk division continued to actively deliver on internal projects and external initiatives related to climate change risk management, continuing to embed this risk within our risk evaluation.

As described in Grupo Santander's general risk framework, we consider environmental and climate-related risk drivers (whether physical or transition-led) as factors that could impact the existing risks in the medium and long-term.

The main risk management processes and tools described in the previous sections of this document have been progressively embedding climate risk in their scope during the last years, including:

- Our **risk appetite statement (RAS)** strengthened our commitment to socially responsible activities, the environment, and the Paris Agreement's transition to a low carbon, climate-resilient economy. It will continue to evolve during 2021 and beyond, to accompany the group strategy, the evolution of the available climate measurement methodologies, and the guidance from regulators and supervisors.
- The **top and emerging risk** assessment process continuously evaluates, along with other sources, climate-risk potential implications in our strategy. It is a joint process between headquarters and our subsidiaries.
- The result of the top risk assessment is also an input for idiosyncratic scenarios in our **ICAAP, ILAAP** and the group's **recovery plan**. As climate change data and methodologies (including scenario analysis and stress testing) become more available and tested, the input will evolve from predominantly qualitative to more quantitative.

Key developments in the first half of the year were reported in our annual climate finance report. In summary, these include the publication of an internal heat map for sectors particularly vulnerable to physical and transition risk, as well as detailed climate change sector briefings for the highly emitting sectors of oil & gas, power, steel and mining and metals.

For Grupo Santander's climate change report, visit our corporate website.

During the second half of 2020, we focused our risk management on four main initiatives.

First, the in-depth review of our materiality assessment of consolidated exposures to climate change-related transition and physical risk, based on our internal classification of sector taxonomy and heatmaps, following climate change scenarios that map the pathways aligned with limiting global warming to well below 2ºC. This quarterly materiality analysis has focused on the more relevant portfolios in SCIB, commercial banking and retail mortgages.

During our 2020 materiality assessment, we confirmed that approximately 90% of our exposure to the most concerning sectors related to transition risk is mainly in SCIB. As part of our risk taxonomy, we have colour coded the sectors based on their climate impact. Conventional power and oil & gas are the sectors most at risk, with lower impacts expected on mining & metals (including steel manufacturing) and transportation.

The table below provides a breakdown of SCIB exposures as of 31 December 2020:

	EUR billion	% of total Loans
Conventional Power	23	2 %
Renewables Project Finance	9	1 %
Oil & Gas	18	2 %
Mining & Metals	8	1 %
Transportation	27	3 %
Total most concerning sectors	76	8 %

Further information on the output of the PACTA pilot is available in section 'Tackling climate change' of the Responsible Banking chapter.

Other sectors classified as medium risk in the assessment are manufacturing, construction, agriculture and water supply. In SCIB its exposure amounts to ~ EUR 57 billion, which represents ~70% of the total exposure to rated corporates in these sectors.

The mortgage portfolio amounts to EUR 308.5 billion, mainly in the UK and Spain. We are closely following methodological developments for the measurement of physical and transition impacts, including pilot exercises involving physical risks in the mortgage book. Santander continues to analyze the physical and transition risk of all sectors and segments.

Second, guided by the materiality analysis, and supported by the updated E&S questionnaires aforementioned, we completed qualitative climate change risk assessments on the SCIB top 20 customers in the oil & gas sector that were presented to the relevant credit risk approval bodies for consideration at the annual customer limit review. A similar approach is being applied to the power and mining and metals sectors for the annual 2021 review. This granular customer-based assessment is shared with SCIB business as an additional source of information on customers and their level of awareness and preparation for a transition to a low-carbon economy.

Third, through our continued participation in the United Nations Environment Programme Finance (UNEP FI) phase II working group, we keep advancing in the definition of an internal methodology to enable us to calculate climate change related impacts on our credit risk exposures by modelling changes to probabilities of default, loss given defaults and expected losses.

In collaboration with our Research and Methodology functions we have deepened our understanding of climate change scenarios, in particular those published by the Network for Greening the Financial System (NGFS), and of the various risk factor pathways that apply to our most relevant sectors included in the transition risk methodology. During 2021 our focus will be on applying this methodology. We will continue developing the transition and physical risk portfolio assessment tools for SCIB and the mortgage portfolios.

Fourth, we actively engaged with external providers of climate-related risk assessment models and data for transition and physical risk, and we are testing a number of options to combine with our internal progress described above.

In addition to these four initiatives, the Group has participated in several regulatory or industry-led work streams, including:

- The implementation of the environmental and climate change sections of the European Banking Authority's (EBA) guidelines on loan origination and monitoring. We are embedding the guidelines through a series of internal credit assessment guides to support credit analysts in the climate change risk analysis of our corporate customers.

- The risk function is also co-sponsor of the global project to implement the European Central Bank Guide on climate-related and environmental risks. A comprehensive multi-year project plan has been actioned, bringing together the deliverables required to meet supervisory expectations, disclosures aligned to the Task Force for Climate Related Financial Disclosures (TCFD) recommendations, and the commitments arising from our participation in the Collective Commitment to Climate Action.

- 'EBA Climate Risk Sensitivity Exercise', a pilot which is proving very useful for testing the applicability of the EU taxonomy to the financial industry portfolios, including the availability of data, the usefulness for risk management purposes, the potential disclosure issues, etc.

- We also continue to actively participate in industry working groups, and we remain a principal contributor to the public policy consultations that have taken place both in EU and in other markets of the group. This includes, among other regulatory pieces, providing feedback to the 'EBA Discussion Paper on Environmental, Social and Governance (ESG) risks management and supervision', which will be a cornerstone for the future development of a risk related regulatory framework.

Further information is available in the Responsible Banking chapter.

3. Credit risk

3.1 Introduction

Credit risk refers to a potential financial loss from the default or credit quality deterioration of a customer or other third party with whom Grupo Santander has a contractual obligation. It is our most important risk in terms of exposure and capital consumption. It also includes counterparty risk, country risk and sovereign risk.

See section 3.3 'Covid- 19 Credit risk management' for more details on Grupo Santander's main initiatives to manage credit risk during the covid-19 crisis.

3.2 Credit risk management

We identify, analyse, control and decide on credit risk based on holistic view of the credit risk cycle, which includes the transaction, the customer and the portfolio. Business and risk areas and top managers are part of this process.

Credit risk identification is key to managing and controlling our portfolios effectively. We classify external and internal risks in each business and adopt corrective and mitigating measures when needed through these processes:

1. Planning

Our planning helps us set business targets and define specific action plans within our risk appetite framework.

Strategic commercial plans (SCP) are a management and control tool defined by the business and risk areas for our credit portfolios. They determine commercial strategies, risk policies, resources and infrastructure, ensuring a holistic view of the portfolios. They provide managers with an updated view of credit portfolio quality to measure credit risk, run internal controls over the defined strategy coupled with regular monitoring, detect significant deviations in risk and potential impacts, and take corrective actions when necessary. They also align with our risk appetite and our subsidiaries' capital targets, and are approved and monitored by senior managers at each subsidiary before being reviewed and validated by Grupo Santander.

2. Risk assessment and credit rating

To analyse customers' ability to meet contractual obligations, we use valuation and parameter estimation models in each of our segments. Our credit quality valuation models are based on credit rating drivers, which we monitor to calibrate and adjust the decisions and ratings they assign. Depending on each segment, drivers can be:

1 **Rating**: from mathematical algorithms that have a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. It is used for SCIB, corporate, institutional and SME segments (with individualised treatment).

2 **Scoring**: an automatic system to evaluate credit applications that assigns an individual score to customers for subsequent decision-making, generally in the retail and smaller SME segments.

Our parameter estimation models follow econometric models built on our portfolios' historical defaults and losses. We use them to calculate economic and regulatory capital as well as IFRS 9 provisions for each portfolio.

We regularly monitor and evaluate models' appropriateness, predictive capacity, performance, granularity, compliance with policies and other related factors. We review ratings with the latest available financial and other relevant information. We have also increased the reviews for customers who are under closer observation or have automatic warnings in the risk management systems.

3. Credit risk mitigation techniques

Risk approval criteria are generally based on the borrowers' ability to pay in fulfilment of financial obligations, notwithstanding any additional collateral or personal guarantees we can require from them. To determine this, we analyse funds or net cash flows from their businesses or income with no guarantors or the assets pledged as collateral. We always consider guarantors and collateral when deciding to approve a loan as a secondary means of recourse if the first channel fails.

In general, a guarantee is as a reinforcement measure added to a credit transaction to mitigate a loss due to a failure to meet a payment obligation.

Grupo Santander has credit risk mitigation techniques for various types of customer and products. Some are for specific transactions (e.g., property) while others apply to a series of transactions (e.g., derivatives netting and collateral). They can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

4. Limits, pre-classifications and pre-approvals

We use SCPs to manage credit portfolios, defining limits for each of them and for new originations, in line with our credit risk appetite and our target risk profile. Transposing our risk appetite to portfolio management strengthens controls over our credit portfolios.

Our limits, pre-classifications and pre-approvals processes determine the risk we can assume with each customer. The business and risk areas set risk limits that are approved by the executive risk committee (or delegated committees) and should reflect a transaction's expected risk-return.

We apply various limits models to each segment:

- **Large corporates** are subject to a pre-classification model based on a system for measuring and monitoring economic capital. Pre-classification models express the level of risk we are willing to assume in transactions with customers/ groups in terms of capital at risk, nominal cap and maximum tenors. To manage limits with financial entities, we use Credit Equivalent Risk (CER), which includes actual and expected risks with customers according to risk appetite and credit policies.
- **Corporates and institutions** that meet certain requirements (strong relationships, rating, etc.): we use simpler pre-classification model with an internal limit. It establishes a reference point in a customer's level of risk based on repayment capacity, overall indebtedness and a pool of banks.

  Transactions with large corporates, corporates and institutions above certain limits or with special characteristics could require approval from a senior credit analyst or a committee.
- For **individual customers and SMEs** with low turnover, we manage large volumes of credit transactions with automatic decision models to classify customers and transactions.

5. Scenario analysis

In line with section 2.4 'Management processes and tools' in this chapter, our scenario analyses determine the potential risks in our credit portfolios and provide a better understanding of our portfolios' performance under various macroeconomic conditions. They allow us to anticipate management strategies that will avoid future deviations from defined plans and targets. They simulate the impact of alternative scenarios in portfolios' credit parameters (PD, LGD) and expected credit losses. We compare findings with portfolios' credit profile indicators to find the right measures for managers to take. Credit risk management of portfolios and SCPs incorporate scenario analyses.

For more details on scenario analysis and covid-19, please see section 3.3 'Covid-19 credit risk management'below.

6. Monitoring

Regularly monitoring business performance and comparing it to pre-defined plans is key to our management of risk. Our holistic monitoring of customers helps early detection of impacts on risk performance and credit quality. We assign customers a monitoring classification with a pre-defined course of action and *ad hoc* measures to correct any deviations. Monitoring, which considers transaction forecasts and characteristics, in addition to changes in classification, is performed by local and global risk teams supported by the Internal Audit unit and is based on customer segmentation:

- For SCIB, monitoring is initially a function of business managers and risk analysts who maintain direct relationships with customers, manage portfolios and provide us with an up-to-date view of customers' credit quality to anticipate concerning situations.
- For commercial banking, institutions and SMEs with assigned credit analyst, we track customers requiring closer monitoring and review their ratings based on relevant indicators.
- For individual customers, businesses and smaller SMEs, our monitoring follows a system of automatic alerts to detect shifts in portfolios' performance.

Monitoring uses the Santander Customer Assessment Note (SCAN) tool. We fully rolled it out in our subsidiaries in 2019. It helps set individual monitoring levels and frequencies, policies, and actions for customers based on credit quality and particular circumstances.

In addition to monitoring customer credit quality, we define control procedures to analyse portfolios and performance, as well as any deviations from planning or approved alert levels.

7. Collections and recoveries

The Collections & Recoveries area is key to risk management. It defines a global, enterprise-wide management strategy with guidelines and general lines of action for our subsidiaries based on the economic environment, business model and other local recovery conditions. Recovery management follows regulatory requirements set out in the EBA Guidelines on the management of non-performing and forborne exposures.

The Collections & Recoveries areas directly manage customers. As sustained value creation is based on effective and efficient collections, digital channels that develop new customer relations are gaining importance. Our diverse customer base requires segmentation to manage recoveries appropriately. The highly technological and digital processes we follow help us attend to large groups of customers with similar profiles and products. Our personalized management, however, focuses on customer profiles that require a special manager and approach.

We split recovery management into four phases: arrears, non-performing loans, write-offs and foreclosed assets. We may use mechanisms to rapidly reduce assets like sales of foreclosed assets or non-performing loans pool sales. We constantly seek alternatives to legal action in order to collect debt.

We include debt instruments in the write-off loans category, (even if they are not past-due) if an individual analysis of the solvency of a transaction and the borrower leads us to believe recovery is remote due to a notorious and unrecoverable impairment. Though this may lead to full or partial cancellation and de-recognition of the gross carrying amount of debt, it does not mean we interrupt negotiations and legal proceedings to recover debt. In countries with high exposure to real estate risk, we have efficient sales management instruments that help maximize recovery and optimize balance sheet stocks.

For more details on Collections and Recoveries in covid-19 management, see section 3.3 'Covid-19 credit risk management' below.

Forborne portfolio

Grupo Santander's internal forbearance policy acts as a reference for our subsidiaries locally. It shares the principles of regulations and supervisory expectations. It includes the requirements of the EBA guidelines on management of non-performing and forborne exposures. It defines forbearance as the modification of the payment conditions of a transaction to allow a customer experiencing financial difficulties (current or foreseeable) to fulfil their payment obligations. If forbearance is not allowed, there would be reasonable certainty that the customer would not be able to meet their financial obligations.

In addition, our policy also sets down rigorous criteria for evaluating, classifying and monitoring forbearances to ensure the strictest possible care and diligence in recovering due amounts. Thus, it dictates that we must adapt payment obligations to customers' current circumstances. Our forbearance policy also defines classification criteria to ensure we recognize risks appropriately. They must remain classified as non-performing or in watch-list for a prudential period for reasonable certainty of repayment.

Forbearances may never be used to delay the immediate recognition of losses or hinder the appropriate recognition of risk of default. Thus, we must recognize losses as soon as we deem any amounts irrecoverable.

The forborne portfolio stood at EUR 29,159 million at the end of December 2020. 51% of the loans qualify as non-performing, with average coverage of 43%.

Key figures of forborne portfolio

EUR million

	2020	2019	2018
Performing	14,164	15,199	20,877
Non-performing	14,995	17,276	20,357
Total forborne	**29,159**	**32,475**	**41,234**
% Coverage[A]	**28%**	**28%**	**26%**

A. Total loan-loss allowances/total forborne portfolio.

Our forborne portfolio decreased by 10% as of December 2020, in line with the trend observed in previous years.

Credit risk target operating model (ATOMiC)

ATOMiC (Advanced Target Operating Model in Collaboration) launched in 2019 to enhance local credit risk Target Operating Models (TOM) as part of our risk strategy. It aims to strengthen our competitive position in the industry against any downturn. It sets high credit standards based on best practices within Grupo Santander and across the industry, local expertise and support from headquarters. In 2020, our progress led to the completion of several initiatives, as others advanced further into 2021.

Due to covid-19, we revised the ATOMiC goal to prioritize collections and recoveries, automation and digitalization of lending, anticipation and forward-looking (including risk playbooks) and risk-based pricing and profitability. This enabled us to take highly effective, early actions to mitigate the impact of ensuing crisis, such as:

- Enhanced customer monitoring, which supported our response to government aid programmes (e.g., RADAR early warning system and preapproval for ICO loans in Spain).
- Digital collections for omnichannel solutions (in Poland).
- Digital on-boarding and new platforms and technologies to transform collections and recoveries with a significant economic impact on provisions (in Brazil).
- Risk playbooks to define actions with commercial areas ahead of a potential macroeconomic deterioration (in Mexico).
- The advanced RORAC tool for risk-based pricing in the corporates segment across the group.
- Automated mortgage approvals on digital channels, which had major impact on new originations (in Portugal and Mexico).

Moreover, ATOMiC addressed the regulatory requirements for pricing, monitoring and scenario analysis in EBA Guidelines on Loan Origination and Monitoring.

3.3. Covid-19 credit risk management

During the covid-19 pandemic, to help our customers and foster their economic resilience, the credit-related actions we took include:

- providing liquidity and credit facilities to customers facing hardship. Grupo Santander increased lending to customers through usual loan approval procedures and based on internal ratings, while facilitating government aid programmes.
- granting payment deferrals on outstanding loans within our geographies, under the guidelines on legislative and non-legislative moratoria on loan repayments the EBA had issued in light of the covid-19 crisis along with other regulators statements.

  Accordingly, these moratoria are not considered to be automatic indicators for identifying these measures as forbearance. Likewise, moratoria have not been considered by themselves as an automatic trigger to conclude that a significant increase in credit risk has occurred. Nevertheless, we set up a robust control and reporting framework for loans under moratoria to monitor measures and loan performance before and after the expiration of granted repayment extensions.

- The severity of the pandemic's effects varied significantly in industries. Consequently, Santander set out to identify ones that could be more affected to focus credit risk management.

- We prepared Collections & Recoveries across our footprint to deal with the expected impact on portfolios once support measures expired.
- Credit risk management specifically focused on quantifying expected credit losses as a result of the macroeconomic shock, running analyses of the deterioration of our customers' credit quality and other potential collective measurements.

The sub-sections below provide additional details on our actions.

Customer support programmes

Grupo Santander applied measures to all subsidiaries to provide liquidity and credit facilities, and grant payment deferrals to people and businesses facing hardship. They supported 6 million customers across our footprint. By the end of December, the payment moratoria we had granted to 4.8 million customers amounted to EUR 112 billion, which is 12% of our lending portfolio. The table below shows the distribution of payment moratoria by business line:

	# clients (mn)	Total amount (EURbn)	% lending portfolio
Mortgages	0.7	70	22%
o/w government programmes	*0.5*	*57*	
Consumer	3.9	20	9%
o/w government programmes	*1*	*4*	
SME & Corporates	0.2	22	7%
o/w government programmes	*0.1*	*9*	
Total	**4.8**	**112**	**12%**
o/w government programmes	***1.6***	***70***	

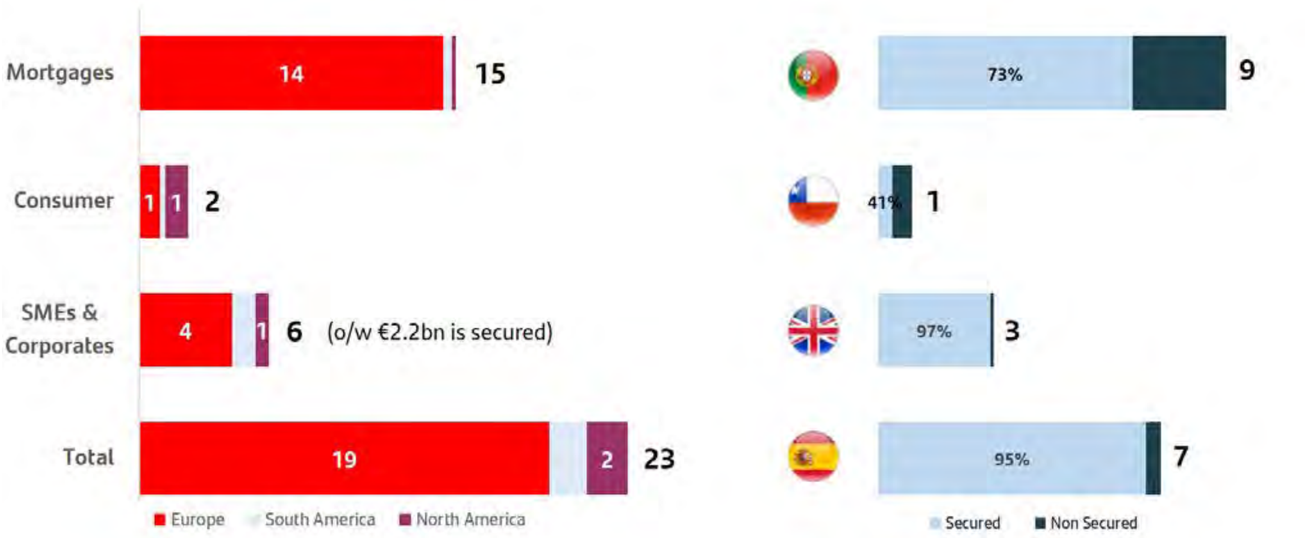
At the end of 2020, 79% of total moratoria had expired and only 3% of those were in stage 3. In spite of the macroeconomic deterioration, performance was positive because (a) our customers' financial expenses were reduced with payment deferrals; (b) covid-19 government measures helped our customers maintain a steady stream of income; and (c) government programmes provided additional liquidity to firms so they could keep repaying financial debt.

The table below shows the distribution by business line and region:

	Total moratoria (EUR bn)	% loan book	o/w: expired (EUR bn)	Expired as % of Total	Expired		
					% Stage 1	% Stage 2	% Stage 3
Total Group	**112**	**12%**	**89**	**79%**	**82%**	**15%**	**3%**
Mortgages	70	22%	55	79%	87%	11%	2%
Consumer	20	9%	18	88%	77%	17%	7%
SMEs & Corporates	22	7%	16	72%	74%	24%	3%
Europe	73	11%	53	73%	84%	14%	2%
North America	21	18%	20	91%	75%	20%	5%
South America	18	15%	16	90%	87%	9%	4%

Over 60% of outstanding loans under moratoria are mortgages. These tables show how they are distributed by business line and region:

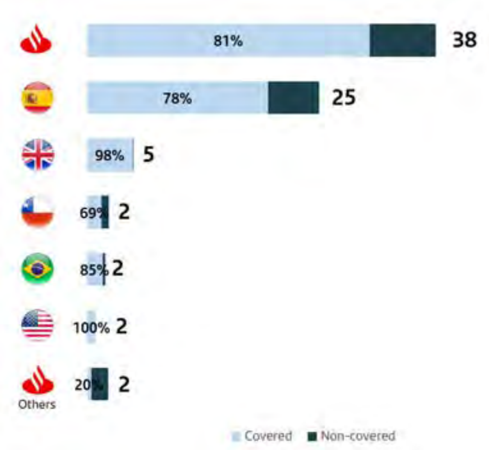
Distribution of loans subject to moratoria by product
Dec. 2020 data (EUR bn)



The UK, Portugal, Spain and Chile account for almost 83% of outstanding loans under moratoria, of which 83% are secured. As of the end of December, total loans granted under government liquidity programmes amounted to EUR 38 billion, with an average government guarantee coverage of 81%.

Government Liquidity Programs by geography

Dec. 2020 data (EUR bn)



Spain accounted for 67% of total exposures to government liquidity programmes at year-end and also had the longest maturities (in both SME and corporates segments). The UK was 13% of total exposures, mainly in Bounce Back Loans (BBLS) (which are 100% covered by the UK government's guarantee scheme).

Vulnerable sectors identification

To focus credit risk management on the most vulnerable sectors, we analysed various identification inputs to have a full view of:

- potential impacts on financial markets by sector and geography (shareholders return).
- external advisory.
- opinions from our sector analysts to consider particular details of our exposures and relationship with our customers.

As a conclusion of all these analysis, the following are the sectors considered most affected by Covid-19 (internal management information as of December), with their respective exposures (excluding individual exposures):

Sector	Exposure (EUR bn)	% Stage 1	% Stage 2	% Stage 3
Automotive	34.6	92.7 %	5.9 %	1.4 %
Hotels, leisure, cruises & restaurants[A]	17.7	74.4 %	18.3 %	7.3 %
Transport	18.3	88.5 %	7.3 %	4.2 %
Oil & Gas	20.9	97.7 %	1.6 %	0.7 %
Retail Non Food	21.5	88.2 %	6.6 %	5.2 %
Construction[B]	12.5	82.1 %	10.7 %	7.2 %

A. Catering and other not included.
B. Excludes real estate development.

Total exposure to these sectors was EUR 125.6 bn at year-end 2020. Focusing on the ones more impacted in the short term (Hotels & Leisure & Cruises & Restaurants; Oil & Gas; Retail non food and passenger transport) total exposure was EUR 66.2 bn.

This identification proved consistent with similar analyses by the ECB, Banco de España and rating agencies. We closely monitored those industries and reported on them regularly to senior management bodies.

Covid-19 Collections & Recovery Preparedness plan

In the early stages of the pandemic, we asked all our subsidiaries to develop collections and recoveries plans to prepare for expected impacts on portfolios. Plans needed to focus on:

- dynamic assessments of the expected impact size and timing and continuous development of insights.
- articulation of measures to add any needed resources.
- the ability to accelerate technological (digital) solutions.
- development of a robust project and process to track progress.

The plans help ensure any business channel can collect debt while offering both standardized and case-by-case solutions; complying with regulatory changes; paying special attention to conduct risk and vulnerable customers; implementing moratoria and other new support alternatives promptly; identifying affected groups; and measuring impacts. Their structures incorporated such key aspects as capacity; planning and governance; strategy and execution; organization; policy and control; and forecasting and financial planning. Our subsidiaries update them dynamically. Their performance is subject to regular review by senior management at subsidiaries and the headquarters.

The preparedness project set a number of milestones in regard to those key aspects. Our subsidiaries regularly report to executive committees on the progress against them with findings from the preparedness assessments of the global Collections & Recoveries function undertake.

This project has been strengthening the Collections & Recoveries functions in our hardest hit geographies with help from the headquarters to implement the global and local plans.

Covid-19 overlay quantification

Many international organizations and supervisors have underlined the importance of responsibly adapting and applying the accounting and prudential policies to temporary and exceptional containment measures to combat the covid-19 health crisis.

Some policies disclosed by supervisors include the Bank of England measures to respond to the economic shock from Covid-19; EBA's Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures; and the Federal Reserve's SR 20-4/CA 20-3 - Supervisory Practices Regarding Financial Institutions Affected by Coronavirus.

In light of these statements, we accounted for deviations in local books based on stable long-term macroeconomic forecasts with a post model adjustment and a collective and/ or individual assessment to reflect reality and recognize expected credit losses on assets deemed subject to a significant increase in credit risk, without the need to identify individual financial instruments.

We considered the overlay the best option to recognize the increase in expected loss. A mechanistic application of the Expected Credit Loss (ECL) methodology could currently have led to unpredictable results. The additional provisions associated to different macroeconomic scenarios were calculated using internal models, however an overlay over the monthly IFRS9 calculation was considered, in order to enhance the oversight and control of the ECL estimation accuracy. We specially prepared those scenarios to support the overlay calculation for a long-run approach, following the recommendations of many international organizations and supervisors, with a high degree of complexity. Amid maximum uncertainty, this long-term approach is to avoid undesirable volatility in provisions as a result of the sharp economic downturn, on account of the exceptional nature of the overlay and the battery of support economic measures taken by central banks and governments.

Accordingly, Grupo Santander followed all regulatory, supervisory and accounting guidelines to assess and estimate the projected macroeconomic impact of the pandemic on expected losses and our customers' credit quality. These process were subject to the established governance and monitoring at both the Group's and our subsidiaries levels.

For more details on expected losses and provisions during 2020, see the next section.

3.4 Key metrics

2020 general performance

In 2020, Grupo Santander's performance was affected by the spread of covid-19, the ensuing health crisis, a weaker economic environment and volatility in new business. In March, we observed the pandemic's initial impact on new business and balances. Growth in corporates and large corporates offset the declines in individuals and consumer credit. Impacts of covid-19 had not yet materialized on credit quality indicators. In compliance with the accounting standard, IFRS 9, we recorded a provisions overlay in the quarter of EUR 1.6 billion based on the expected macroeconomic deterioration.

At the end of the second quarter, recovery of new business levels in the individuals segment (mortgages and consumer finance) began reaching pre-covid-19 levels, mainly in Europe and the US. Activity in large corporates stood at more regular levels, following the increase recorded in March. SME and corporates exposure grew primarily due to government liquidity programmes. Main credit indicators reflected a robust credit quality supported by mitigation measures and volume increases. In the first half of 2020, provisions reached 7,027 million euros. This represented an increase of 78% in constant euros y-o-y, distributing the total adjustment made among the different business units.

In the third quarter, new business levels in the individuals segment in more regions continued to recover to pre-covid levels. This was supported by improvements in digitalization. Our subsidiaries adapted to new demand and introduced measures for referral to other channels and self-service in retail banking. Meanwhile, activity with large corporates and companies normalized as the need for liquidity decreased. In this quarter, loan-loss provisions were still affected by covid-19 and loan growth.

As of December 2020, credit risk with customers decreased by 2.7% from 2019, based on the same perimeter. This was mainly due to currency depreciation in our core markets. All our subsidiaries saw growth in local currency with the exception of Santander México and Santander Bank N.A. (SBNA).

Despite all major shocks stemming from the health crisis, our credit risk remained diversified, with a suitable balance between mature and emerging markets: Europe[13] (73%, including SCF), South America (13%) and North America (13%).

Loan book growth and the decline of non-performing loans (NPLs) to EUR 31,767 million (-6% vs end of 2019) reduced our NPL ratio to 3.21% (-11 bps vs 2019).

In accordance with IFRS 9, Grupo Santander recorded loan-loss provisions of EUR 12,173 million (+31% vs December 2019) driven by the expected economic deterioration resulting from the pandemic and its impact on credit quality as well as by the aforementioned lending growth.

Grupo Santander total loan-loss allowances amounted to EUR 24,272 million. This brought our NPL coverage ratio to 76.4% from 67.9% in December 2019. 65% of the Group's net customer loans are secured.

[13] 'Others' not included represent 1% (Santander Global Platform and Corporate Centre).

The tables below show the performance of the main credit risk metrics:

Main credit risk metrics

Dec. 2020 data

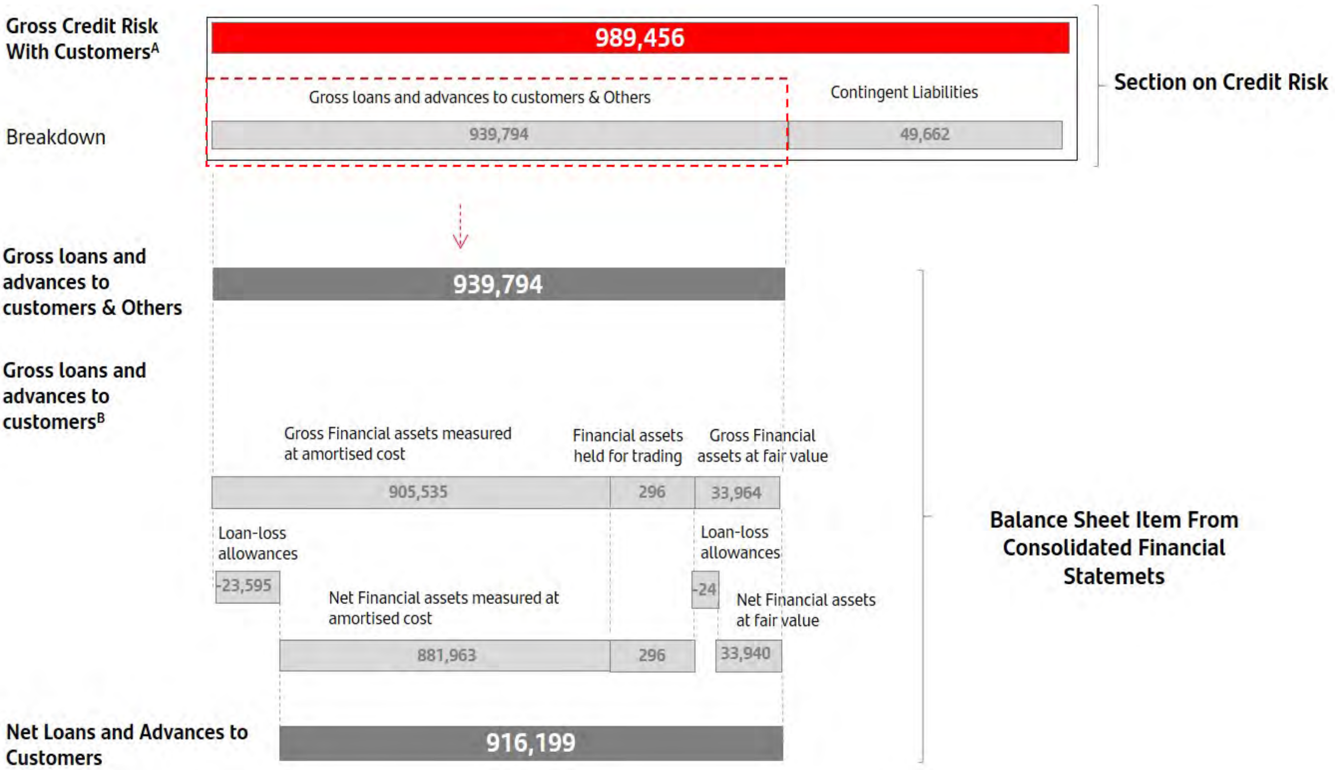
	Credit risk with customers[A] (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Europe	**722,429**	**722,661**	**688,810**	**22,792**	**23,519**	**25,287**	**3.15**	**3.25**	**3.67**
Spain	221,341	213,668	227,401	13,796	14,824	16,651	6.23	6.94	7.32
S. Consumer Finance	104,032	105,048	97,922	2,455	2,416	2,244	2.36	2.30	2.29
UK	263,671	275,941	252,919	3,202	2,786	2,739	1.21	1.01	1.08
Portugal	40,693	37,978	38,340	1,584	1,834	2,279	3.89	4.83	5.94
Poland	31,578	33,566	30,783	1,496	1,447	1,317	4.74	4.31	4.28
North America	**131,611**	**143,839**	**125,916**	**2,938**	**3,165**	**3,510**	**2.23**	**2.20**	**2.79**
US	99,135	105,792	92,152	2,025	2,331	2,688	2.04	2.20	2.92
SBNA	49,862	56,640	51,049	405	389	450	0.81	0.69	0.88
SC USA	29,050	29,021	26,424	1,529	1,787	2,043	5.26	6.16	7.73
Mexico	32,476	38,047	33,764	913	834	822	2.81	2.19	2.43
South America	**129,575**	**143,428**	**138,134**	**5,688**	**6,972**	**6,639**	**4.39**	**4.86**	**4.81**
Brazil	74,712	88,893	84,212	3,429	4,727	4,418	4.59	5.32	5.25
Chile	42,826	42,000	41,268	2,051	1,947	1,925	4.79	4.64	4.66
Argentina	4,418	5,044	5,631	93	171	179	2.11	3.39	3.17
Santander Global Platform	**979**	**706**	**340**	**5**	**4**	**4**	**0.51**	**0.63**	**1.21**
Corporate Centre	**4,862**	**5,872**	**4,953**	**344**	**138**	**252**	**7.08**	**2.34**	5.09
Total Group	**989,456**	**1,016,507**	**958,153**	**31,767**	**33,799**	**35,692**	**3.21**	**3.32**	**3.73**

	Coverage ratio (%)			Net ASR[B] provisions (EUR million)			Cost of credit (%/risk)[C]		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Europe	**57.3**	**49.8**	**50.1**	**4,299**	**1,839**	**1,572**	**0.62**	**0.28**	**0.24**
Spain	47.1	41.1	43.7	2,001	856	789	1.01	0.43	0.38
S. Consumer Finance	111.0	106.1	106.4	899	477	360	0.88	0.48	0.38
UK	47.9	36.5	32.9	733	253	171	0.28	0.10	0.07
Portugal	66.5	52.8	50.5	193	(8)	32	0.51	(0.02)	0.09
Poland	70.7	66.8	67.1	330	217	161	1.10	0.72	0.65
North America	**182.5**	**153.0**	**137.4**	**3,916**	**3,656**	**3,449**	**2.92**	**2.76**	**3.12**
US	210.4	161.8	142.8	2,937	2,792	2,618	2.86	2.85	3.27
SBNA	174.0	140.6	122.1	443	186	108	0.85	0.35	0.24
SC USA	230.2	175.0	154.6	2,413	2,614	2,501	8.09	9.42	10.01
Mexico	120.8	128.3	119.7	979	863	830	3.03	2.49	2.75
South America	**97.4**	**88.4**	**94.6**	**3,923**	**3,789**	**3,736**	**3.32**	**2.92**	**2.99**
Brazil	113.2	99.8	106.9	3,018	3,036	2,963	4.35	3.93	4.06
Chile	61.4	56.0	60.6	594	443	473	1.50	1.08	1.19
Argentina	275.1	124.0	135.0	226	235	231	5.93	5.09	3.45
Santander Global Platform	**116.8**	**85.3**	**78.9**	**3**	**1**	—	**0.41**	**0.22**	**0.14**
Corporate Centre	**89.0**	**174.5**	—	**31**	**36**	**115**	**0.54**	**0.57**	**1.65**
Total Group	**76.4**	**67.9**	**67.4**	**12,173**	**9,321**	**8,873**	**1.28**	**1.00**	**1.00**

A. Includes gross loans and advances to customers, guarantees and documentary credits.
B. Post write-off recoveries (EUR 1,221million).
C. Cost of credit is the ratio of 12-month loan-loss provisions to average lending of the same period.

Reconciliation of key figures

Grupo Santander's 2020 consolidated financial statements disclose loans and advances to customers before and after provision allowances. Credit risk also includes off-balance sheet risk. This table shows the relationship between those concepts:



A. Includes gross loans and advances to customers, guarantees and documentary credits.
B. Before loan-loss allowances.

Geographical distribution and segmentation

Grupo Santander's risk function is organized around three main groups of customers:

- **Individuals**: this segment comprises salaried individuals, subdivided by income level to manage risk by customer type.

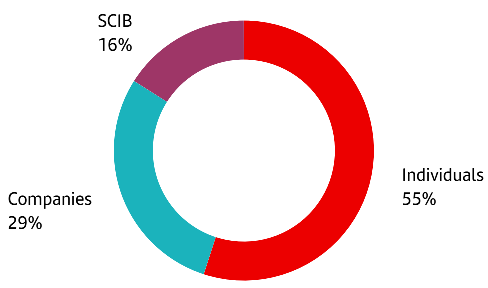
  Mortgages to individuals represented approximately 38% of net customer loans at the end of 2020. They are mainly in Spain and the UK and primarily consist of residential mortgages with low risk profiles and NPL ratios as well as robust coverage levels. Low risk profiles produce low losses.

- **SME, commercial banking and institutions**: this segment includes companies and self-employed individuals, public entities and private not-for-profit entities.

- **Santander Corporate and Investment Banking (SCIB)**: this segment consists of corporate customers, financial institutions and sovereigns in a closed list that is revised annually based on a full analysis of the customer (business type, level of geographic diversification, product types, and the volume of revenues it represents for Santander, among others).

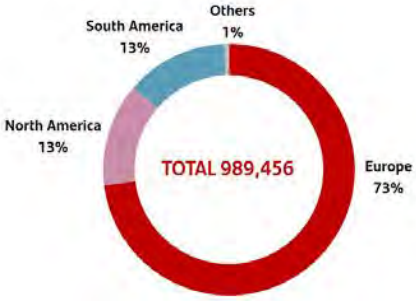
Santander's credit risk (including gross loans and advances to customers, guarantees and documentary credits) is distributed as follows:

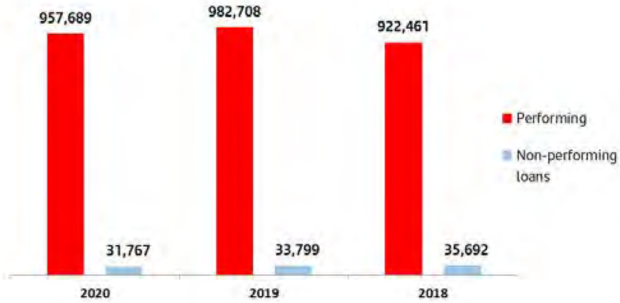
Credit risk distribution



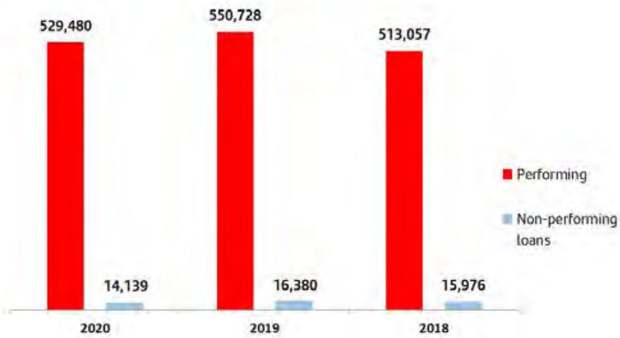
Our credit risk portfolios' geographical distribution and performance (i.e., performing and non-performing loans) are as follows:

Total

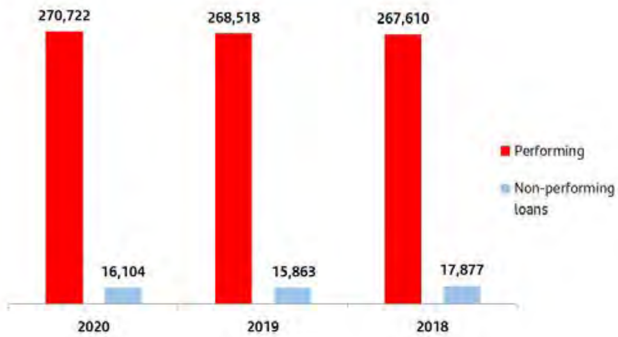




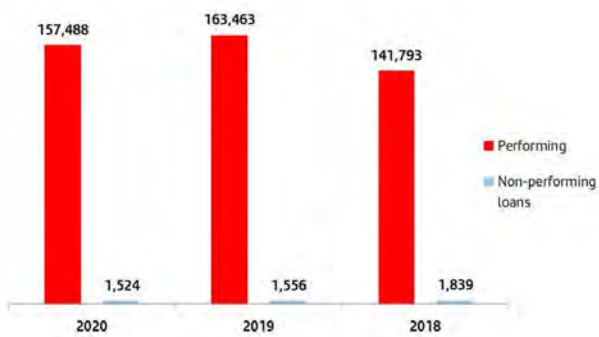
Individuals



SME, Commercial Banking and Institutions



SCIB



Others' include Santander Global Platform and Corporate Centre.
Performing and non-performing exposure for 2019 and 2018 has been redistributed across segments.

- **Europe:** the NPL ratio fell 10 bps to 3.15% from 2019 due to a significant reduction in non-performing loans in Spain and Portugal, offsetting the increase observed in the UK.
- **North America:** the NPL ratio slightly increased 3 bps to 2.23% from 2019, due to the decline in total lending both in Mexico and SBNA, although the ratio declined in Santander US by 16 bps due to good performance in SC USA. In terms of NPL stock, a decrease of 7.2% was observed in the year.
- **South America:** the NPL ratio decreased by 47 bps to 4.39%. In Brazil and Argentina, they dropped 73 bps and 128 bps respectively from 2019. However, they slightly increased in Chile (+15 bps vs 2019).

For more details, see section 3.5. 'Details of main geographies'.

Amounts past due (performing loans)

0.19% of total credit risk with customers was past due by three months or less. The table below shows the breakdown of those loans as of 31 December 2020, according to the first missed payment:

Amounts past due. Maturity information

EUR million

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to credit institutions	5	—	—
Loans and advances to customers	1,232	337	311
Public administrations	1	—	—
Other private sector	1,231	337	311
Debt instruments	—	—	—
Total	**1,238**	**337**	**311**

Impairment of financial assets

The IFRS 9 impairment model applies to financial assets valued at amortized cost, debt instruments valued at fair value with changes in other comprehensive income, lease receivables, and commitments and guarantees granted 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's level of credit risk.

- **Stage 1**: financial instruments with no significant increase in risk since its initial recognition – the impairment provision reflects expected credit losses from defaults over twelve months from the reporting date.
- **Stage 2**: financial instruments with a significant increase in credit risk since the date of initial recognition but no materialised impairment event – the impairment provision reflects expected losses from defaults over the residual life of the financial instrument.
- **Stage 3**: financial instruments with true signs of impairment as a result of one or more events resulting in a loss – the impairment provision reflects 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	**639,872**	**42,252**	**22,786**	**704,911**
Spain	186,557	13,325	13,796	213,677
SCF	241,376	18,451	3,202	263,029
UK	34,778	4,331	1,584	40,693
Portugal	28,338	1,597	1,496	31,432
Poland	96,999	4,548	2,454	104,001
North America	**107,628**	**15,686**	**2,938**	**126,252**
US	79,410	12,767	2,025	94,202
SBNA	44,277	4,955	405	49,637
SC USA	19,723	7,795	1,529	29,046
Mexico	28,218	2,919	913	32,050
South America	**113,799**	**10,073**	**5,688**	**129,559**
Brazil	65,122	6,152	3,429	74,702
Chile	37,555	3,218	2,051	42,825
Argentina	3,966	360	93	4,418
Santander Global Platform	**973**	**1**	**5**	**979**
Corporate Centre	**1,883**	**564**	**341**	**2,787**
Total Group	**864,155**	**68,575**	**31,758**	**964,488**

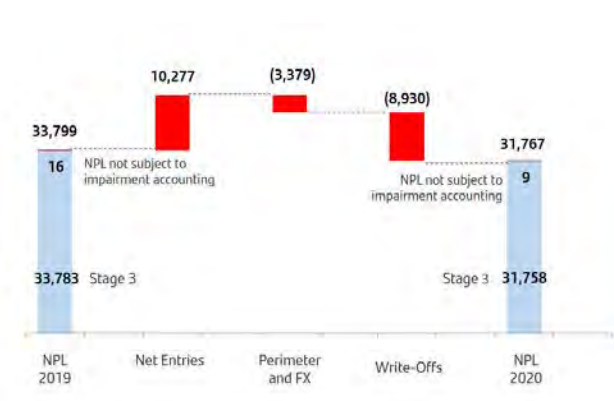
A. Excluding EUR 24,968 million from balances not subject to impairment accounting.

Impairment provisions include expected credit risk losses over the expected residual life of Purchased or Originated Impaired (POCI) financial instruments.

Financial instruments with effective signs of impairment (stage 3) performed as follows:

Non-performing loans evolution according to constituent item

EUR million



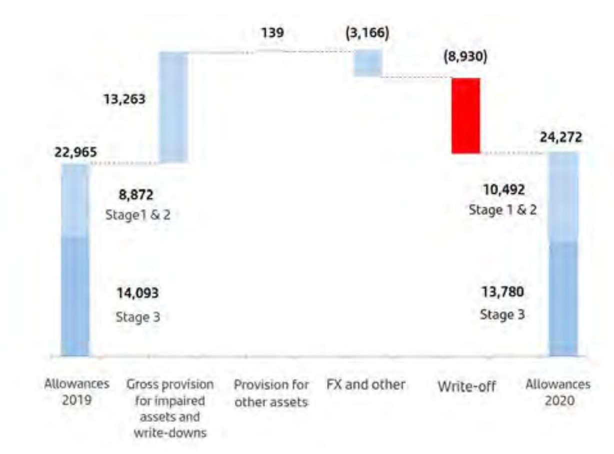
2018 - 2020 NPL evolution

EUR million

	2018	2019	2020
NPL (start of period)	**37,596**	**35,692**	**33,799**
Stage 3	37,571	35,670	33,783
NPL not subject to impairment accounting	25	22	16
Net entries	10,910	10,544	10,277
Perimeter	177	—	(44)
FX and others	(318)	156	(3,335)
Write-off	(12,673)	(12,593)	(8,930)
NPL (End of period)	**35,692**	**33,799**	**31,767**
Stage 3	35,670	33,783	31,758
NPL not subject to impairment accounting	22	16	9

Allowances evolution according to constituent item

EUR million



2018 - 2020 allowances

EUR million

	2018	2019	2020
Allowances (start of period)	**24,529**	**24,061**	**22,965**
For impairment assets	16,459		
For other assets	8,070		
Stage 1 and 2		8,913	8,872
Stage 3		15,148	14,093
Gross provision for impaired assets and write-downs	10,300	10,905	13,263
Provision for other assets	121	6	139
FX and other	1,784	586	(3,166)
Write-off	(12,673)	(12,593)	(8,930)
Allowances (end of period)	**24,061**	**22,965**	**24,272**
Stage 1 and 2	8,913	8,872	10,492
Stage 3	15,148	14,093	13,780

The methodology for quantifying expected losses from credit events is based on an unbiased and weighted consideration of up to five future scenarios that could affect our ability to collect contractual cash flows. They consider the time-value of money, information from past events, and current conditions and projections of important macroeconomic factors (e.g., GDP, house pricing, unemployment rate, among others).

We developed parameters to calculate impairment losses (mainly EAD, PD, LGD and discount rate) on the infrastructure of internal models and the experience gained from the regulatory environment and management. However, far from being a simple adaptation, we expressly built and validated them according to specific requirements of IFRS 9 and other guidelines issued by regulators, supervisors and other international organizations (EBA, NCAs, BIS, GPPC, etc.), which include forward-looking information, point-in-time (PIT) vision, multiple scenarios, calculation of losses for the entire life of the operation through lifetime PD's, among others.

- **Establishing a significant increase in credit risk:** when classifying financial instruments under stage 2, we consider:
  - Quantitative criteria: changes in the risk of default during their expected life are quantified with respect to their credit risk level on initial recognition.

    To consider significant changes so instruments can be classified in stage 2, each subsidiary defined the quantitative thresholds for its portfolios based on Grupo Santander's guidelines for consistent interpretation across all our geographies.
  - Qualitative criteria: several indicators aligned with ordinary credit risk management indicators (e.g., past due for over 30 days, forbearance, etc.). Each subsidiary defined these criteria for its portfolios.

    The use of these qualitative criteria is reinforced with expert opinions.

- **Definition of default**: we use the same definition for impairment provisioning as for developing advanced models for calculating regulatory capital requirements. We are adapting our definition of default to the EBA guidelines on the application of the new definition of default under Article 178 of the CRR, according to the scheduled plan.
- **Past, present and future information**: to estimate expected losses, we require a great deal of expert analysis and support from past, present and future data and expectations. Our expected loss estimates, which are based on multiple macroeconomic scenarios, measure probability of loss considering past events, the current situation and future trends, in addition to macroeconomic indicators such as GDP and unemployment.

  We use forward-looking information in internal management and regulatory processes under several scenarios, building on our experience with such information to make sure processes are consistent.
- **Expected life of financial instruments**: we estimate the expected life of financial instruments based on their contractual terms (e.g., pre-payments, duration, purchase options, etc.). The contractual period (including extension options) is the maximum timeframe 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.

3.5 Details of main geographies

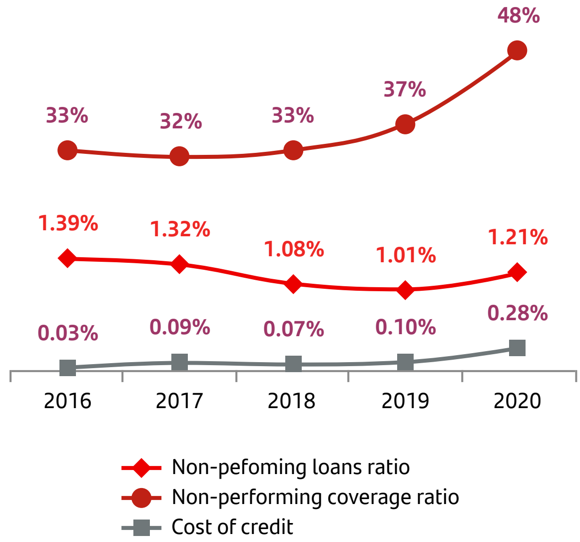
United Kingdom

General overview

Credit risk with customers in the UK (including Santander Consumer UK) decreased by 4.4% (+0.9% in local currency) year-on-year to EUR 263,671 million. Mortgage lending and loans to SME, supported by government-backed covid-19 measures were the key drivers of this YoY increase. UK portfolio accounts for 27% of Santander's loan portfolio.

More than 320,000 customers (excluding SCF UK) benefited from payment holidays, in line with the guidance issued by the Financial Conduct Authority (FCA). Customers applied for this facility generally for a three-month period, with the option of extending it for a further three months, if needed.

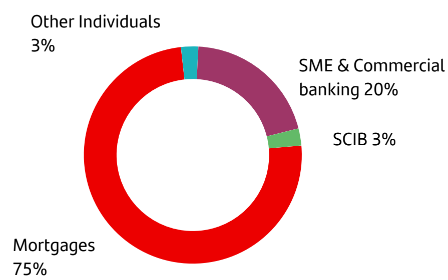
The NPL ratio increased in 2020, to 1.21% (+20 bps vs year-end 2019), driven by the corporate and commercial banking segment to account for covid-19 effects.



The Santander UK portfolio is divided into these segments:

Portfolio segmentation[A]

Dec.20 data



A. Excluding SCF UK and London Branch

Mortgage portfolio performance

We closely monitor Santander UK's mortgage portfolio due to its size for the entity and Grupo Santander. As of December 2020, it amounted to EUR 189,076 million, growing by 2.7% in local currency. It consists of first lien residential mortgages (no mortgages involve second or successive liens on properties).

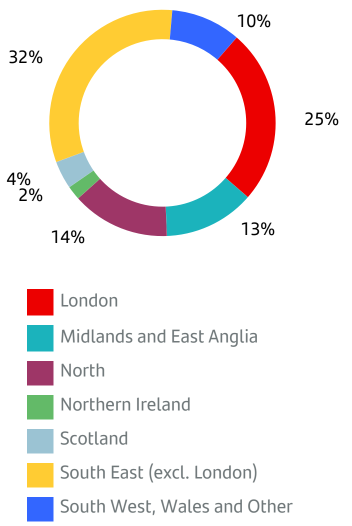
Mortgage lending growth was resilient after the market reopened in May. In the third quarter, the mortgage market was particularly active, due to pent up demand from the covid-19 lockdown and the temporary reduced stamp duty rates, which have led to improved new mortgage pricing.

In accordance with Grupo Santander's risk management principles, all properties are appraised independently before new mortgages are approved. Property values used as collateral for granted mortgages are updated quarterly by an independent agency with an automatic appraisal system in line with market practices and legislation.

Geographically, credit exposures are predominantly in the South East of the UK and the London metropolitan area.

Geographical distribution

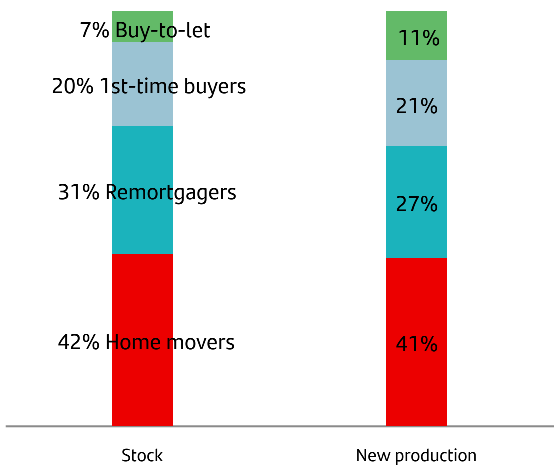
Dec.20 data



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's wide range of mortgage products include:

- **Interest-only loans (23%)**: customers pay interest every month and repay the principal at maturity. An appropriate repayment vehicle, such as a pension plan or an investment fund, is required. This is a common product in the UK. Santander UK applies restrictive policies to mitigate inherent risks. For instance, a maximum loan-to-value (LTV) ratio of 50% entails more stringent approval criteria and assessment of ability to pay, simulating the repayment of both interest and capital.

- **Flexible loans (6%)**: loan agreements allow borrowers to modify monthly payments or draw down additional funds up to a set limit under various conditions.

- **Buy-to-let (7%)**: buy-to-let mortgages account for a small percentage of the total portfolio, with approval subject to strict risk policies.

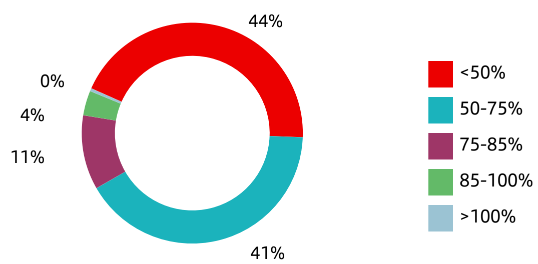
The NPL ratio reflects the mortgage portfolio's strength, stable at 0.99% in December 2020 (-5 bps year-on-year). Payment deferrals granted to customers reduced the level of new arrears. Later stage arrears increased because all legal proceedings relating to recoveries were temporarily suspended.

Prudent approval policies put the portfolio's simple average LTV at 42%. 4% of the portfolio has an LTV of between 85% and 100%. These policies resulted in no sign of risk quality deterioration in new business.

The chart below shows the LTV structure of residential mortgages as of December 2020:

Loan to value

Dec.20 data



Loan to value: relation between the amount of the loan and the appraised value of the property. Based on indices.

Our credit risk policies explicitly forbid loans regarded as high risk (subprime mortgages) and establish strict credit quality requirements for transactions and customers.

Spain

General overview

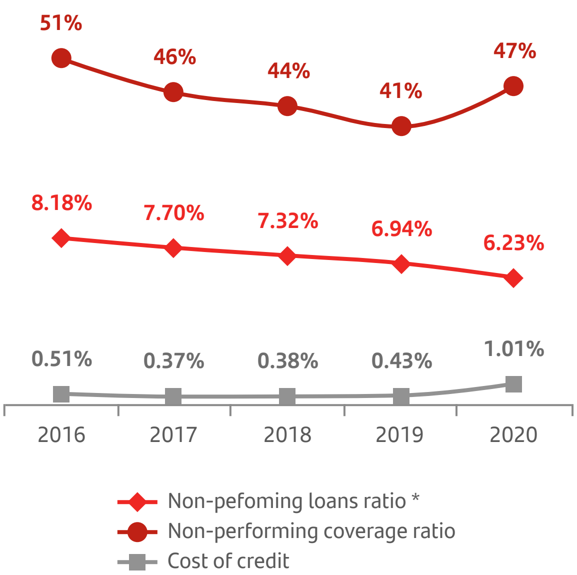
Santander España's credit risk totalled EUR 221,341 million (22% of Grupo Santander's total). It is appropriately diversified in terms of products and customer segments.

In a backdrop of lower economic and credit growth, with a significant deterioration in macroeconomic figures after the covid-19 lockdown from March to May, new lending to consumers, SMEs and corporates increased, helped by financing lines and other liquidity programmes (*Instituto de Crédito Oficial* - ICO). Total credit risk increased by 3.6% compared to December 2019, including ICO loans by EUR 25,510 million.

The total portfolio's NPL ratio was 6.23%, 71 bps less than in December 2019, Fewer defaults reduced the ratio by 48 bps, due to overall better performance driven by customer support programmes, the cure of several restructured debts and portfolio sales. Additionally, this positive effect was helped by the aforementioned growth in the loan portfolio, which decreased the ratio by 21 bps.

Additional provisions related to covid-19 increased the non-performing coverage rate to 47% (+6 pp vs. December 2019). Moreover, NPL reduction was mostly with loans with higher expected loss.

Cost of credit reflects the higher provisions due to the pandemic.

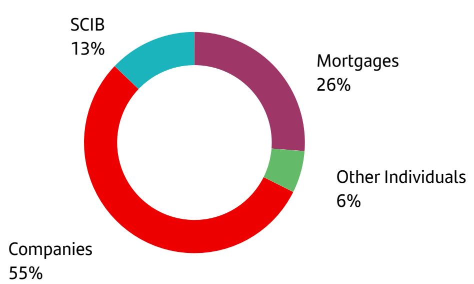


*Includes Santander España and Banco Popular.

Santander España's portfolio is divided into these segments:

Portfolio segmentation

Dec.20 data



Residential mortgages performance

Santander España's residential mortgages portfolio amounted to EUR 58,079 million. Residential mortgages account for 26% of total credit risk in Spain. 99.3% have a mortgage guarantee.

Residential mortgages[A]

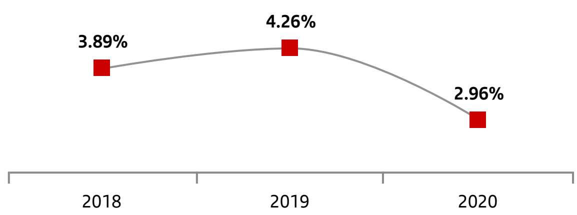
EUR million

	2020	2019	2018
Gross Amount	**58,079**	**60,557**	**61,453**
Without mortgage guarantee	387	306	545
With mortgage guarantee	57,692	60,251	60,908
of which non-performing loans	**1,784**	**2,581**	**2,425**
Without mortgage guarantee	75	14	54
With mortgage guarantee	1,709	2,567	2,371

A. Excluding SC España mortgage portfolio (EUR 1,526 million in December 2020 with doubtful loans for EUR 66 million).

The NPL ratio for residential mortgages granted to households was 2.96%. It fell 130 bps from December 2019, mainly owing to non-performing portfolio sales.

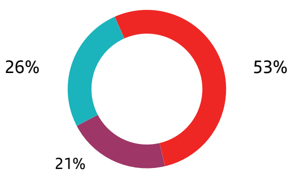
NPL ratio, residential mortgages (%)



The residential mortgage portfolio in Spain maintained a medium-low risk profile with limited expectations of additional impairment:

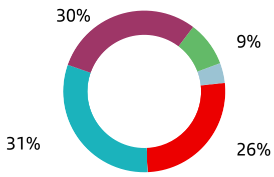
- Principal is repaid on all mortgages from the start.
- Early repayment is common, so the average life of transactions is shorter than the contract's duration.
- High quality of collateral, concentrated almost exclusively in financing for first homes.
- The average affordability rate stood at 27%.
- 87% of the portfolio has an LTV below 80%, calculated as the ratio of total risk to the latest available home appraisal.
- All customers applying for a residential mortgage are subject to a rigorous assessment of credit risk and affordability, in which credit analysts must determine if their income is sufficient to pay loan instalments and will be stable throughout the term of the loan.

Debt to income*



DI < 30%
30% < DI < 40%
DI > 40%
Average 27%

Loan to value (%)**



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 with SME and corporates, which is Santander España's core lending segment, amounted to EUR 149,646 million and accounting for 68% of total credit risk. Most of the portfolio is customers with an assigned credit analyst to monitor their loans throughout the risk cycle.

The portfolio is highly diversified and not concentrated in any sector.

Its NPL ratio stood at 7.04% in December 2020 and, even though total risk decreased, fell by 21 bps from December 2019 owning to better repayment performance driven by customer support programmes, the cure of several restructured exposures in corporates and portfolio sales. 2020 growth was mainly in liquidity support programmes (ICO).

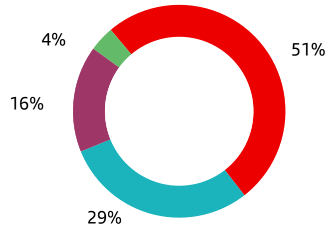
United States

General overview

Santander US's credit risk increased to EUR 99,135 million by the end of 2020. It represents 10% of Grupo Santander's total credit risk and includes these subsidiaries:

Business units segmentation

Dec.20 data



SBNA: Santander Bank N.A
SC USA: Santander Consumer USA
NYB - SIS: Santander Investment Securities
BSI: Banco Santander International

The US economy in 2020 went from the worst contraction recorded in history to one of the fastest recoveries. States eased covid-19 lockdown restrictions in the spring and summer. Unprecedented fiscal and monetary stimulus packages were put in place. Unemployment declined (6.7% in December) but remained more than double the pre-pandemic rate of 3.5%, with job gains showing a more gradual recovery.

As of December 2020, Santander US's credit lending decreased by 6% compared to December 2019, particularly in the individual's portfolio and the corporate business of SBNA. Excluding the exchange rate effect, growth was 2.4%. In 2020, the sale of the banking franchise in Puerto Rico was also completed in the third quarter of the year.

During the covid-19 crisis, Santander US has continued to support its customers, employees and communities while pursuing its strategic priorities. The NPL ratio remained at moderate levels, 2.04% (-16 bps in the year). However, cost of credit rose slightly to 2.86% (+1 bp in the year) as the uncertain macroeconomic environment drove the need for higher provisions.

The performance of Santander US units is described below.

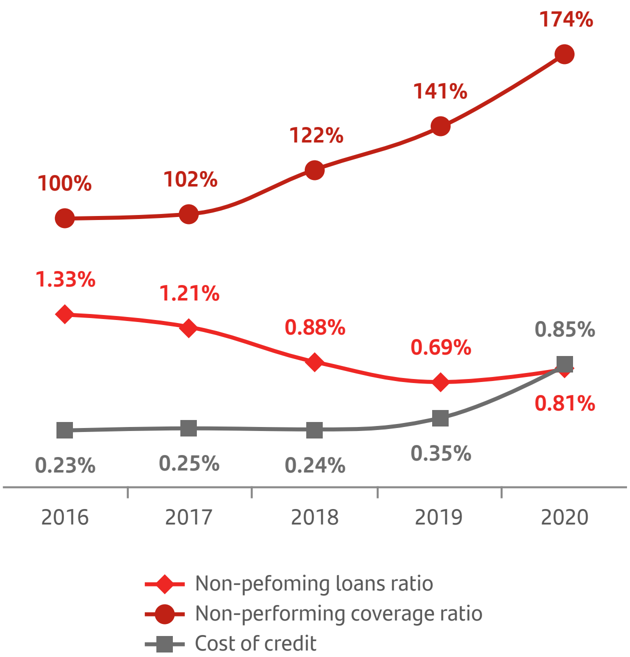
Business units performance

Santander Bank N.A.

Santander Bank N.A.'s business is mainly retail and commercial banking. It accounts for 84% of Santander US's total credit risk, of which 39% is with individuals and approximately 61% with corporates. Its primary goals include increasing the SCIB business (16% of the portfolio) by enhancing customer experience and growing core customers and deposits through digital, branch and commercial transformation initiatives; leveraging its deposit base to support its commercial real estate businesses; and strengthening its auto finance partnership.

The 12% decrease in lending in 2020 affected all segments. Excluding the exchange rate effect, the drop was lower, standing at 4%.

The NPL ratio increased to 0.81% (+12 bps in the year) as of December 2020 and credit increased to 0.85% due to provisions stemming from the covid-19 pandemic.



Santander Consumer USA

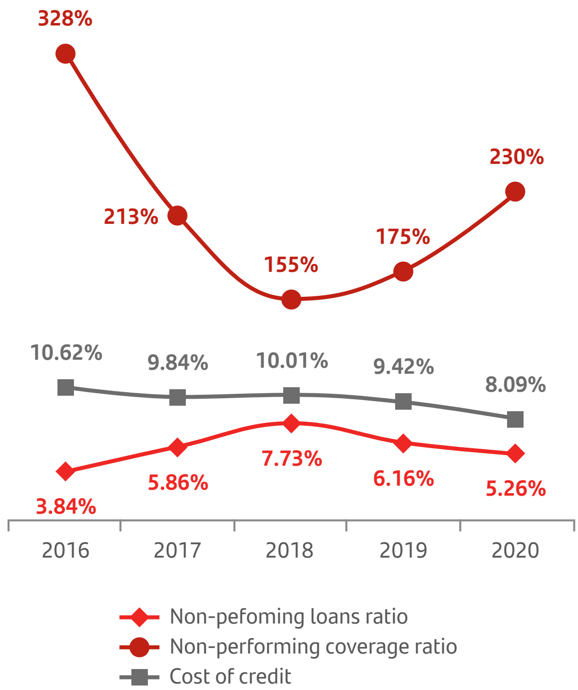
SCUSA presents higher risk indicators than other Santander US units due to the nature of its business. Its automobile financing business through loans and leases represents 97% of its revenues. It also has a smaller personal lending portfolio (3%).

SCUSA's focus remains on managing the relationship between profitability and risk through pricing while improving the dealer experience.

In 2020, loan originations grew by more than 20% from 2019, mainly in the prime segment on the back of the commercial relationship we have had with Fiat Chrysler Automobiles (FCA Group) since 2013(renewed in July 2019). Auto originations improved particularly in the third quarter as covid-19 restrictions were lifted and dealership activity returned to normal. Prime loans remained elevated from the prior year due to FCA Group incentive programmes.

The NPL ratio dropped to 5.26% (-90 bps in the year). Cost of credit at the end of December stood at 8.09% (-133 bps in the year). Annual net credit losses decreased from last year due to the lower charge-offs resulting from covid-19 loan extensions, federal stimulus and higher recoveries driven by the higher auction prices. Furthermore, due to the decrease in NPL, the non-performing coverage ratio grew to 230% (+55 pp in the year).

Leases carried out exclusively under the FCA Group agreement, primarily with highly creditworthy customers, decreased by 6% to EUR 13,903 million, providing stable and recurring earnings. The management and mitigation of residual value remains a priority.



Brazil

General overview

Economic growth had one of the most moderate declines in Latin America between March and April. Recovery started in May, owing to relaxed confinement measures, the reopening of businesses, fiscal and monetary stimuli, low inflation (4.5% in December vs 4% target), and an expansive monetary policy, with the official rate of interest at 2% from 4.50% at the end of 2019.

Santander Brasil's credit risk amounted to EUR 74,712 million. It decreased by 16% from 2019. Minus the exchange rate effect, it grew by 19%. As of December 2020, Santander Brasil accounts for 8% of Grupo Santander's loan book.

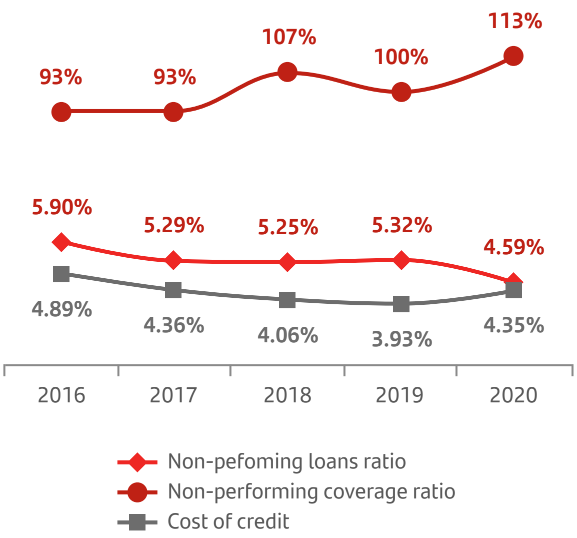
In line with strategy, growth was prominent in retail segments with a more conservative risk profile, driven by customer engagement and loyalty and by new business on digital channels, which significantly increased last year.

The profitability of the SME portfolio increased significantly, boosted by an active loan origination under government programmes (EUR 1.79 billion) to combat the pandemic that provided SMEs with liquidity to adapt to the new environment.

A proactive credit risk management approach was key to achieving a profitable increase in market share, while credit quality indicators remained at moderate levels.

Net loan-loss provisions stood almost flat at EUR 3,018 million (-0.6% compared to 2019), favoured by the exchange rate effect. In local currency, provisions grew by 31% mainly driven by additional provisions related to covid-19.

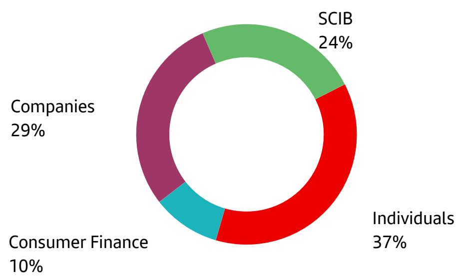
Cost of credit rose to 4.35% from 3.93% at the end of 2019, driven by the current convid-19 pandemic context, as well as the provisions evolution aforementioned.



Santander Brasil's loan book is distributed as follows:

Portfolio segmentation

Dec.20 data



It is diversified and has an increasing retail profile, with 76% of loans extended to individuals, consumer financing and companies.

Portfolio performance

In 2020 moratorium campaigns had a strong influence on the portfolio. The NPL ratio fell to 4.59% from 5.32% at December 2019, and the coverage ratio increased to 113% from 100%.

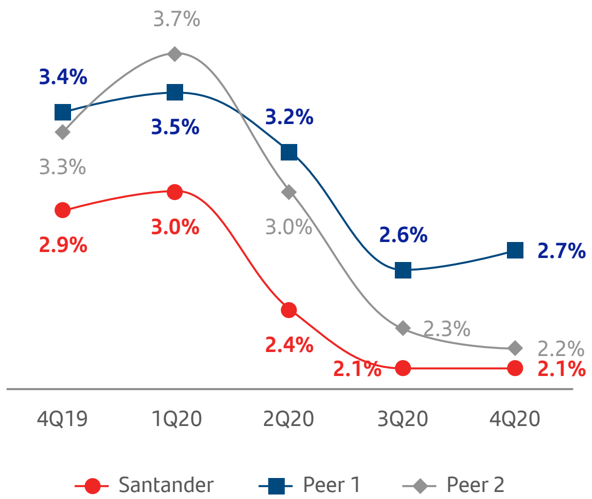
In the individuals segment, growth in local currency was strong. Market share of payroll loans, mortgages and other low-risk products increased.

SME lending performed beyond expectations and started to show signs of recovery. All ratios returned to pre-crisis levels. The portfolio was also well provisioned and saw continuous improvement in its risk profile. We must pay close attention to the maturities of government programmes and other payment deferrals to confirm the recovery of the SME market.

To monitor the credit quality of our loan book and prevent deterioration, one of the main credit risk performance indicators we track is the 'Over 90' impairment ratio. It continues to indicate that Grupo Santander is outperforming its local peers, having stood at 2.1% at the end 2020 (-80 bps vs 2019 year-end), below the average of its competitors.

Over 90 total (%) - PDTE

Dec. 20 data



3.6 Other credit risk details

Credit risk due to our activity in financial markets

This section covers credit risk generated in treasury activities with customers (particularly credit institutions) through money market financing and counterparty risk products, to satisfy their needs.

According to Regulation (EU) 575/2013, counterparty credit risk, which includes derivative instruments, transactions with a repurchase obligation, stock and commodities lending, transactions with deferred repayment and financing of guarantees, arises from the likelihood that a counterparty will default before the final settlement of the transaction's cash flows. We follow two methodologies to measure exposure: mark-to-market (MtM) (replacement value of derivatives) with the potential future exposure 'add-on'; and the Montecarlo simulation to calculate exposures for some countries and products. We also calculate capital at risk and unexpected loss, which is the difference between the economic capital, net of guarantees and recoveries, and expected loss.

After market close, we recalculate exposures by adjusting transactions to their new time frame, adapting potential future exposure and applying mitigation measures (netting, collateral, etc.) to control exposures directly against the limits approved by senior management. We run risk control with an integrated system in real time that enables us to know the exposure limit with any counterparty, product and maturity and in any of Santander's subsidiaries at any time.

Exposures to counterparty risk: over the counter (OTC) transactions and organised markets (OM)

At December 2020, according to management criteria for positive market value after applying netting agreements and collateral for counterparty risk activities, total exposure was EUR 5,235 million (net exposure of EUR 30,139 million).

Counterparty risk: exposure in terms of market value and credit risk equivalent, including the mitigation effect[A]

EUR million

	2020	2019	2018
Market value, netting effect[B]	37,204	37,365	29,626
Collateral received[C]	31,970	30,100	19,885
Market value with netting effect and collateral[D]	5,235	7,265	9,741
Netting effect[E]	30,139	32,552	33,289

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.

This table shows how the nominal value and market value of products that generate counterparty credit risk are distributed. Counterparty risk is primarily in interest and exchange rate hedging instruments:

Counterparty risk: Distribution by nominal risk and gross market value[A]

EUR million

	2020			2019			2018		
	Nominal	Market value		Nominal	Market value		Nominal	Market value	
		Positive	Negative		Positive	Negative		Positive	Negative
Credit derivatives[B]	14,530	145	(215)	29,805	312	(1,357)	24,994	130	(875)
Equity derivatives	53,821	2,973	(1,848)	71,401	2,481	(1,836)	63,042	2,951	(1,840)
Fixed income derivatives	11,370	47	(386)	23,136	119	(177)	9,927	121	(59)
Exchange rate derivatives	863,001	25,341	(27,071)	897,886	21,053	(23,260)	781,641	21,743	(20,098)
Interest rate derivatives	4,917,944	143,679	(139,261)	5,089,817	112,128	(108,651)	5,000,406	86,079	(86,411)
Commodity derivatives	3,732	83	(15)	735	56	(27)	2	—	—
Total OTC derivatives	**5,695,339**	**170,911**	**(167,650)**	**5,944,977**	**135,194**	**(134,392)**	**5,770,317**	**111,025**	**(109,282)**
Derivatives organised markets[C]	**169,059**	**1,357**	**(1,147)**	**167,803**	**955**	**(917)**	**109,695**	**902**	**(1,129)**
Repos	**146,984**	**3,978**	**(7,311)**	**143,163**	**4,334**	**(2,722)**	**149,006**	**2,352**	**(2,466)**
Securities lending	**46,418**	**12,500**	**(26,072)**	**48,786**	**17,490**	**(23,652)**	**43,675**	**12,425**	**(22,272)**
Total counterparty risk[D]	**6,057,800**	**188,746**	**(202,180)**	**6,304,729**	**157,973**	**(161,682)**	**6,072,693**	**126,704**	**(135,150)**

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.

Grupo Santander 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.20 data

	Up to 1 year	Up to 5 years	Up to 10 years	More than 10 years	TOTAL
Credit derivatives[B]	26%	66%	3%	6%	14,530
Equity derivatives	59%	39%	2%	0%	53,821
Fixed income derivatives	80%	20%	0%	0%	11,370
Exchange rate derivatives	50%	29%	15%	6%	863,001
Interest rate derivatives	34%	39%	18%	10%	4,917,944
Commodity derivatives	67%	29%	2%	1%	3,732
Total OTC derivatives	**35%**	**38%**	**18%**	**9%**	**5,695,339**
Derivatives organised markets[C]	**65%**	**34%**	**1%**	**0%**	**169,059**
Repos	**93%**	**7%**	**0%**	**0%**	**146,984**
Securities lending	**99%**	**1%**	**0%**	**0%**	**46,418**
Total counterparty risk	**38%**	**36%**	**17%**	**9%**	**6,057,800**

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.

Despite the decline in the credit quality of some counterparties, counterparty credit risk is mainly in highly creditworthy customers (86.4% of counterparty risk rated A or higher), particularly financial institutions (23%) and clearing houses (70%).

Distribution of counterparty risk by customer rating (in nominal terms)[A]

Dec.20 data

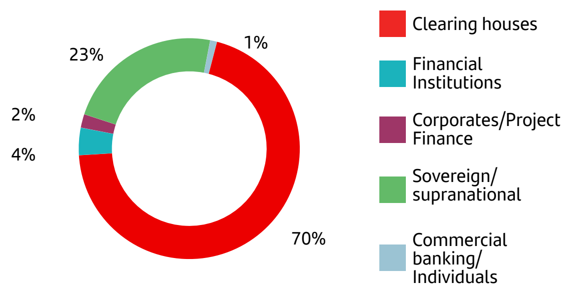
Rating	%
AAA	0.20%
AA	3.48%
A	82.73%
BBB	11.94%
BB	1.57%
B	0.05%
Other	0.02%

A. Ratings based on internally defined equivalences between internal ratings and credit agency ratings.

Transactions with clearing houses and financial institutions are subject to netting and collateral agreements. We make constant efforts to make sure other transactions are covered under these agreements. Most collateral agreements Grupo Santander signs are bilateral, with a few exceptions with multilateral institutions and securitisation funds (in which case agreements are unilateral in the customer's favour).

Counterparty risk by customer segment

2020 data



Collateral, which we use to reduce counterparty risk, consists of instruments that have certain economic value and high liquidity. One counterparty deposits or transfers it in favour of another to guarantee (or reduce) any counterparty credit risk resulting from portfolios of derivatives with cross-risk.

We regularly appraise transactions subject to collateral agreements (usually daily). We apply contractual parameters to quantify the collateral (usually cash or securities) to be paid or received from the counterparty.

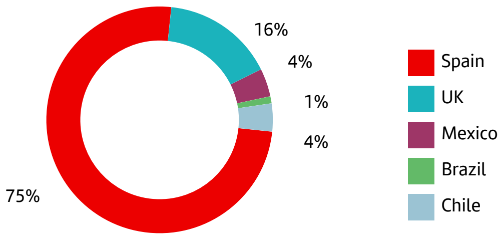
Amid the hardships caused by the pandemic in 2020, the processes to correctly manage collateral in Grupo Santander were notably effective, having become more frequent at the beginning of the year.

The collateral received by Grupo Santander under CSA, OSLA, ISMA, GMRA and other collateral agreements amounted to EUR 31,970 million, including EUR 17,295 million in mostly cash collateral for derivatives (77%). Other collateral is subject to strict quality policies on issuer type and rating, debt seniority and haircuts.

Received collateral is geographically distributed as follows:

Collateral received. Geographic distribution

Dec.20 data



Grupo Santander includes a credit valuation adjustment (CVA) for over-the-counter (OTC) derivatives when calculating the results of trading portfolios to account for credit exposure risk with each counterparty. It also includes a debt valuation adjustment (DVA) for counterparties' risk relating to Grupo Santander itself on OTC derivatives. At the end of December 2020, CVA adjustments amounted to EUR 272,1 million (a decrease of 22.4% compared to the end of 2019) and DVA adjustments were EUR 171 million (a decrease of 34.6%). This caused credit spreads to fall by approximately 40% in the most liquid periods. The definition and methodology for calculating the CVA and DVA are set out in the section 4.2 'Market risk management'.

The tables below show the weighting of trades settled through clearing houses as a portion of total counterparty risk at December 2020:

Counterparty risk, organised markets and clearing houses

Where possible, Grupo Santander's policies aim to anticipate new regulations on OTC derivatives, repos and securities lending settled through clearing houses or traded bilaterally. Gradual standardization of OTC trading in recent years has allowed for the clearance or settlements of new trades by clearing houses (according to recent regulation) and for increased internal use of electronic execution systems.

We actively manage trades not settled through clearing houses to optimize volumes in view of new regulatory requirements on margins and capital.

Even though counterparty risk management does not consider credit risk on these trades, we have been calculating regulatory credit exposure for organized market trades since 2014, when CRD IV (Capital Requirements Directive) and CRR took effect, transposing the Basel III principles for calculating capital.

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	8,285	59.8%	6,245	40.2%	—	0.0%	14,530
Equity derivatives	15,545	29.8%	62	0.1%	38,214	71.0%	53,821
Fixed income derivatives	11,370	100%	—	0.0%	—	0.0%	11,370
Exchange rate derivatives	827,299	95.9%	31,043	3.6%	4,660	0.5%	863,001
Interest rate derivatives	770,923	15.7%	4,020,927	81.8%	126,094	2.6%	4,917,944
Commodity derivatives	3,641	97.6%	—	0.0%	91	2.4%	3,732
Repos	107,587	73.2%	39,397	26.8%	—	0.0%	146,984
Securities lending	46,418	100%	—	0.0%	—	0.0%	46,418
Total	**1,791,067**		**4,097,674**		**169,059**		**6,057,800**

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

	2020	2019	2018
Credit derivatives	6,245	11,556	4,231
Equity derivatives	62	370	32,229
Fixed income derivatives	—	—	—
Exchange rate derivatives	31,043	43,358	36,928
Interest rate derivatives	4,020,927	4,087,255	4,025,674
Commodity derivatives	—	0	2
Repos	39,397	23,933	41,492
Securities lending	—	—	—
Total	**4,097,674**	**4,166,472**	**4,140,556**

A. Figures under internal risk management criteria.

Credit derivatives

Santander uses credit derivatives to cover loans, customer business in financial markets and trading. Trading volume is small in terms of our notional (0.4% of total counterparty risk notional) and is subject to a solid set of internal controls and procedures to minimize operational risk.

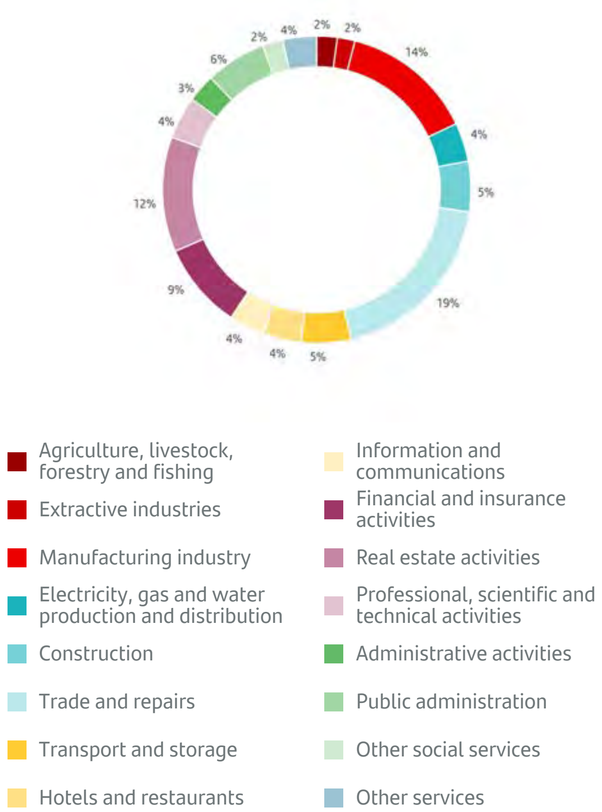
Concentration risk

Concentration risk control is key for our management. We continuously monitor the degree of concentration of our credit risk portfolios using regions and countries, economic sectors, groups of customers and other criteria.

According to risk appetite, the board sets 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 them, the executive risk committee establishes risk policies and reviews the appropriate exposure levels for the effective management of the degree of concentration in our credit risk portfolios.
As indicated in the key metrics section of this chapter, in geographical terms, our credit risk with customers is diversified among our core markets (United Kingdom 27%, Spain 22%, United States 10%, Brazil 8%, etc.).

In terms of sector diversification, approximately 55% of our credit risk is with individuals, who are inherently highly diverse. Our lending portfolio is also well distributed, with no significant concentrations in specific sectors. The chart below shows the distribution at December 2020:

Diversification by economic sector[A]



A. Excluding individuals and reverse repos.

Grupo Santander must adhere to CRR stipulations on large risks. Thus, the exposure we contracted with a customer or group of associated customers will be a large exposure provided its value is equal to, or greater than, 10% of eligible capital. To limit large exposures, no entity may assume ones exceeding 25% of 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 as of the end of December. Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 5% of outstanding credit risk (lending to customers and off-balance sheet risks) as of December 2020.

Our Risk division closely works with the Finance division to manage credit portfolios. Activities include reducing the concentration of exposures through credit derivatives, securitizations and other techniques to optimize the risk-reward of the entire portfolio.

Country risk

Country risk is a component of credit risk arising in transactions with clients resident in a particular country due to circumstances other than usual business risks. It consists of sovereign risk, transfer risk and others that might affect international financing transactions (wars, natural disasters, current account balance crises, among others). It is embedded in our provisioning models and processes, in compliance with the applicable regulation.

Our country risk management continued to follow a standard of maximum prudence. We assume country risk very selectively in transactions that enhance the global relationship with our customers.

Sovereign risk and risk with government agencies

Sovereign risk occurs in transactions with a central bank. It includes the regulatory cash reserve, issuer risk with the Treasury (public debt portfolio) and risk from transactions with government institutions whose funding only come from the state's budgetary revenue and not commercial operations.

Our historic criteria can differ from regular EBA stress test standards. Though the EBA does include national, regional and local government institutions, it does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments.

According to our management criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (EUR 12,080 million, 3.8% of total sovereign risk). Furthermore, exposure to non-local sovereign issuers involving cross-border[14] risk is even less significant (EUR 7,168 million, 1.8% of total sovereign risk).

Our sovereign exposure in Latin America is mostly in local currency and recognized in local accounts with predominantly short-term maturities. Over the past few years, total exposure to sovereign risk has remained in line with regulatory requirements and our strategy to manage this portfolio.

The shifts in our sovereign risk in our countries is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Santander's exposure spreads among countries with varied macroeconomic outlooks and dissimilar growth, interest and exchange rate scenarios.

Our investment strategy for sovereign risk considers countries' credit quality to set the maximum exposure limits. The following table shows the percentage of exposure by rating level[15]:

	2020	2019	2018
AAA	18%	20%	11%
AA	25%	24%	20%
A	25%	18%	31%
BBB	14%	15%	13%
Lower than BBB	18%	23%	25%

[14] Countries that are not considered low risk by Banco de España
[15] Internal ratings are applied

Sovereign exposure at the end of December 2020 is shown in the table below (data in million euros):

	2020					2019
	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	4,100	7,048	13,097	—	24,245	35,366
Portugal	(380)	4,148	4,962	—	8,730	8,689
Italy	249	2,468	1,298	—	4,015	2,735
Greece	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Rest Eurozone	(29)	1,687	2,396	—	4,054	1,809
UK	(1,672)	612	963	—	(97)	10,363
Poland	16	10,263	668	—	10,947	8,366
Rest of Europe	7	121	942	—	1,070	777
US	589	9,501	5,458	—	15,548	16,299
Brazil	5,127	17,281	5,309	—	27,717	28,998
Mexico	8,005	10,256	2,768	—	21,029	13,673
Chile	148	6,732	75	—	6,955	3,460
Rest of America	19	397	542	—	958	1,029
Rest of the World	—	3,776	976	—	4,752	4,813
Total	**16,179**	**74,290**	**39,454**	**—**	**129,923**	**136,377**

4. Market, structural and liquidity risk

4.1 Introduction

This section refers to the management and control of Grupo Santander's market risk in 2020. It covers trading as well as structural and liquidity risks. It also includes a brief description about our methodologies and metrics.

Activities exposed to market risk encompass transactions where risk is assumed as a consequence of potential changes in interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices, volatility and other market factors; the liquidity risk from our products and markets, and the balance sheet liquidity risk. Therefore, they include trading risks and structural risks.

- **Interest rate risk** arises from changes in interest rates that could adversely affect the value of a financial instrument, a portfolio or the group as a whole. It affects loans, deposits, debt securities and most assets and liabilities in trading books and derivatives.
- **Inflation rate risk** originates from changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the entire group. It affects instruments such as loans, debt securities and derivatives, where returns are linked to future inflation values or a change in the current rate.
- **Exchange rate risk** is the sensitivity of a value of a position not denominated in the base currency to shifts in exchange rates. A long or open position in a foreign currency may produce a loss if it depreciates against the base currency. Exposures affected by this risk include non-euro investments in subsidiaries and 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 expectations about future dividends. This affects positions in shares, stock market indices, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, etc.).
- **Credit spread risk** is the sensitivity of the value of open positions in fixed income securities or credit derivatives to movements in the 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.
- **Commodity price risk** is the risk from changes in commodity prices. Our exposure to this risk is not significant, mainly coming from our customers' derivative transactions in commodities.
- **Volatility risk** is the sensitivity of the value of a portfolio to changes in the volatility of interest rates, exchange rates, shares, credit spreads and other risk factors. It is incurred by financial instruments in which volatility affects valuation. The most significant case is the financial options portfolio.

These market risks can be partly or fully mitigated with derivatives such as options, futures, forwards and swaps. However, there are other types of market risk that require more complex hedging:

- **Correlation risk** is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation) of the same type (e.g., two exchange rates) or different types (e.g., an interest rate and the price of a commodity).
- **Market liquidity risk** originates when Grupo Santander or a subsidiary cannot reverse or close a position without an impact on the market price or the transaction cost. Market liquidity risk can arise from a reduction in market makers or institutional investors, the execution of a large volume of transactions or market instability. It could also increase depending on how exposures are distributed among products and currencies.
- **Pre-payment or cancellation risk** originates when mortgages, deposits and other on-balance-sheet instruments give holders the option to buy or sell them, thus altering future cash flows. Potential mismatches on the balance sheet 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** arises when an entity underwrites or places securities and other types of debt and assumes the risk of having to acquire issued securities partially if buyers have not taken them up.
- **Balance sheet liquidity risk (u**nlike market liquidity risk) is the possibility of meeting payment obligations late or at an excessive cost. Losses may be caused by forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.
- **Pension and actuarial risks** also depend on shifts in market factors. Further details are at the end of this section.

We make sure we comply with the Basel Committee's Fundamental Review of the Trading Book and the EBA guidelines on balance-sheet interest-rate risk. Through several projects, we aim to provide risk managers and control teams with the best tools to manage market risks under the right governance framework for the models we use, to report risk metrics, and help satisfy requirements on these risks.

IBOR Reform

Since 2015, central banks and regulators in several major jurisdictions have promoted the transition to suitable replacements for some existing IBOR (Interbank Offered Rates) benchmarks such as Euro Overnight Index Average (EONIA) and London Interbank Offered Rates (LIBORs).

In order to monitor and address the challenges of the transition, Santander launched the IBOR Transition Programme in 2019. This programme has a group wide scope and reports on a regular basis to our top management involving statutory committees. Its main objective is to ensure a smooth operational transition and to anticipate and address any potential customer and conduct related issues. It also aims to ensure that all impacted areas, business units and geographies understand the risks associated with the transition in a homogeneous way and can take appropriate measures to mitigate them.

The programme is aligned with the recommendations, guidance and milestones defined by regulators and working groups of different jurisdictions. Santander is engaged with the related public and private sector initiatives and participates in the WG Risk Free Rate Groups of different jurisdictions in Europe and America. We provide active feedback on the multiple consultations issued by industry forums, market and bank associations and other public organisms on this issue.

For more details on IBOR reform, see Notes to the consolidated annual accounts nº 53 section 'c) Trading market risk management'.

4.2 Market risk management

Limits management and control system

The covid-19 pandemic significantly affected financial markets in the first half of 2020. Greater uncertainty and higher risks set in as stock prices plummeted, volatility spiralled, treasury bond yields reached record lows, credit-default-swap indices surged and fair values changed significantly. Pricing feeds split across almost all asset classes and market liquidity declined, while bid-offer spreads, intraday fluctuations and market volatility (both realized and implied) increased.

In those challenging market conditions and complex environment, our risk management showed strength, and reliability and the right controls. Our low risk profile saw open positions in our trading portfolios fall, despite spikes in daily VaR levels in March and April (mainly resulting from the Weighted VaR methodology, which puts greater weight on recent market scenarios).

Market risk functions' daily monitoring makes sure market risk positions remain within approved limits. It assesses the performance of, and major changes in, market risk metrics, and distributes regular reports to senior management and other internal and external stakeholders so market risk activities can be properly monitored.

Setting market risk limits is a dynamic process that follows predefined risk appetite levels (see 'Risk appetite and structure of limits' paragraph in section 2.4 'Management processes and tools'). It is part of senior management's annual limits plan that extends to all subsidiaries. It is a prudent approach based on these metrics to cover market risk from various standpoints:

- 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 on the volume of effective losses to protect earnings from the period:
  - Loss trigger.
  - Stop loss.
- Credit limits:
  - Total exposure limit.
  - Jump to default by issuer limit.
  - Others.
- Limits for origination transactions.

Those general limits include sub-limits. They establish a sufficiently granular structure to control market risk factors Grupo Santander is exposed to in trading. We monitor subsidiaries' positions daily, mindful of changes in portfolios and trading desks to find events in need of immediate correction and comply with the Volcker Rule.

We establish global approval and control limits, global approval limits with local control, and local approval and local control limits. The head of each country unit or subsidiary requests them based on business type and budget targets, seeking consistency with the risk/return ratio. Limits are approved by the risk bodies in accordance with governance processes.

Subsidiaries must comply with the approved limits. Local executives must explain breached limits and an action plan to correct them in writing and on the day of the breach. Actions could involve reducing a position within the limits or formulating a strategy that justifies a limit increase.

Methodologies and key aspects

a) Value at Risk

Value at Risk (VaR), our standard methodology for risk management and control in trading, measures the maximum expected loss with a specific level of confidence and time frame. The standard for historical simulation is a confidence level of 99% over one day. We apply statistical adjustments efficiently to incorporate recent developments affecting our levels of risk. Our time frame is two years or at least 520 days from the reference date of the VaR calculation.

We report the higher of two VaR figures we calculate daily. One applies an exponential decay factor that allocates less weight to the oldest observations; the other has the same weight for all observations.

We also simultaneously calculate Value at Earnings (VaE). It measures the maximum potential gain with a certain level of confidence and specific time frame under the same methodology for VaR.

VaR by historical simulation has many advantages as a risk metric. It sums up the portfolio's market risk in a single number. It is based on actual market movements without assuming functions, forms or correlations between market factors.

However, the VaR metric has some limitations, regardless of the methodology to calculate it. In particular:

- As VaR calculation has a certain level of confidence, it does not indicate the levels of potential losses beyond it.
- The liquidity horizon of some products in the portfolio is greater than the VaR model's.
- VaR is a static analysis of portfolios' risk, subject to significant (albeit unlikely) changes in the following day.

The historical simulation methodology also has limitations:

- High sensitivity to the time frame used.
- Inability to capture plausible high-impact events if these do not occur during the time frame used.
- Valuation parameters with no market input (such as correlations, dividends and recovery rates).
- Slow adjustment to new volatilities and correlation, if the newest and oldest data receive the same weight.

Using stressed VaR and expected shortfall (ES) help overcome some of these limitations. We calculate VaR with exponential decay, apply conservative valuation adjustments, and regularly conduct analyses and backtesting to assess the accuracy of the VaR calculation model.

b) Stressed VaR (sVaR) and expected shortfall (ES)

We calculate sVaR daily for our main portfolios with the same methodology as for VaR, with these exceptions:

- We use a window of 260 observations (as opposed to 520 for VaR) over a continuous period of stress on a portfolio. We do the calculation for each major portfolio by analysing the history of a subset of selected market risk factors based on expert judgement and the most significant positions in the books.
- Unlike VaR, we obtain sVaR by using the percentile with uniform weighting, and not with the higher of the percentiles with exponential and uniform weightings.

To calculate expected shortfall (ES), we estimate the value of a potential loss that is higher than the level set by VaR. We also apply uniform weights to all observations. 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.

According to the Basel Committee, an ES with a 97.5% confidence interval delivers a level of risk similar to VaR at a 99% confidence interval.

c) Scenario analysis

Risk measures used in Grupo Santander are based on daily risk management and decision-making assumptions. They include normal market conditions, continuous prices and adequate liquidity. However, they many not fully anticipate extreme movements or unexpected strong changes in the market.

We also run scenario analyses of unexpected events involving a variety of risks that indicate how much capital they would require to absorb losses.

These stress scenarios are important to estimate future risk; overcome the limitations of models and historical data; support liquidity and capital stock plans; report on risk tolerance levels; and develop risk reduction and contingency plans under stress conditions.

We regularly calculate and analyse stress scenarios for our subsidiaries with trading activities, which include historical scenarios, hypothetical scenarios and reverse stress test scenarios.

d) Gauging and backtesting measures

Regulations dictate that the VaR model should accurately capture material risks. VaR uses statistical techniques under normal conditions. Therefore, for a certain confidence level and for a defined time horizon, the estimated maximum loss can differ from real losses. Grupo Santander regularly analyses the VaR calculation model to confirm its accuracy.

Market risk functions run internal backtesting, VaR contrast measures and hypothetical portfolio analyses for subsidiaries the internal market risk model covers. For subsidiaries with an approved internal model, they also perform regulatory backtesting to count overshooting (when the daily loss or profit exceeds VaR or VaE) affecting the calculation of market risk regulatory capital requirements.

Our backtesting assesses the general quality and effectiveness of the risk measurement model and compares the daily VaR/VaE obtained on *D-1* with these P&Ls obtained on *D*:

- Economic P&L is calculated on the basis of end-of-day mark-to-market or mark-to-model values. This test checks whether the VaR/VaE methodology used to measure and aggregate risk is adequate.
- Actual P&L is calculated daily based on the difference between the portfolio's end-of-day value and actual value at the end of the subsequent day. It includes the profit and loss stemming from intraday operations, minus fees, commissions and net interest income. It is used to count regulatory overshootings.
- Hypothetical P&L is calculated daily by comparing the portfolio's end-of-day value and its value at the end of subsequent day, assuming unchanged positions. It doesn't account for the time effect to be consistent with VaR. This backtesting helps us make sure portfolios are regularly subject to an intraday risk not reflected in closing positions

and, therefore, not reflected in VaR. We also use it to count regulatory overshootings.

- Theoretical P&L is calculated with the market risk calculation engine, without intraday results, changes in portfolio positions or time (*theta*). We use it exclusively to test the quality of our internal VaR model.

We run regulatory backtesting on our subsidiaries every day. We also run internal (not regulatory) backtesting daily, weekly and monthly based on the granularity of a given portfolio level.

The number (or proportion) of overshootings we register is one of the most intuitive indicators of a model's goodness of fit. We calculate regulatory backtesting for one year (250 days) and at a VaR confidence level of 99%. We can expect between two and three overshootings per year. To calculate market risk regulatory capital, we obtain the regulatory K[16] based on the number of overshootings between actual and hypothetical backtestings.

e) Analysis of positions, sensitivities and results

Grupo Santander uses positions to quantify the market values of transactions in the portfolio, grouped by main risk factor and considering the delta value of any futures or options. Risk positions can be in the base currency of the subsidiary and the currency used for standardizing information. We monitor positions daily to detect incidents and correct them immediately.

Measurements of market risk sensitivity estimate the variation of an instrument or portfolio's market to changes in a risk factor with analytical approximations given through partial derivatives or a complete revaluation of the portfolio.

The risk area's daily income statement is an excellent indicator of risks and helps identify the impact of changes in financial variables on portfolios.

f) Derivatives activities and credit management

We run controls over derivative activities and credit management daily with specific measures due to their atypical nature. Firstly, we control and monitor underlying assets' sensitivity to price movements (Delta and Gamma), volatility (*vega*[17]) and time (*theta*). Secondly, we systematically review such measurements as sensitivity to the spread, jump-to-default and concentrations of positions by rating.

For credit risk in trading portfolios, we also calculate incremental risk charge (IRC), an additional metric recommended by the Basel Committee and current regulations. IRC covers default risks and ratings migration not adequately captured in VaR through variations in credit spreads.

We apply this metric to public and private fixed-income bonds, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset backed securities, etc.). We calculate IRC using direct measurements of loss distribution tails at an appropriate percentile (99.9%) over a one-year horizon. We follow the *Montecarlo* methodology, applying one million simulations.

g) Credit valuation adjustment and debit valuation adjustment

Grupo Santander calculates trading portfolio results with credit valuation adjustment (CVA) and debit valuation adjustment (DVA). The CVA is for over the-counter (OTC) derivatives and results from the risk associated with the credit exposure assumed with each counterparty.

The CVA for a particular counterparty is the total CVA for all its maturities. To calculate it, we consider such inputs as expected exposure, loss given default, probability of default and a discount factor curve.

DVA is similar to CVA but results of the risk our counterparties assume in OTC derivatives.

4.3 Market risk key metrics

In 2020, market risk levels remained low in a complex environment marked by uncertainty from the impact of the health crisis, trade disputes, low interest rates and Brexit negotiations. Our exposure in trading portfolios was lower in all risk factors compared to previous years.

Risks arose from trading with customers in non-complex instruments. They were mainly focused on hedges of interest rate and exchange rate risks. The contribution of proprietary positions in trading portfolios to overall risk also was substantially lower than in previous years.

In 2020, consumption of trading limits was generally low. Limits are set based on the Group's risk appetite for this type of activity.

Lower risk levels are also evident even under stressed scenarios, as seen in the losses given by stress tests regularly carried out to assess any risks not reflected in usual metrics for controlling and monitoring trading risks.

Market risk capital requirements

We determine required capital for market risk using both internal and standardized models.

In 2019, the ECB authorized Grupo Santander to use internal market risk models to calculate regulatory capital in our trading books in Spain, Chile and Mexico. It also extended Spain's internal model to the Santander London Branch. We aim to gradually extend this approval to other subsidiaries and are working closely with the ECB to analyse the requirements in recently published Basel Committee documents to strengthen banks' capital positions.

Grupo Santander launched the global Market Risk Advanced Platform (MRAP) initiative. It sets out to make our current market risk infrastructure stronger according to the new market risk regulatory framework (FRTB). It also adapts our market risk internal models to the latest TRIM (Targeted Review of Internal Models) guidelines and supervisory expectations. It follows a multi-disciplinary and multi-geographical approach, involving our entities with market-

[16] K: Parameter used for calculating the consumption of regulatory capital due to market risk.
[17] Vega, a Greek term, is the sensitivity of the value of a portfolio to changes in the price of market volatility

risk operations, Market Risk, IT, Front Office, Finance and Regulatory Affairs and other important stakeholders.

In 2020, it significantly enhanced our functional and IT architecture and operating models and generated synergies between initiatives and resources.

Grupo Santander's consolidated regulatory capital under the internal market risk model computes the total regulatory capital of subsidiaries with necessary approval from the ECB. This is a conservative standard for consolidating our capital because we do not contemplate capital savings arising from geographic diversification.

As a result of this approval, we calculate regulatory capital for trading perimeter with advanced approaches. We use VaR, stressed VaR and IRC (incremental risk charge) as fundamental metrics, in keeping with new requirements under the Basel Accords, particularly the CRR.

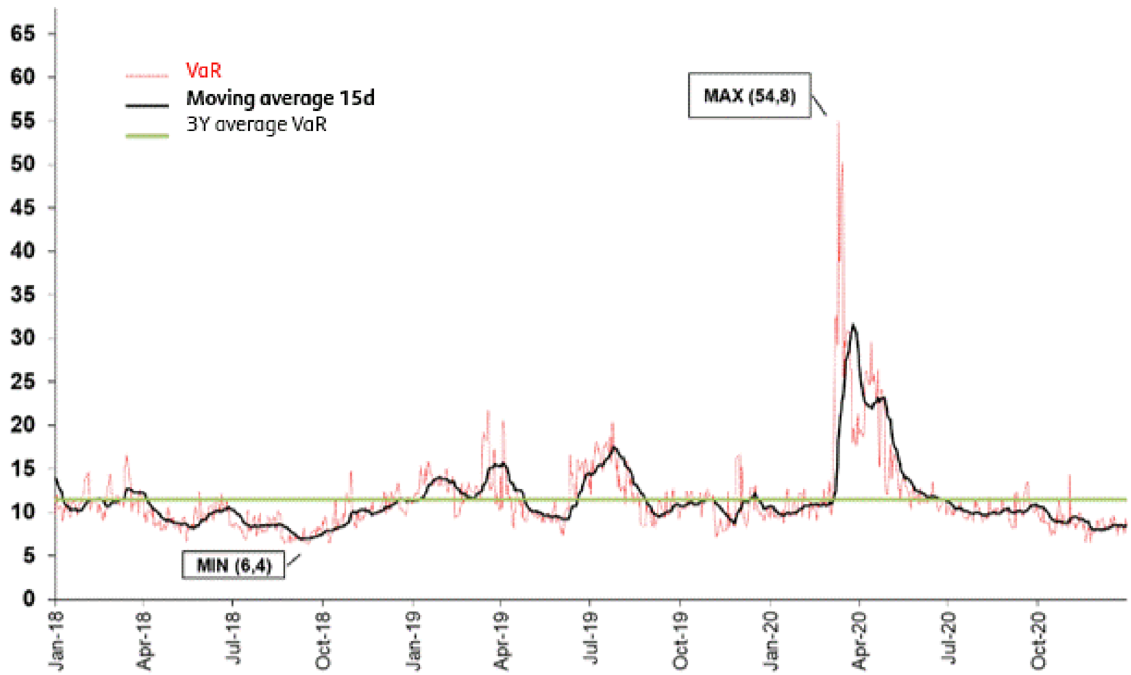
VaR analysis

Grupo Santander focused our strategy on customers' trading, minimizing net directional risk exposures and keeping trades diversified by geography and risk factor. This is reflected in the VaR of the SCIB trading book.

Despite high market volatility, particularly with interest and exchange rates, it was mostly below the average trend of the last three years except for the spike caused in March and April, ending December at EUR 8.3 million.

VaR 2018-2020

EUR million. VaR at 99% over a one day horizon



In 2020, VaR fluctuated between EUR 54.8 million and EUR 6.5 million. The average VaR was EUR 12.5 million, slightly higher than in 2019 and 2018 (EUR 12.1 million and EUR 9.7 million, respectively).

Risk per factor

This table displays the latest and average VaR values at 99% by risk factor over the last three years, the lowest and highest values in 2020 and the ES at 97.5% as of the end of December 2020:

VaR statistics and Expected Shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2020					2019		2018	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**6.5**	**12.5**	**54.8**	**8.3**	**8.1**	**12.1**	**10.3**	**9.7**	**11.3**
Diversification effect	(6.0)	(13.1)	(15.8)	(11.8)	(12.6)	(8.2)	(9.9)	(9.3)	(11.5)
Interest rate	4.7	9.2	29.2	5.4	5.9	10.0	9.2	9.4	9.7
Equities	2.1	4.4	14.7	3.1	3.7	2.9	4.8	2.4	2.8
Exchange rate	2.6	5.9	12.9	6.0	5.5	3.9	2.6	3.9	6.2
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.4	4.1
Commodities	—	0.5	2.5	1.1	1.0	—	—	—	—
Total Europe	**5.0**	**10.5**	**39.1**	**8.0**	**9.3**	**6.3**	**10.1**	**5.0**	**5.5**
Diversification effect	(4.6)	(10.6)	(21.9)	(8.9)	(8.8)	(6.9)	(8.3)	(6.7)	(8.2)
Interest rate	3.2	7.9	24.0	6.5	7.2	6.0	8.2	5.0	5.8
Equities	2.1	4.3	15.0	3.0	3.6	1.9	4.9	1.1	1.2
Exchange rate	1.3	3.5	10.7	2.9	2.7	1.9	1.9	1.7	2.1
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.9	4.6
Commodities	—	—	—	—	—	—	—	—	—
Total North America	**2.8**	**6.6**	**13.7**	**2.9**	**2.7**	**3.5**	**3.8**	**7.2**	**8.3**
Diversification effect	0.7	(2.2)	(5.3)	(1.1)	(0.9)	(1.3)	(21.0)	(4.8)	(2.7)
Interest rate	1.6	3.4	7.1	3.3	3.0	2.6	3.4	6.2	7.7
Equities	0.0	0.3	1.2	0.1	0.1	0.2	0.1	0.1	0.0
Exchange rate	0.5	5.1	10.7	0.5	0.5	2.0	2.4	5.5	3.3
Total South America	**2.4**	**5.6**	**26.4**	**4.5**	**5.0**	**9.5**	**6.0**	**7.2**	**10.0**
Diversification effect	(0.8)	(3.4)	(13.8)	(4.3)	(3.7)	(2.9)	(3.8)	(3.5)	(2.3)
Interest rate	2.3	5.2	26.3	4.1	4.2	7.8	5.9	6.4	6.6
Equities	0.2	1.0	6.3	0.5	0.5	2.0	1.7	2.5	2.9
Exchange rate	0.8	2.7	7.6	4.2	4.2	2.6	2.1	1.9	2.9

A. In the Americas, VaR levels of credit spreads and commodities are not shown separately due to their low or null materiality.

By the end of December, VaR had decreased by EUR 2 million from the end of 2019. Average VaR increased slightly by EUR 0.4 million. By risk factor, average VaR increased in most factors due to higher market volatility along the year. By geographic area, average VaR rose in Europe and North America but remained at low levels.

VaR by risk factor has generally remained stable over the last few years. Temporary rises were due more to temporary increases in the volatility of market prices than significant changes in positions.

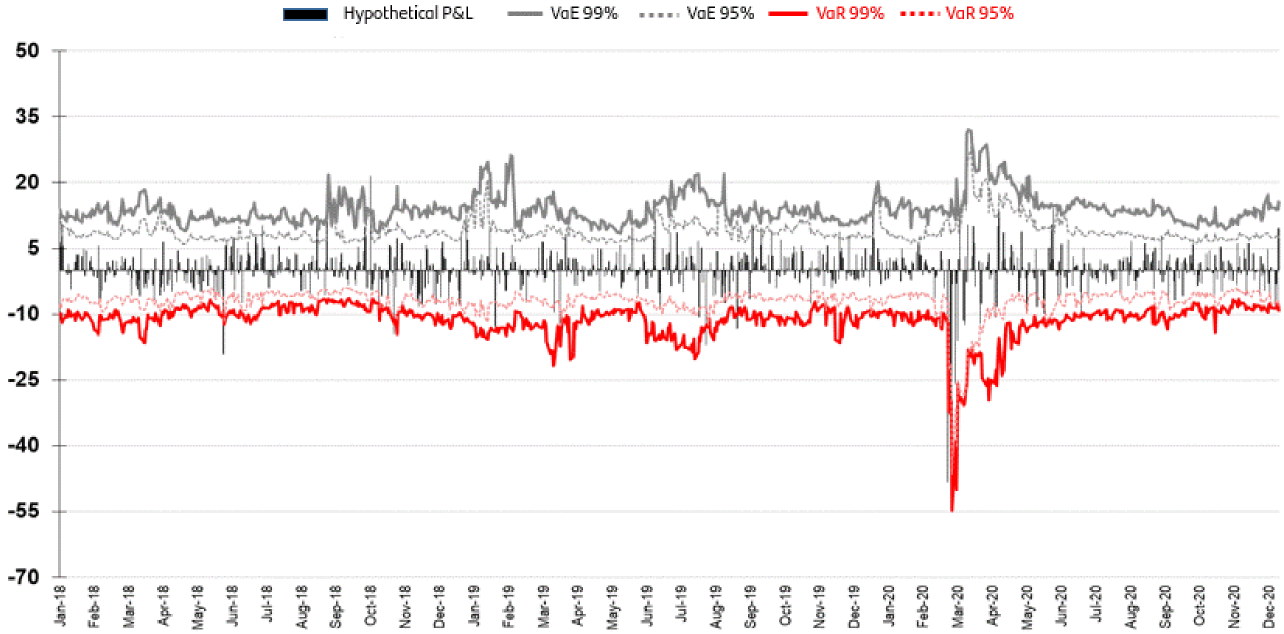
Backtesting

Actual losses can differ from those forecast by VaR due to its limitations. Grupo Santander regularly analyses the accuracy of the VaR calculation model (see the Methodologies section 4.2 'Market risk management'). The most important tests consist of backtesting exercises:

- For hypothetical P&L backtesting and for the total portfolio, we observed overshootings in VaR at 99% on 9 and 12 March and on 7 July and on 30 December.
- In the case of VaE at 99%, overshootings were observed on 20 March.
- Most overshootings were due to the strong market variations caused by the health crisis.
- The overshootings we observed in 2020 are consistent with the assumptions in the VaR calculation model.

Backtesting of trading portfolios: daily results vs. VaR for previous day

EUR million



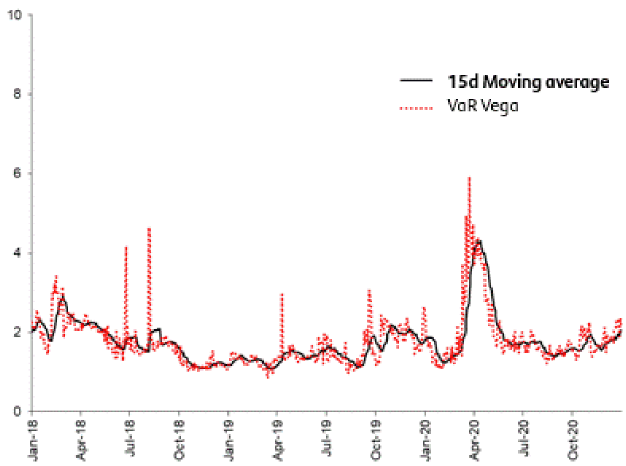
Derivatives risk management

Our derivatives business primarily sells investment products and hedges risks for customers. Our risk management aims to keep net open risk as low as possible. Transactions include options on equities, fixed income and exchange rates, mainly in Spain, Brazil, UK and Mexico.

The following chart shows the VaR Vega[18] of structured derivatives over the last three years. It fluctuated at an average of about EUR 1.8 million. Higher VaR levels generally related to significant rises in market volatility owing to the beginning of the current health crisis, the US's trade disputes with China and Europe and political uncertainty in some of our geographies.

Change in risk over time (VaR) of structure derivatives

EUR million. VaR Vega at a 99% over a one day horizon



[18] Vega, a Greek term, understood as the sensitivity of the value of a portfolio to changes in the price of market volatility.

The VaR average was driven by interest rates, equities and exchange rates. Average risk in 2020 (EUR 1.9 million) was slightly higher than in 2019 and 2018. 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

	2020				2019		2018	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**1.1**	**1.9**	**5.9**	**2.3**	**1.5**	**2.6**	**1.8**	**1.1**
Diversification effect	(0.5)	(1.3)	(7.4)	(1.7)	(1.1)	(1.3)	(1.4)	(1.4)
VaR interest rate	0.6	1.0	2.5	1.8	1.1	2.7	0.9	0.9
VaR equities	0.7	1.3	5.0	1.4	0.8	0.8	1.2	1.0
VaR exchange rate	0.3	0.9	5.8	0.8	0.6	0.4	1.1	0.6
VaR commodities	—	—	—	—	—	—	—	—

Grupo Santander's exposure to complex structured instruments and assets is very limited, this is a reflection of our risk culture and prudent risk management. At the end of December 2020, our exposures in this area were:

- Hedge funds: exposure was EUR 344 million (all indirect), acting as counterparty in derivatives transactions. We analyse the risk related to this type of counterparty on a case by case basis, establishing percentages of collateralization based on each fund's features and assets.
- Monolines: no exposure at the end of December 2020.

Grupo Santander's policy for approving new transactions in these products remains extremely prudent and conservative. It is strictly supervised by top management.

Scenario analysis

We regularly calculate and analyse several stress test scenarios for all trading portfolios, including:

Historical scenarios

Historical scenarios study the behaviour of trading portfolios in crisis conditions or significant market events that have occurred in the past, trying to estimate the maximum losses under the assumption that such events occur again.

- Subprime Crisis: historical scenario based on the events that occurred in the 2007-2008 period, which began as a result of the US subprime mortgage crisis. This financial crisis led to a sharp increase in volatility and a sharp reduction in liquidity in all financial markets worldwide. The worst 1-day and 10-day market shocks are identified for each market risk factor.
- Covid-19 crisis: historical scenario included in 2020 within our stress testing program, based on the sharp movements in the financial markets as a result of the covid-19 crisis. Its calculation is based on the identification of the 10-day period with higher losses in trading portfolios during the first two quarters of 2020. In this period, all risk factors were affected: stock markets felt sharply, volatility increased across all risk factors, emerging market currencies depreciated, government bond yields reached record lows and credit spreads widened significantly.

Hypothetical scenarios

Hypothetical scenarios use extreme scenarios of shocks in market risk factors that do not necessarily correspond to historical events. They have an ex-ante approach (unlike historical scenarios, which have an ex-post overview).

- Abrupt Crisis: ad-hoc scenario with sharp movements in all risk factors: rise in interest rate curves, sharp falls in stock markets, strong appreciation of USD against other currencies, increase in volatility and credit spreads and default of main debt and equity positions.
- Worst Case scenario: hypothetical scenario which combines movements in risk factors with their respective volatilities. The construction of this scenarios is based on historical volatilities, assuming a variation tors of +/-3 and +/-6 daily standard deviations, Irrespective of the historical correlation between them. Its aim is to analyse the risk profile and potential maximum losses of trading portfolios, identifying the most unfavourable scenario.
- EBA Adverse scenario: hypothetical scenario based on the adverse macroeconomic scenario to be applied to all market risk factors, as proposed by the EBA to perform the "EU wide stress test" exercise every two years.
- Forward Looking scenario: plausible hypothetical scenario based on current portfolios and expert judgement regarding the short term expected movements in market risk factors that may negatively affect trading positions.

Reverse stress test scenarios

Reverse stress test scenarios identify market variable shifts that can lead to a loss that will endanger our survival. They complement traditional stress scenarios and help signal business vulnerabilities, hidden risks and interactions between risk factors. They begin with a known stress result (such as failure to achieve determined capital, liquidity or solvency ratios) and identify extreme scenarios.

Other stress test scenarios

We run other stress tests on a quarterly basis to identify potential losses or significant capital impacts resulting from extreme market movements:

- IRC scenarios: designed to stress default risk and the credit rating migration risk in the trading portfolios.

- Stress proxies scenario: specifically defined to measure the effect of an incorrect selection of proxies in the VaR calculation.

- Illiquidity and concentration scenarios: defined to capture impact from illiquidity of markets in stressed market conditions, gapping of prices and concentration risk.

The results for the Worst case scenario as of the end of December 2020 are shown in the following table:

Stress scenario: maximum volatility (worst case)

EUR million. Dec. 2020 data

	Interest rate	Equities	Exchange rate	Credit spread	Commodities	Total
Total trading	**(40.6)**	**(25.1)**	**(7.3)**	**(4.9)**	**—**	**(77.9)**
Europe	(21.0)	(24.5)	(3.0)	(4.6)	—	(53.1)
North America	(1.6)	(0.1)	(1.0)	—	—	(2.7)
South America	(18.0)	(0.5)	(3.3)	(0.3)	—	(22.1)

The stress tests reveal that the economic loss in trading portfolios would be EUR 78 million (market price) if the stress movements in the worst case scenario materialized in the market. The loss would mainly affect Europe (in this order: equities, interest rates, credit spread and exchange rates).

Association with balance sheet items

Grupo Santander's consolidated balance sheet items subject to market risk are shown below, distinguishing between positions for which the main risk metric is VaR and others for which risk monitoring is carried out using other metrics.

Risk metric values on the consolidated balance sheet

Million euros. Dec. 2020 data

		Main market risk metrics		
Assets subject to market risk	Balance sheet amount	VaR	Other	Main risk factors for 'Other' balance
Cash, cash balances at central banks and other deposits on demand	153,839		153,839	Interest rate
Financial assets held for trading	114,945	114,945		Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	3,234	1,252	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	48,717	35,337	13,380	Interest rate
Financial assets at fair value through other comprehensive income	120,953		118,170	Interest rate, spread
Financial assets measured at amortised cost	958,378		958,378	Interest rate
Hedging derivatives	8,325		8,325	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980		1,980	Interest rate
Other assets	96,627			
Total assets	**1,508,250**			

Liabilities subject to market risk				
Financial liabilities held for trading	81,167	81,167		Interest rate, spread
Financial liabilities designated at fair value through profit or loss	48,038	14,641	33,397	Interest rate
Financial liabilities at amortised cost	1,248,188		1,248,188	Interest rate, spread
Hedging derivatives	6,869		6,869	Interest rate, exchange
Changes in the fair value hedged items in portfolio hedges of interest rate risk	286		286	Interest rate
Other liabilities	32,380			
Total liabilities	**1,416,928**			
Total equity	**91,322**			

4.4 Structural balance sheet risk management

Limits management and control systems

Policies set by top management define structural risk control and oversight mechanisms according to regulatory requirements and our risk appetite statement. Control mechanisms consider structural risk sub-types and their implications, contingencies and interrelations.

In the covid-19 crisis, our risk controls and mechanisms proved appropriate to maintain risk levels under our appetite limits, requiring no additional management actions.

The second line of defence's structural risk function ensures that this risk is understood, monitored and reported to top management according to governance procedures by:

- defining interest rate risk metrics and reviewing and challenging liquidity risk appetite and limits proposals by the first line of defence;
- overseeing interest rate risk management by the first line of defence and verifying compliance with interest rate risk limits;
- reporting regularly to top managers on the risk profile and providing guidelines to business lines on measures to be taken;
- issuing opinions and challenging business proposals, providing top management and business units with the tools to understand the interest rate risk in businesses and operations; and

- confirming adequate interest rate risk procedures, and setting and monitoring models and policies.

Like with market risk, annual limits planning sets limits for balance sheet structural risks based on risk appetite. The main limits we use are:

- Balance-sheet structural interest-rate risk:
  - Limit on net interest income (NII) sensitivity over a 1 year horizon.
  - Limit on the sensitivity of economic value of equity (EVE).
  - Limit on the market value of ALCO portfolios under stress scenarios.
- Structural exchange rate risk:
  - Limit on net permanent position of the Core Capital Ratio.
  - Limit on the individual hedge that must be maintained by currency.

Risk management executives from lines of business must explain why limit or sub-limit breaches and provide action plans to correct them.

Methodologies and key aspects

a) Structural interest-rate risk

Grupo Santander analyses the potential impact of changes in interest rate levels on EVE and NII. Depending on the changes in rates, impacts will be different and therefore various subtypes of interest rate risk need to be monitored and managed, such as repricing, curve or basis risk.

Based on the balance-sheet interest rate position and the market situation and outlook, financial actions (such as transacting positions or setting interest rates for products we market) may be needed to attain the desired risk profile determined by the group.

The suite of metrics used to monitor interest rate risks includes the sensitivity of NII and EVE to changes in interest rates, and value at risk (VaR) for calculating economic capital, among others:

- **Net interest income sensitivity**

NII is the difference between income from interest on assets and the interest cost of liabilities in the banking book over 1 year. NII sensitivity is the difference between the NII calculated under a selected scenario and the NII calculated under a base scenario. There can be as many NII sensitivities as scenarios. This metric helps identify short-term risks and is complementary to EVE sensitivity.

Risk appetite uses sensitivity to parallel changes in the worst case scenario from -100 basis to + 100 bps (hereinafter, figures show the exposure under these scenarios).

- **Economic value of equity sensitivity**

Economic value of equity (EVE) is the difference between the net current value of assets and the net current value of outstanding in the banking book at a certain point in time. EVE sensitivity is the difference in EVE calculated under a selected scenario and under a base scenario. There can be as many EVE sensitivities as scenarios. This metric helps identify long-term risks, and it is complementary to NII.

Risk appetite uses sensitivity to parallel changes in the worst case scenario from -100 to +100 bp.

b) Interest rate models

Interest rate risk metrics consider the behaviour of financial products under stressed scenarios where uncertainty is common and contractual terms may not be met. We have developed methodologies to help explain products' behaviour. Key interest rate risk models are:

- treatment of liabilities with no defined maturity

  Under Grupo Santander's model, account balances with no maturity use stable and unstable volumes; velocity of run off the volume over time; the relationship between customer rates and market rates; and other variables.

- pre-payment treatment for certain assets

  Pre-payment risk mainly affects fixed-rate mortgages in subsidiaries where contractual rates are low relative to market levels. They model this risk and include it in risk appetite metrics.

c) Structural foreign exchange rate risk/hedging of results

We monitor these activities daily via position measurements, VaR and results.

d) Structural equity risk

We monitor these activities monthly via position measurements, VaR and results.

4.5 Structural balance sheet risk key metrics

Our market risk profile inherent in asset volumes, shareholders' equity and net interest income on our balance sheet remained moderate in 2020, in line with previous years.

Each subsidiary's finance division manages its interest rate risk from commercial banking. It is responsible for managing structural risk caused by fluctuating interest rates.

Grupo Santander measures interest rate risk with statistical models. It relies on mitigation strategies for structural risk with interest rate instruments, such as fixed income bond portfolios and derivative instruments to keep the risk profile within risk appetite.

Structural interest rate risk

Europe

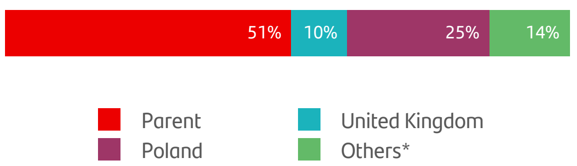
The EVE and NII sensitivities of our main balance sheets (Santander Spain and Santander UK) are usually positive.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December 2020, considering the scenarios previously mentioned, the most significant risk of NII sensitivity was in the euro, at EUR 191 million; the Polish zloty, at EUR 66 million; the British pound yield curve at EUR 25 million; and the US dollar, at EUR 19 million, all relating to the risk of rate cuts.

Net interest income (NII) sensitivity

% of total



* Other: Portugal and SCF.

The most significant risk in economic value of equity was in the euro interest rate curve, at EUR 2,236 million; the British pound at EUR 643 million; the US dollar at EUR 142 million; and the Polish zloty at EUR 22 million, all relating to the risk of rate cuts.

Economic value of equity (EVE) sensitivity

% of total

* Other: Poland, Portugal and SCF.

North America

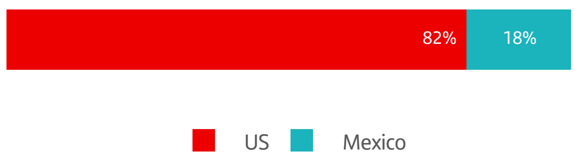
The EVE and NII of our North American balance sheets (excluding the EVE of Mexico) usually show positive sensitivities to interest rates.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly in the US (EUR 61 million).

Net interest income (NII) sensitivity

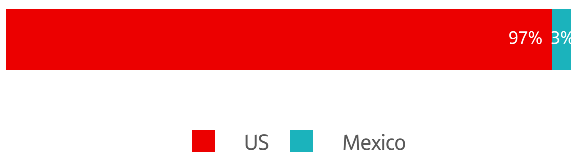
% of total



The most significant risk to the economic value of equity was also in the US (EUR 1,035 million).

Economic value of equity (EVE) sensitivity

% of total



South America

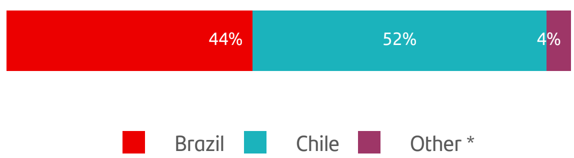
The economic value and net interest income in our South American balance sheets are usually positioned for interest rate cuts.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly located in Chile (EUR 80 million) and Brazil (EUR 68 million).

Net interest income (NII) sensitivity

% of total

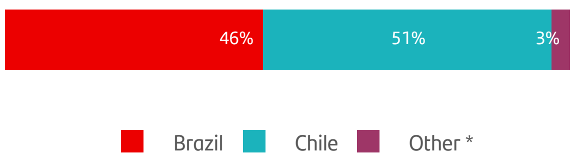


* Other: Argentina, Peru and Uruguay.

The most significant risk to the economic value of equity was also mainly in Chile (EUR 313 million) and Brazil (EUR 278 million).

Economic value of equity sensitivity

% of total



* Other: Argentina, Peru and Uruguay.

Structural foreign exchange rate risk/results hedging

Our structural exchange rate risk is driven by transactions in foreign currencies related to permanent financial investments, their results and related hedges. Our dynamic management of this risk seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In 2020, hedging of the core capital ratio for foreign exchange rate risk was kept close to 100%.

In December 2020, the largest exposures of permanent investments (with their potential impact on equity) were (in order) in US dollars, British pounds sterling, Brazilian real, Mexican pesos, Chilean pesos and Polish zlotys. We hedge some positions (which are permanent in nature) with foreign exchange-rate derivatives. The Finance Division is also responsible for foreign exchange rate risk management, hedging expected results and dividends in subsidiaries whose base currency is not the euro.

Structural equity risk

Grupo Santander maintains equity positions in its banking book and its trading portfolio as equity instruments or equity stakes depending on the percentage owned or control. We diversified the equity portfolio in the banking book at the end of December 2020 between securities in Spain, China, Morocco, Poland and other countries. Most of the portfolio invests in the finance and insurance industries. Other industries with lower exposure allocations include real estate.

Structural equity positions have market risk exposure. We calculate VaR for these positions with market price data series or proxies. By the end of December 2020, the VaR at 99% over a one day time horizon was EUR 319 million (EUR 170 million and EUR 180 million at the end of 2019 and 2018, respectively).

Structural VaR

A standardized metric such as VaR can be used for monitoring total market risk for the banking book (excluding the trading activity of SCIB, as described in section 4.3 'Market risk key metrics'). We distinguish fixed income considering interest rates and credit spreads on ALCO portfolios, exchange rates and equities. In general, structural VaR is not material in terms of our volume of total assets or equity.

Structural VaR

EUR million. VaR at a 99% over a one day horizon

	2020				2019		2018	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Structural VaR	**611.4**	**911.0**	**1,192.1**	**903.1**	**511.4**	**729.1**	**568.5**	**556.8**
Diversification effect	(227.2)	(349.8)	(261.0)	(263.4)	(304.2)	(402.0)	(325.0)	(267.7)
VaR Interest Rate[A]	345.5	465.1	581.9	345.5	345.6	629.7	337.1	319.5
VaR Exchange Rate	317.8	499.9	547.0	502.6	308.1	331.7	338.9	324.9
VaR Equities	175.3	295.9	324.2	318.5	161.9	169.8	217.6	180.1

A. Includes credit spread VaR on ALCO portfolios.

4.6 Liquidity risk management

The liquidity risk function in the second line of defence is responsible for ensuring that liquidity risk is understood, monitored and reported to top management and across the group according to our governance framework by:

- defining liquidity risk and provides detailed assessments of current and emerging material liquidity risks.
- defining liquidity risk metrics, and reviewing and challenging liquidity risk appetite and limits proposals by the first line of defence.
- overseeing liquidity risk management by the first line of defence, assessing whether businesses remain within risk appetite limits and verifying compliance with liquidity risk limits.
- reporting to governance bodies on risk, risk appetite and breaches.
- issuing an opinion, challenging business proposals, and providing top management and business units with the tools to understand liquidity risk in businesses and operations.
- providing a consolidated view of liquidity risk exposures and the liquidity risk profile.
- confirming appropriate liquidity procedures to manage businesses within risk appetite limits.

  Our liquidity framework has helped us manage the covid-19 crisis, with the daily analyses of liquidity position for committees and the regulator. We have enhanced the control framework by:
  - increasing reporting frequency with daily monitoring of LCR metrics.
  - focusing on monitoring committed lines in our geographies.
  - reporting to senior management weekly.
  - reviewing liquidity stress scenarios based on observations of the covid-19 crisis.

Methodologies and key aspects

Grupo Santander measures liquidity risk with tools and metrics that account for the appropriate risk factors.

a) Liquidity buffer

The liquidity buffer is a portion of total liquidity with funds withdrawals (liquidity outflows) resulting from periods of stress. It consists of a set of unencumbered liquid resources we can immediately use to generate liquidity promptly without incurring any loss or excessive discount. We use it as a tool to calculate most liquidity metrics. It is also a metric in its own right, with specified limits for each subsidiary.

b) Liquidity coverage ratio (LCR)

LCR is a regulatory metric to reinforce the short-term resistance of a bank's liquidity risk profile by ensuring 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

The wholesale gap metric measures the days the group would survive on liquid assets to cover the liquidity losses assuming non-renewable wholesale financing outflows for a determined liquidity horizon. We also use it as an internal short-term liquidity metric to reduce the risk of dependence on wholesale funding.

d) Net stable funding ratio

Net stable funding ratio (NSFR) is a regulatory metric we use to measure long-term liquidity risk. It is the coefficient of available stable funding and required stable funding. It requires banks to maintain a solid balance sheet where assets and off-balance sheet activities are funded with stable liabilities.

e) Asset encumbrance metrics

Grupo Santander uses two types of metrics to measure asset encumbrance risk: the asset encumbrance ratio, which calculates the proportion of total encumbered assets to the entity's total assets; and the structural asset encumbrance ratio, which measures the proportion of encumbered assets 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, Grupo Santander has created additional liquidity indicators that measure other liquidity risk factors. They include top one and five funding providers, distribution of funding by maturity date and other concentration metrics.

g) Liquidity scenario analysis

Grupo Santander uses four standard scenarios as liquidity stress tests:

i. An idiosyncratic scenario of events that adversely affect the group alone;

ii. A local market scenario of events that have serious adverse effects on the financial system or real economy of our base country;

iii. A global market scenario of 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.

Santander uses outcomes from stress scenarios 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 to foresee liquidity stress situations and weaknesses in group entities' funding and liquidity structure. EWI are both external (environmental) and internal, respectively relating to market financial variables and to our own actions.

i) Intraday liquidity metrics

Grupo Santander uses the Basel regulatory definition and calculates a set of metrics and stress scenarios regarding the intraday liquidity risk, in order to maintain a high-level management and control.

4.7 Liquidity risk key metrics

Grupo Santander's strong liquidity and financing position is based on a decentralized liquidity model. Each subsidiary manages liquidity independently and maintains large buffers of highly liquid assets.

In general, LCR remained stable and regulatory ratios are above the threshold. The regulatory minimum required in 2020 was 100% and our risk appetite limit was 110%.

Grupo Santander has an effective management of its liquidity buffers to maintain a proper liquidity profile (regulatory limits) and keep our balance sheet profitable.

Most subsidiaries also maintain sound balance sheet structures. They have stable financing structures, based on a broad customer deposit base, which covers structural needs, with low dependence on short-term funding and liquidity metrics well above local and group regulatory requirements and within risk appetite limits.

The regulatory NSFR metric remained above 100% for our core units as well as for the consolidated ratio. We anticipate full compliance with the regulatory minimum requirement in 2021.

Our structural assets' encumbrance risk levels are in line with our European peers'. The main sources of encumbrance are collateralized debt issuances (securitisations and covered bonds) and collateralized funding facilities provided by central banks.

Our subsidiaries' balance sheets have also proved sound under stress scenarios constructed in accordance with uniform corporate criteria. All subsidiaries would survive the worst case scenario for at least 45 days, meeting liquidity requirements with their liquid asset buffers alone.

For more details on 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

Grupo Santander assumes the financial, market, credit and liquidity risks in the assets and investments of benefit employee pension funds, as well as the actuarial, market and credit risks from pension obligations with its employees. Our main goal in the pension risk control and management is to identify, measure, monitor, mitigate and disclose all sources of pension risk.

We annually estimate combined losses in assets and liabilities under a stress scenario that includes changes in interest rates, exchange rates, inflation, stock markets, real estate prices and credit spread.

Varying financial assumptions and market conditions in the covid-19 crisis has had an impact on pension and actuarial risk. It is too early to know the effects of mortality risk among pension holders.

In the first half of 2020 the higher credit spreads and interest rates in our main geographies had a positive effect on pension risk. During the second half, their decline had a negative impact, which inflation partiallyoffset. Grupo Santander took de-risking actions in core subsidiaries to reduce the exposure to pension and actuarial risks. As a result, the pension obligation decreased.

Actuarial risk

Actuarial risk stems from biometric changes in the life expectancy of pension scheme beneficiaries; from life insurance holders; unforeseen non-life insurance payments; and unexpected changes in holders' behaviour when filing claims covered in insurance contracts. We distinguish these actuarial risks:

- **Life liability risk:** risk of a loss if fluctuations in risk factors changes the value of pension liabilities:
  - Mortality/longevity risk: risk of loss if variations in insured parties' estimated probability of death/survival parties changes the value of liabilities.
  - Morbidity risk: risk of loss if insured parties' estimated probability of disability/incapacity changes the value of liabilities.
  - Surrender/lapse risk: risk of loss if early termination or variation in policyholders' rights to surrender, extraordinary contributions and/or paid up options changes in the value of liabilities because of.
  - Expense risk: risk of loss if an adverse deviation in expected expenses changes the value of liabilities.
  - Catastrophe risk: losses if catastrophic events increase pension liabilities.
- **Non-life liability risk**: risk of losses from changes in the value of Santander's non-life benefit liabilities with employees, caused by fluctuations in related risk factors:
  - Premium risk: loss from insufficient premiums to pay for claims that might be made in the future
  - Reserve risk: losses from insufficient reserves for unsettled claims, including related costs.
  - Catastrophe risk: losses if catastrophic events increase non-life liabilities.

5. Capital risk

5.1 Introduction

Grupo Santander includes risk from inadequate quantity or quality of capital to fulfil internal business objectives, regulatory requirements and market expectations within structural risk.

Our Capital Risk function, which is part of the second line of defence, controls and oversees capital management in the first line. It checks that our capital adequacy and coverage match our risk profile. It also validates and monitors transactions that could be considered significant risk transfers (SRT).

It brings together capital planning, budget execution and monitoring, the ongoing measurement of capital and the reporting and disclosure of capital data (described below).

The Capital Risk function oversees the first line of defence's capital activities. They are grouped into four distinct workflows and ensure the right monitoring for our risk profile:

- **Capital planning**: internal process to set capital levels and returns consistently with our group-wide strategy. Because we must ensure solvency and efficiency of capital, we identify capital actions to achieve our capital ratios and our return on capital targets.
- **Capital adequacy**: assessment of capital levels to cover our types of risk. It is based on Grupo's Santander risk identification and measurement (RPA), strategy and risk appetite. For more details, see section 2.4 'Management processes and tools' - Risk profile assessment and Risk appetite and structure of limits.
- **Capital risk measurement**: process to cover activities required to measure capital metrics, based on a set methodology for obtaining final figures. It also supports the stages of capital management, monitoring, oversight and control.
- **Origination**: process to evaluate portfolios' capital efficiency to reduce capital through securitizations, risk mitigation techniques, asset sales and other initiatives.

In 2020, the Capital Risk function continued to work on improving the Target Operating Model (TOM), a key milestone of which was its deployment and monitoring in subsidiaries through these tasks:

- Revising and updating local capital risk procedures.
- Unifying capital reporting under our common guidelines while adapting to local market regulations and circumstances.
- Following up regularly on local progress made on the TOM.

Key initiatives 2020

Capital risk management focused on protecting solvency amid the current covid-19 pandemic. We prioritized measuring items we found that could affect capital ratios and continuously monitored key metrics.

In capital planning, the Capital Risk function regularly evaluates potential deviations in capital forecasts to set budget uncertainty levels.

In 2020, the Capital Risk function closely followed the evolution of solvency levels amid growing concerns about covid-19's and especially its impact on our organic generation and securitizations plan, the impact of model reviews by the regulator and the effect of new regulations resulting from this context.

The impact of market variables on capital levels was also monitored. The Group implemented hedging policies to mitigate the volatility on our CET1 ratio. This year, smaller ALCO portfolios also contributed to a significant reduction in volatility.

At year end, the group-wide CET1 ratio amounted to 12.34%. It increased by 69 bps from the previous year, above our target ratio and comfortably meeting the levels required by the regulator of 8.85% (from 9.69%). In the first quarter of the year, regulators enacted new capital requirements. These included reducing Pillar 2 and countercyclical buffers, which drove minimum CET1 down to 8.85% (from 9.69%).

Nevertheless, Grupo Santander kept solvency appetite limits, above which capital ratios remained throughout the year.

Despite the persisting uncertainties, organic capital generation grew 104 bps in the year on the back of sound underlying profits and the management of RWA influenced by securitizations.

For more details, see the section 3.5 'Capital management and adequacy. Solvency ratios' in the Economic and financial review.

5.2 Capital risk management

In the second line of defence, capital risk management can independently challenge business and first-line activities by:

- reviewing key items affecting capital ratios to supervise capital planning and adequacy exercises.
- identifying key metrics to calculate regulatory capital; setting tolerance levels; and analysing significant variations and single transactions that impact on capital.
- reviewing and challenging proposed capital actions according to capital planning and risk appetite.

Supervision of capital planning and adequacy exercises

The Capital Risk function reviews capital planning and adequacy exercises to make sure capital is consistent with risk appetite and the risk profile. Its core objectives are:

- ensuring that Grupo Santander's significant risks are monitored in the course of its operations.
- checking that planning methodologies and assumptions are appropriate.
- confirming that results are reasonable and consistent with business strategy, the macroeconomic environment and system variables.
- assessing the consistency of exercises, especially ones that use baseline and stressed scenarios.

Capital planning and adequacy supervision follows these phases:

Definition of scope

Supervising capital planning and adequacy begins with proposed materiality based on the level of importance of subsidiaries' risk-weighted assets to the group. It may include other units, businesses and portfolios (even if they are not significantly material) whose impact on strategy, compliance with the global plan or timely relevance might require analysis.

Qualitative analysis

We run a qualitative review of forecasting to ensure the right governance.

Quantitative analysis

Metrics and components affecting RWA and available capital projections are quantitatively assessed. This phase requires the appropriate involvement and coordination of subsidiaries to analyse local projections, which underpin group-wide projections.

Conclusions and disclosure

Based on the outcomes from the capital planning and adequacy phases, Grupo Santander conducts a final assessment that covers the scope of analysis, detected weaknesses and areas for improvement. We report to senior management according to governance procedures, ensuring effective and constructive challenge of proposed capital plans from the second line of defence.

Continuous monitoring of capital measurement

Continuous monitoring of Grupo Santander's regulatory capital measurement is an additional capital risk control function to ensure the right capital risk profile. We conduct a qualitative analysis of the regulatory and supervisory framework and a review of capital metrics and specific thresholds. We also monitor compliance with capital risk appetite to maintain capital levels above regulatory requirements and market expectations.

This function follows these phases and procedures:

Definition of metrics and thresholds

The function sets metrics and thresholds used in supervision every year to monitor and control capital risk. They consist of:

- Primary metrics, which cover capital ratios and numerator and denominator components at the highest level.
- Secondary metrics, which include a more extensive breakdown (for example, credit RWA or the basis for measuring market RWA).
- Supplementary metrics for more detailed analyses.

Thresholds for certain metrics trigger a more detailed analysis and an explanation.

The internal 'Capital measurement control metrics guidelines' outline these metrics, thresholds and sources of information.

Preliminary analysis

This phase of the control process analyses process governance, regulatory framework and other qualitative issues. We examine capital management steps to fulfil recommendations and instructions from supervisory authorities and the Internal Audit function.

Assessment and measurement

Based on preliminary findings, the Capital Risk function reviews primary and secondary metrics in the process to detect variations that might exceed defined thresholds, in addition to a detailed analysis of supplementary metrics. If a subsidiary or global area is the cause of a threshold breach, it must provide the Capital Risk function with additional information on volume variations, one-off events, capital actions and other items.

Conclusions and disclosure

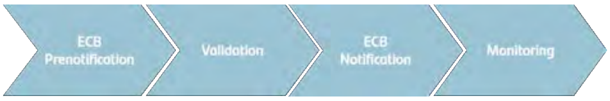
The body responsible for capital risk control analyses the report and conclusions and, if needed, will submit them to the second-line (capital committee) or first-line (risk control committee) committees for deliberation.

Oversight of securitizations

The Capital Risk function oversees securitizations that might be "significant risk transfers" (SRT) originated by Santander, in accordance with EBA guidelines on SRT by virtue of Articles 243 to 245 of Regulation (EU) 2017/2401 and 2017/2402. Oversight is an essential prerequisite for executing both synthetic and traditional securitizations. It applies to securitizations with the potential to reduce RWA to make sure they:

- can effectively transfer risk.
- comply with all prudential regulation requirements.
- have risk parameters that follow our methodology.
- have an economic rationale that meets group-wide standards.

SRT supervision is split into these stages:



- ECB pre-notification: Capital Risk issues an assessment before notifying the ECB of an intended securitization that may be an SRT.
- Validation: Capital and risk committees review the securitization based on the capital risk function's assessment to validate it.
- ECB notification: Submission of final securitization documents package to the ECB take places no later than fifteen days after the securitization's closing date.
- Monitoring: the Capital Risk function regularly monitors executed securitizations.

5.3 Key metrics

Grupo Santander’s capital position is strong and consistent with our 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 subsidiaries with autonomy over liquidity and capital allows us to mitigate the risk that one subsidiary experiencing difficulties could affect others. Our capital metrics are stable, and ratios remain comfortably above the regulatory requirements and consistent with risk appetite.

For more details, see the section 3.5 ‘Capital management and adequacy. Solvency ratios’ in the Economic and financial review.

6. Operational risk

6.1 Introduction

In accordance with the Basel framework, Grupo Santander defines operational risk (OR) as the risk of losses from defects or failures in internal processes, people, systems or external events. It covers risk categories such as fraud, technological, cyber-risk, legal[19] and conduct risk.

Operational risk is inherent to all products, activities, processes and systems. It is generated in all business and support areas. All employees are responsible for managing and controlling the operational risks generated by their activities.

Our OR management and control model is based on a continual process of identifying, evaluating and mitigating sources of risk, regardless of whether they have materialized or not, ensuring that risk management priorities are established appropriately.

OR focus in 2020 was on adequately managing the risks due to the covid-19 outbreak, as well as maintaining the OR model. Grupo Santander adapted to the new environment in a timely manner, providing all services to customers, taking care of employees, and demonstrating our resilience in an extremely disruptive situation. Our specific operational risk management measures are detailed in the following sections.

6.2 Operational risk management

Operational risk management in Grupo Santander is underpinned by the following items:

Management and control model

Santander's operational risk model defines the necessary elements of suitable management and control of operational risk, aligned with advanced regulatory standards and best practices for operational risk management.

The operational risk cycle includes the following phases: 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 important matters.

The most important operational risk tools we use throughout the management cycle are:

- **Internal events database**, which registers financial events (including all losses regardless of the amount) and non-financial events (such as customer, regulatory events and services). This information's goal is to operational risk management through root cause analyses and increase awareness of the risks.

  The internal database also supports timely escalation of significant operational risk events to senior management, regulatory reporting and the economic capital model integrated within the ICAAP process.

- **Operational risk and control self-assessment (RCSA),** which is a qualitative process based on the criteria and experience of a pool of experts in each function to determine related operational risks, the status of the control environment and the allocation of these related operational risk to the functions within Grupo Santander. It aims to identify and assess material operational risks that could prevent business or support units achieving objectives. Once these operational risks are assessed, the different units and the second line identify mitigation actions if the risk levels prove to be above tolerable thresholds.

  Our RCSA's specific reviews allow for a transversal identification of technological risks, fraud, third-party risk, information security, and other factors that could lead to regulatory non-compliance in areas exposed to conduct risk and financial crime (this last is set out in greater detail in this chapter in section 7.2 'Compliance and conduct risk management'.

- **External event database,** which provides quantitative and qualitative information, allowing for a more detailed and structured analysis of events in the industry, the benchmarking of the losses profile and the appropriate preparation for the RCSA, insurance and scenario analysis exercises.

- **OR scenarios analyses**, which aim to identify highly unlikely events resulting in significant losses for Grupo Santander, and establish mitigating actions. Expert opinion comes from business lines and risk and control managers.

- **Key risk indicators**, which provide quantitative information on Grupo Santander's risk exposure and the control environment. The most significant indicators associated with the main risk exposures are part of operational risk appetite.

[19] Legal processes with an operational risk root cause.

- **Risk appetite framework**, which is structured as follows:
  - A general operational risk appetite statement, associated to two global metrics based on losses (expected losses and stressed losses).
  - Specific statements on internal and external fraud, IT risk, cyber-risk, anti-money laundering, products commercialization, regulatory compliance and procurement risk, associated to their own forward-looking monitoring metrics.
- **Internal audit, external audit and regulatory recommendations**, which provide information on inherent and residual risks and identify areas of improvement in processes and controls.
- **Capital model** or a loss distribution approach (LDA) model that captures Grupo Santander's operational risk profile, with information collected from the internal loss database, external data and scenarios. It is mainly used to determine operational risk's economic capital and estimate expected and stressed losses for operational risk appetite.
- **Other instruments** to analyse and manage operational risk, assess new products and services, manage business continuity plans (BCP), revise perimeters and run quality assurance.

Our management and reporting system for operational risk, Heracles, supports operational risk programmes and tools with a Governance, Risk and Compliance (GRC) approach. It provides information for management and reporting at subsidiaries and throughout the group.

It aims to improve OR decision-making and prevent duplicated efforts. To achieve this, we make sure people responsible for risks can have a timely, full and precise view of their risks, using a common set of taxonomies and methodological standards.

Model implementation and initiatives

Our main initiatives in 2020 to improve the operational risk management model were:

- Evolving appetite framework with new metrics (a new cyber primary metric will be included in RAS 2021), ensuring better measurement and stressing thresholds.
- Developing models to perform independent assessments of the risk and control profiles that help subsidiaries' oversight and challenge the accuracy of local assessments.
- Further integrating risk assessments by embedding financial crime compliance and regulatory risk assessments in the RCSA module.
- Fostering technology risk control by defining Reference Risks to be assessed during RCSA by business owners and specialised control functions.
- Improving processes to determine, identify and assess risk references and standard controls with a view to strengthening and standardizing our risk and control environment.
- Improving the assessment methodology of the global cybersecurity transformation plan to identify the risk reduction impact of technical security developments.
- Improving the contingency, business continuity and crisis management plans together with recovery and resolution plans, while hedging emerging risks.
- Applying the transformation risk analysis methodology, with the approval of a target operating model (TOM).

Business continuity plan (BCP)

Grupo Santander's business continuity management system (BCMS) guarantees group-wide business continuity in the event of a disaster or another serious incident. Our BCM is a holistic process that identifies the potential impacts threatening our organization and resources, and applies the correct protocols and governance to respond effectively.

Its main objectives are:

- safeguarding people's safety in a contingency situation;
- guaranteeing that core functions are performed and service is delivered to our customer;
- fulfilling our obligations towards employees, customers, shareholders and other stakeholders;
- complying with regulations;
- minimizing potential losses to Grupo Santander as well as the impact on business activities;
- protecting our brand image, credibility and trust;
- reducing operational effects under efficient procedures, priorities and a strategy to recover and restore business operations in a post-contingency scenario;
- helping stabilize the financial system.

In 2020, the pandemic challenged our subsidiaries' BCP frameworks and strategies. We had to adapt some protocols, but this crisis has proved that Grupo Santander has a robust BCM programme in place.

Some protocols were integrated into business-as-usual activities, and several lessons learned are being taking into account to improve the current BCM programme:

- New process classification (criticality taxonomy).
- Review of the scope of critical processes (with an end to end process view) considering a prolonged contingency.
- Expand the scope of the processes included in the business continuity strategy.
- A risk and a cost-benefit analysis will be applied to select the continuity strategies required for each contingency scenario.

- Robotics, digitized documents and other flexible solutions proved vital to provide a rapid response to customers and business units' needs during the pandemic. Several processes proved so efficient that they are being incorporated into business-as-usual activities.

Operational risk management during covid-19

The pandemic increased inherent operational risk exposure, although by implementing new controls and reinforcing existing ones, we maintained pre-pandemic operational risk levels:

- We effectively deployed business continuity plans to support our employees, customers and businesses.
- We enhanced control environment for cyber threats (i.e. patching, browsing control, data protection controls, etc.) in view of the pandemic and the direct impact of remote working on operational risk.
- We increased and improved technological support to ensure available and adequate services, especially in online banking and at call centres.
- We implemented additional controls to minimize incidents resulting from the higher processing risk due to the volume of new loans and changes in existing portfolios, derived from government aid programmes and internal policies.

More specifically, in our geographies, we implemented several initiatives to review and mitigate risks arising from the covid-19, including these:

- Most employees went from working in an office environment to working from home (WFH) by quickly increasing the capacity for staff to work remotely and improving connectivity. To support WFH arrangements, Santander applied such controls and mitigants as enhanced monitoring of staff transactions, distribution of office equipment, mandatory remote working training, ongoing health trackers and feedback surveys.
- Some important business and support processes were subject to changes or redefined, which led to assessments of potential operational risks that could be faced by the units.
- Another important focus was implementing adequate controls to ensure confidentiality and avoid data leaks in critical activities. At Santander México, SCIB quickly distributed employees at work centres to ensure the functioning of VPNs and equipment, reinforcing access control monitoring and establishing weekly reviews of possible incidents.
- We also strengthened contact centres' controls to protect information without compromising customer service. We reassigned contact centre staff to other work centres, analysed risk of fraud and data leaks with each transaction and made sure the group's prevention capabilities were not affected.
- Critical suppliers' follow-up was a priority in all units (as explained in the following section). The Group established communication plans to vendors, with guidelines on prevention, health and business continuity measures. For certain suppliers, we offered additional infrastructure (for example, customer service and anti-fraud approval controls). Suppliers' operations and finances were closely monitored throughout the pandemic.
- Continual monitoring of operations and potential impacts was essential, especially at peaks in the pandemic, through daily dashboards to supervise operational and other risks. Metrics were based on critical staff, IT incidents and losses.

Relevant mitigation actions

Apart from those covid-19-related actions, Grupo Santander continuously implements and monitors mitigation actions for major sources of risk identified by internal OR management tools and other external sources of information.

Fraud

The transformation and digitalization of the business entails new threats such as more payment scams and fraud in origination (borrowing). To mitigate those risks, we designed and revised new products and control mechanisms.

Strong customer authentication processes in line with the European Payment Service Directive (PSD2), biometric validation (i.e. facial recognition) in customer on-boarding, enhancing alerts on fraud in origination, etc., is becoming increasingly widespread to mitigate those risks.

To reduce fraud, Grupo Santander's special actions include:

- Card fraud:
  - Generalized use of chip and PINs (transactions with PIN-cards, which must be signed off with a numeric code) in ATMs and stores, with advanced authentication mechanisms linked to our systems.
  - Improved card protection against electronic commerce fraud, with a secure standard (3DSecure) via two-step authentication based on one-time passwords, mobile applications that let users deactivate cards for e-commerce use, and virtual cards issuance with dynamic authentication passwords.
  - Use of a new biometric authentication system in ATMs and branch cashier desks in Santander Brasil. Customers can use it to withdraw cash from ATMs and sign for transactions with their fingerprint.
  - Integration of monitoring and fraud detection tools with other systems, internally and externally, to better detect suspicious activity.
  - Reinforced ATM security with new physical protection elements and anti-skimming, as well as improved logical security of devices.
- Online/mobile banking fraud:
  - Confirmation of online banking transactions with a second security factor of one-time-use passwords; the

evolution of technology, depending on the geography (for example, based on QR codes generated from transaction data).

- Enhanced online banking security with a new transaction risk scoring system that requests further authentication when a given security threshold is breached.

- Implementation of specific mobile banking protections, such as identification and registration of customer devices (Device ID).

- Monitoring of e-banking platform security to avoid systems attacks.

- Forgery & ID theft fraud:

  - Enhanced fraud controls, which will verify the applicant's identity and the device used to submit the request.

  - Implementation of biometrics for customers and employees.

  - Transfer of the fraud prevention function to the credit area to improve mitigation in fraud in origination (borrowing).

  - Enhanced alerts on fraud in origination.

  - New confirmation and management platforms.

Cyber risk

In 2020, cyber threats were more frequent and stronger. Hackers continue to enhance their capabilities. This trend is expected to continue in coming years, and financial sector will remain a primary target. Given Santander's increasing reliance on digital systems, cyber threats make cyber security one of Santander's top non-financial business risks. Therefore, we aim to make Santander a cyber resilient organization that can withstand, detect and rapidly react to cyberattacks, while constantly evolving and improving its defences.

Santander has matured its cybersecurity controls and regulations in line with its global cybersecurity framework and international best practices. Our ambitious programme to transform cybersecurity and strengthen detection, response and protection mechanisms made significant progress. In 2020, cybersecurity team set its focus on strengthening internal controls against insider threats with data leakage protection (DLP), internal vulnerability management and network segregation, insider monitoring and third-party risk management.

In the second line of defence, the cybersecurity risk team developed a programme to strengthen control and oversight of cyber risk and assess how effectively the global cybersecurity transformation plan reduces risk. A major point of focus in 2020 was addressing short-term priorities and setting strategy:

- Definition of an operating model that drives and steers the cyber-risk function of the second line of defence (2LoD) as a structured approach that enables effective risk management (including definition of 2LoD cyber risk mission and guidelines principles, processes, tools and skills needed).

- Definition of cyber risk and control taxonomies and re-alignment of processes ensuring integration with non-financial risk and broader Enterprise wide risk management. Progress made in this area helped create a consistent 2LoD methodology to aggregate a range of risk inputs and provide actionable insights into overall risk profile.

- A consistent, group-wide, quarterly 2LoD process to assess control environment and risks. The 2LoD added a challenge and back-testing process to ensure independent view of controls effectiveness and risk reduction.

- Simplification and automation of existing processes to improve operating performance. Creation of an automated tool enabling cyber risk data correlation, analysis and reporting, significantly reducing information gathering and consolidation to prioritize risk management activities.

Additionally, in the covid-19 crisis, most of Santander subsidiaries activated their contingency plans and transitioned their workforce to WFH, having a direct impact on cyber threats and risks. In coordination with Global Cyber Security team, OR area was performed an assessment of major cyber threats and risks stemming from the pandemic. It provides each entity's second line of defence with a reference on risks to monitor and key controls to revise and implement to reduce risks.

Further information regarding cyber security is available in chapter Economic and financial review, section 5 'Research, development and innovation (R&D&I)'.

IT risk

Santander's digital transformation requires continual improvement as well as assessment of IT risk and controls.

Covid-19 has accelerated our digitalization and tested our ability to adapt systems and solutions to continue services to our customers and cover the new requirements of the government aid programmes. We ran close monitoring of the IT risks, focusing particularly on boosting the resilience and capacity of our online channels, contact centres and remote working infrastructure (e.g., VPNs, end user devices, collaboration tools, etc.).

Despite complexities stemming from covid-19 that challenged our IT change management to quickly adapt the technological systems to customers' demands, major technological incidents were kept under control and even in figures lower than in previous years.

As EBA guidelines on "ICT & Security Risk Management" entered into force in June 2020, we ran a GAP analysis to identify opportunities to adapt current frameworks to requirements. Thus, we revised our IT risk taxonomies, reference risks and standards of control. We also adopted a risk-based approach to prioritize required resources and remediation measures based on critical assets.

An initiative to identify and differentiate key assets in our operations and services to our customers launched, with specific risk monitoring metrics to ensure related technological risks, especially levels of availability, obsolescence and patching, remain within our appetite limits. We made significant progress to reduce the obsolescence of relevant IT assets across the group this year.

Supplier management

Our digitalization strategy sets out to offer our customers the best solutions and products in the market. This can entail an increase in third-party services and the use of new technologies such as the cloud. In light of the increase in cyber risks and regulatory pressure, we had to update our procurement management framework to properly assess and manage risks in outsourcing and third-party agreements.

In 2020, due to the current pandemic, we reinforced monitoring to ensure the operational continuity of the services we receive from critical vendors. Our efforts were mainly identifying them for each subsidiary to ensure that:

- vendors had business continuity plans in place;
- they had action plans to mitigate the impact on their services, in light of WFH and other measures;
- any incident in a critical service could be detected, escalated and managed;
- they had the required operational continuity arrangements and right controls to handle data protection, fraud, cyberattacks and other risks stemming from the new ways of working (remote working);
- suppliers' financial positions and the possible deterioration thereof due to covid-19 could be monitored;
- service level agreements (SLAs) could be monitored.

In addition, Grupo Santander developed a set of best practices to apply a common approach across all our geographies for vendors deemed vulnerable due to the pandemic, including suppliers whose activity declined, suppliers whose billing was highly dependent on the services provided to the bank and small vendors suffering economic deterioration.

Other relevant mitigating actions

Grupo Santander's mitigation measures relating to customer practices, products and businesses constantly improve. We enforce policies on products and services, management and analysis of customer complaints, financial crime, and compliance with new regulations.

For more details on mitigating compliance risk actions, see section 7.2 'Compliance and conduct risk'.

Insurance in operational risk management

Insurance is key to operational risk management. In 2020, we further enhanced insurable risk management and developed a more consistent and coordinated approach for the functions involved by:

- enhancing relations between the own insurance, operational risk and first line areas to manage insurable risk more effectively in the insurance forums and others established by the operational risk function (i.e. fraud forum);
- reviewing risks to analyse suitability for coverage and taking corrective measures;
- monitoring insurable losses and events identified in insurance policies, establishing action protocols and specific monitoring forums in each market.

The Own Insurance function continues to safeguard our bottom line mainly by:

- defining and applying criteria to quantify insurable risk based on the losses and scenarios it analyses to determine exposures;
- reviewing our approach to the insurance market and our global programmes structure, in light of the hardening environment of the insurance industry, with specific focus on cyber-related cover;
- recovering insured losses and optimizing hedges through policies in 2020;
- participating in the group's risk management forums and committees and increasing interaction with other functions to better identify and evaluate insurable risks and disseminate policies and capitalization procedures to other areas.

Analysis and monitoring of controls in Santander Corporate & Investment Banking

At Santander Corporate & Investment Banking (SCIB), operational control procedures are subject to continuous improvements owing to the nature and complexity of financial markets. In 2020, SCIB kept up its activity and a robust control environment without major issue.

- In relation to covid-19:
    - At the beginning of the pandemic, SCIB's global approach effectively anticipated actions and shared lessons learned based on the experiences of all subsidiaries.
    - SCIB's operational preparedness was key to facing the challenges of the new circumstances, with Special focus on trading activity, settlements, liquidity and regulatory reporting and other core processes, with no major impacts detected.
    - Several initiatives reinforced the control framework, especially on markets activity.
    - Focus remains on improving solutions to face "new normal".
- Other relevant improvements in 2020:

- SCIB finished a global infrastructure programme whose objectives include strengthening the control model and reducing operational risk.
- The control mode was adapted to MiFID II, Dodd Frank Act, EMIR, IFRS 9, GDPR and other regulatory requirements.
- In regards to the trading control environment:
  - SCIB strengthened its control framework across its geographies and incorporated a new MI tool for holistic market monitoring. Additionally, it implemented a new communication surveillance tool with special focus on conduct risk.
  - It continues to monitor the risk of unauthorized trading through a specific risk appetite metric, covering regular assessments of main controls in place to mitigate the risk. It updated global guidelines with new requirements.

For more details on regulatory compliance in markets activities, see section 7.2 'Compliance and conduct risk' - Regulatory compliance.

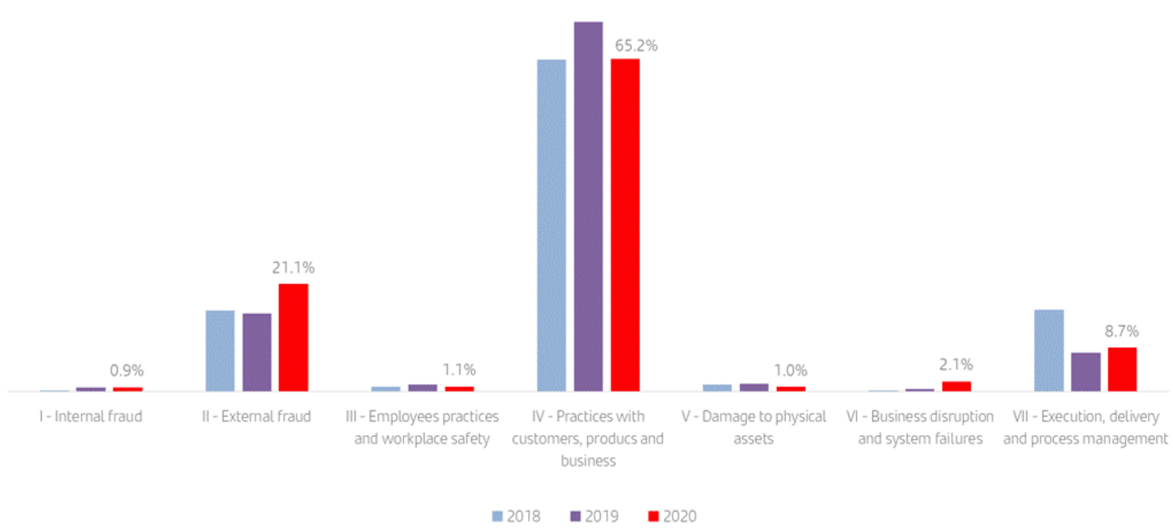
6.3 Key metrics

Grupo Santander gathered the information on operational risk losses relating to covid-19 and on expenses incurred to restore the position as it was before operational risk events. Few such events occurred, bearing a low economic impact. We are implementing the criteria in the EBA Guidelines on the Implementation of Selected Covid-19 Policies[20].

Net losses (including incurred loss and net provisions) distributed under Basel[21] risk categories for the last three years were as follows:

Net losses by operational risk categoryA

(% o/total)



A. Excluding employee litigation from Brazil

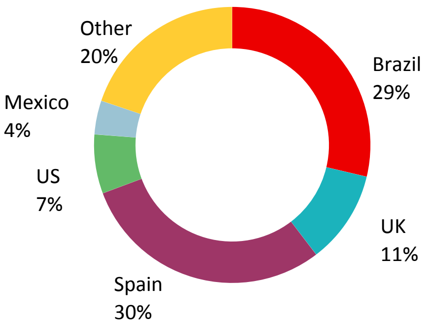
[20] Guidelines updated on December 2020.
[21] The Basel categories incorporate risks which are detailed in section 7 'Compliance and conduct risk'.

Losses due to customers, products and business practices, and errors in processes, were lower than in the previous year. However, external fraud losses increased.

The chart below shows net losses by country:

Net losses by country[A]

(% o/total)



A. Excluding *Trabalhistas* events from Brazil

Santander considers employee litigation with Santander Brasil a staff expense. Our governing bodies continuously monitor expense levels with specific appetite metrics and take special actions to reduce them. These expenses are reported under the categorization defined by the Basel operational risk framework.

In 2020, the most significant losses by category and geography relate to litigation in Santander Brasil (with ongoing root cause analyses of the main products involved) and Santander España (due to legacy cases). Additionally, the amount of losses in the UK and the US continues to decrease due to lower provisions for product marketing and legacy cases.

7. Compliance and conduct risk

7.1 Introduction

The compliance and conduct risk function, which promotes our adherence to rules, supervisory requirements, principles of good conduct and values, acts as a second line of defence. It sets standards, challenges, advises and reports in the best interests of employees, customers, shareholders and broader society.

The compliance and conduct risk function is responsible for monitoring and overseeing compliance and conduct risks. It assesses their impact on our risk appetite and risk profile. It also covers matters related to the following management domains: regulatory compliance, product governance and customer protection, financial crime compliance and reputational risks.

Under Grupo Santander's current model of three lines of defence, compliance and conduct risk is an independent second-line control function. It reports directly and regularly to the board of directors and its committees through the Group Chief Compliance Officer (Group CCO).

The compliance programme is a key process in the compliance and conduct risk function. It sets out the main activities for the year. The parent and each subsidiary execute a compliance programme according to its size and complexity. Structured around the previously mentioned four management domains, it is a key tool for overseeing our subsidiaries and the control environment for compliance and conduct risks.

7.2 Compliance and conduct risk management

The compliance and conduct risk function seeks to ensure the general code of conduct (GCC) is followed under the supervision of the compliance and the risk supervision, regulation and compliance committees. The GCC catalogues ethical principles and rules of conduct that govern the activities of our employees. It must be understood and applied along with other internal implementing regulations.

The GCC sets out:

- compliance functions and responsibilities in applying the general code of conduct;
- general ethical principles;
- general standards of conduct;
- the consequences of violating it;
- the *Canal Abierto* ethical channel to report alleged misconduct and inappropriate behaviour confidentially and anonymously.

Regulatory Compliance

The regulatory compliance function supervises regulatory risks concerning employees, data management and securities markets (these last with SCIB's Compliance team). Its core areas are:

A. Employees

This function, which promotes the ethical and compliance culture among staff, sets internal standards to prevent criminal risks, conflicts of interest and anti-competitive behaviours based on the GCC. It also manages *Canal Abierto*.

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.

Employees compliance functions - Making ethics real

Canal Abierto

- Enable a channel through which employees can report non-ethical conduct or violations of internal regulations.
- Manage reported issues and take part in investigations.
- Promote the Speak Up and Truly Listen culture.

Training and awareness

- Implement training programmes and carry out employee awareness initiatives on corporate defense and employees compliance.
- Spread ethical messages across Grupo Santander through relationships built on trust.

Disciplinary proceeding

- Investigate conduct that run counter to ethical and compliance principles.
- Take part in the assessment of applicable disciplinary measures in case of breaches or non-ethical conducts.

Policies and procedures

- Ensure compliance with the General Code of Conduct and apply its guidelines through specific policies or procedures.
- Report regularly to governance bodies.

Appointments

- Assess the suitability of nominated directors and senior managers*.

Ethical queries

- Manage queries from employees and governance bodies on ethical issues and internal regulations
- Give ethics advice on controversies.

Competition

- Manage the competition compliance programme

* This activity is carried out by the compliance function at Headquarters

In 2020, Grupo Santander's main subsidiaries implemented the common standards of the single channel, *Canal Abierto*. To ensure homogeneous, robust procedures in all subsidiaries to manage issues received through their channels, a global policy was approved to be applied in 2021.

For more details on *Canal Abierto and its management during covid-19*, see section Employee experience' of the Responsible Banking chapter.

B. Market abuse

In 2020, in focusing on the crisis caused by the pandemic, the market abuse team observed two types of risks: people working from home (trades executed through alternative and new communication channels); and market volatility resulting in a significant increase of personal account transactions and breaches.

Control Room — *Monitoring of personal account dealing and the flow of material non-public information.*

Surveillance — *Monitoring of the traders and sales personnel activity at the trading floors and ALCO.*

Group HQ

Control Room

Main achievements

- **Personal Account Dealing (PAD) during COVID-19 crisis:** the volume of transactions performed by Covered Persons by the Code of Conduct in Securities Markets (CCSM) and breaches related to PAD increased significantly (mainly due to lack of pre-trade clearance).
  Market Abuse team managed all these breaches following approved procedures and notes were sent to all covered persons in the Corporate Center in order to refresh their pre-clearing obligations.
- **Update on the CCSM:** The modification of the CCSM mainly sought the alignment of its content and definitions with current regulations, internal organizational structure and best-practices from CNMV.

Main figures

- Covered Persons: 2,444 (+20% vs 31/12/2019)

Surveillance

Main achievements

- **Pandemic impact:** during the lockdown low impact on Surveillance function, monitoring systems worked correctly. Markets employees signed attestation declaring that they are aware of the guidelines for action outside the trading floor, as well as his or her commitment to comply with them with the greatest possible diligence. Due to volatility in markets and working from home, surveillance parameters were adapted in order to adapt them to the current situation.
- **Audits**: First Internal and External Audits for Euribor contribution under the new methodology were satisfactory.

Main figures

- More than 20,000 alerts in 2020 monitored through the corporate tool.
- Monitoring of communications by voice, chats and email more than 30,000 in 2020.

Countries oversight

Control Room

Main achievements

- **Impact of the pandemic:** Reminders were sent regarding the obligations of covered persons and their related parties in relation to their personal account dealing in the main units.

Main figures

- Outside of the Corporate Headquarters more than 11,000 managers and employees are covered.
- Monitored approx. 18,000 personal account transactions during the year.
- More than 1,000 deals with material non-public information.

Surveillance

Main achievements

- **Impact of the pandemic:** Employees signed assumption of responsibilities and obligations while working from home and temporary IT solutions were implemented for market teams trading off premises in those countries where mobiles phones are not being recorded (Brazil, Mexico, Chile, Poland).

Main figures

- Monitored more than 40,000 alerts through the corporate trade surveillance monitoring system in 2020.

Deploying the corporate standards in the main units, with the creation of a supervisory model and the definition of action plans to close up existing gaps.

C. Regulatory compliance is responsible for:

- disclosing material information about Grupo Santander to the markets. We released a great deal of material facts in 2020, which can be found on the websites of Santander and the Comisión Nacional del Mercado de Valores (CNMV), and;
- filing notices on treasury shares (CNMV) and significant holdings of Banco Santander, as well as the significant holdings and remuneration systems of directors and senior management (CNMV and other regulatory bodies of those markets where Santander´s share is listed).

D. Data management

In 2020, the regulatory compliance data management function focused on:

GDPR

- implementing the control framework in our subsidiaries: follow-up on key performance indicators (KPIs), semi-annual monitoring programme and risk self-assessment;
- supporting such initiatives on covid-19 as the "Mi vuelta" app, employee health data processing and new protocols;
- fostering cooperation and the exchange of best practices with subsidiaries.

FATCA and CRS

The oversight of the automatic exchange of tax information between countries (FATCA and CRS) is centred around (i) local reporting obligations; (ii) enhancing the control framework (KPI's and controls) and revision of corporate policies; (iii) training initiatives on regulatory updates and new requirements.

E. SCIB markets regulation

The SCIB compliance team carries out the risk management of the main international markets regulations that affect Grupo Santander. Its most relevant actions during 2020 are detailed below:

MiFID II

In 2020 the SCIB Compliance function continued to improve the control framework to monitor compliance with the regulation across all geographies. It focused especially on potential impacts of covid-19; on decreases in the algorithmic trading activity for market making due to high volatility; on enhancing transaction reporting; and on implementing new data accuracy and quality controls.

Dodd-Frank Title VII

Swap dealer compliance programme grew stronger in 2020. It monitored potential impacts of covid-19 closely, with no major issue.

Volcker Rule

Due to amendments to the rule, it implemented the moderate compliance programme in 2020. It approved new policies and procedures and is already implementing the new set of controls.

Product governance and consumer protection

Our product governance and customer protection activities guarantee our actions take into account our customers' interests while keeping with regulations, our values and principles by:

Culture

- designing the conduct and management principles for marketing and engaging with retail customers and promoting governance culture;
- promoting a culture with a Simple, Personal and Fair approach.

Processes

- making sure products meet customer needs under the right balance of risks, costs and profitability;
- overseeing sales to target markets properly and with transparent information, as well as sales force training and remuneration systems centred on meeting customers' expectations;
- ensuring Simple, Personal and Fair customer service, post-sale systems and processes, as well as detecting potential deterioration in products and services.

Management

- making decisions, enforcing action plans and keeping senior managers and statutory bodies properly informed;

- overseeing the design and execution of controls when marketing to, and engaging with, customers and assessing the capacity and maturity model of the 2LoD;
- identifying risks by analysing our customers' feedback, regulatory guidelines, industry practices, supervisor and auditor opinions; and learning from internal/external events;
- applying group risk assessment methodologies, such as management indicators, thematic evaluations and self-assessments.

Product Governance

Our product approval governance operates on two levels. All subsidiaries have their own approval bodies to ensure new products and services meet the needs of their target market, are sold by appropriate channels and processes, and have fair and transparent terms and conditions. They are then escalated to the corporate product governance forum (CPGF) to be approved before being marketed. This two-tier approval system helps us share best practices and manage the risk of products and services in line with risk appetite.

The fiduciary risk function meets regularly to ensure investment products comply with investment mandates and corporate guidelines.

In 2020 it mainly focused on: (i) designing a new onboarding process and improving customer experience with more products/services on digital channels; (ii) preventing over-indebtedness; and (iii) defining suitability controls to respond to the increasing demand of high risk and illiquid products as a result of market conditions.

For more details on how we've been delivering to our customers amid covid-19, see section 'Santander response to covid-19' in the Responsible Banking chapter.

In this time of crisis, the product governance and consumer protection function has worked to be part of the solution for our customers. During the second quarter of the year, we issued recommendations to subsidiaries and monitored their implementation to align:

- Financial measures: Grupo Santander implemented all government measures and designed others to adapt solutions to customers' needs and relieve financial distress. They were free of extra charges and aligned with local sectorial practices.
- Insurance cover: all our banks jointly with joint ventures agreed to adapt existing policies to extend the terms and grace periods of restructured mortgages and loans and expand health cover to include pandemic-related claims without any cost to customers.
- Sales force remuneration: main subsidiaries adapted sales force incentives to the situation to promote a fair approach for employees and focus on current customers' needs.
- Investment monitoring and management: Santander Asset Management and Private Banking monitor investment products closely. After managing temporary increases in redemption requests and enhancing the liquidity conditions of some products, the situation remained stable without any special cause for concern.
- Complaints: we are closely monitoring our subsidiaries to analyse complaint trends relating to the pandemic and make sure relief measures provide the best possible outcome for our customers. In 2020, there were not significant inflows of complaints relating to covid-19.
- Collections & Recoveries: Grupo Santander designed a “Preparedness” plan comprising 5 dimensions for the entire crisis, including one related to regulatory/conduct risk to reinforce conduct standards.
- Controls: Subsidiaries reinforced controls regarding credit and loan applications and sales: transparency in customer communications, recordkeeping, eligibility checks, and prevention of cross-selling of insurance relating to loan moratoria and government lines of credit.

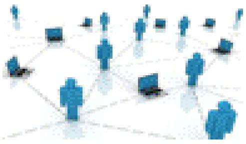
Other product governance and consumer protection initiatives and priorities

Culture and customers

Approve a definition of vulnerable customer for each geography and create initiatives on the treatment of vulnerable customers

Update global mandatory training materials on conduct risk

Implement customer voice reports and consumer protection indicators



1LoD awareness and accountability

Increase weight, quality and diversification of conduct metrics in sales-force variable remuneration

Reinforce conduct risk governance though product-based 1LoD forums

Conduct risk control self-assessment

Management and control environment

Strengthen control model framework for marketing products and services

Custody controls: supplier certifications and revaluations, monitoring and ensuing gap reduction

Thematic reviews (overdrafts, package accounts, renewals and impact in customers derived from digitalization)

Financial Crime Compliance (FCC)

For Grupo Santander, advanced and efficient financial crime compliance systems that constantly adapt to international regulations and confront the evolving techniques of criminal organizations is a strategic objective. We are fully committed to the fight against financial crime and do not tolerate failures to meet international financial crime regulations and those of the countries where we operate.

The FCC function in the second line of defence is responsible for ensuring that risks of financial crime are managed in accordance with risk appetite. To promote a strong risk culture, it supervises and coordinates the implementation of the FCC framework across majority-owned subsidiaries, branches and business areas through the appropriate programmes, measures and enhancements.

Our FCC corporate framework sets the core requirements for how Grupo Santander responds to risks relating to financial crime in line with international standards and best practices. Its purpose is (i) to establish the principles and standards Santander entities must follow to prevent financial crime and comply with international sanction programmes; (ii) to define the area's roles and responsibilities within the three lines of defence; (iii) to establish group-wide policies and procedures; and (iv) to define the essential features of FCC governance.

In 2020, the FCC function executed a series of initiatives that increased its overall effectiveness, including:

- An end-to-end review of policies and procedures, which consolidated and simplified them with clear core requirements and necessary key processes according to recent regulatory changes and guidance, in addition to detailed implementation standards and protocols to assist with adaption in operation areas.

- Strengthening subsidiary oversight via a more robust and challenging oversight methodology that improves collaboration and communication between subsidiaries and Grupo Santander.

- Updating key risk indicators (KRIs) to monitor the core components of risks relating to financial crime. KRIs are tracked locally but also reported globally to top management in relation to risk appetite.

- Improving FCC new product approval with greater focus on systems optimization and innovative technologies for digital initiatives.

- Reforming the group-wide FCC risk assessment methodology to better identify key FCC risks and evaluate control effectiveness,based on changes in regulatory guidance and industrial best practices.

In 2020, the FCC function initiated a strategic transformation plan for better monitoring and technical due diligence controls over customer lifecycle across Grupo Santander that aimed to centralize controls, enhance our ability to harmonize standards, gain efficiencies and mitigate execution risk. It included the use of artificial intelligence and machine-learning techniques to complement rules-based scenarios and increase the leverage on high quality leads for investigation.

The benefits to Grupo Santander of applying artificial intelligence measures have included:

- better detection of unusual and potentially suspicious behaviour based on various customer behaviour dimensions;

- flexible and fast responses to new challenges in detection and analysis, running multiple investigation approaches while consuming large amounts of data;

- significant research improvements in executing discrete queries and incorporating new datasets to enhance detection under a single platform;

- the use of a simulation environment to test proposed enhancements in pre-production;
- traceability and full explanations – our platforms maintain clear logs and registries that meet group-wide standards.

Main activity data in 2020 are as follows:

- 215 subsidiary reviews (+11% vs 2019)
- 91,755 disclosures to authorities (+46% vs 2019)
- 258,893 investigations conducted
- 173,098 trained employees

The function maintains group-wide requirements on training content and testing for all employees, include senior management. In 2020, in addition to the core FCC training modules, which are subject to continuous improvement, it held group-wide awareness sessions that focused on FCC challenges in digital innovation, financial inclusion, classifications and approaches to identify non-traditional financial crimes in child sexual abuse and exploitation, human trafficking, environmental crime and other areas.

In addition, targeted training sessions were given to specific country teams on compliance with specific sanctions and other critical areas. It also ran a tailored session the group's board of directors on the latest trends in financial crime and the threats Grupo Santander faces across our footprint.

Santander continues to fulfil its role as a member of the Wolfsberg Group, the United For Wildlife's Financial Taskforce, the European Banking Federation, Europol and in public-private partnerships and industry associations.

Reputational risk

Grupo Santander classifies reputational risk as a current or potential negative economic impact stemming from how we are perceived by employees, customers, shareholders, investors and broader society. It may come from various sources or even other risks relating to business and support operations; the economic, social and political climate; and events involving our competitors.

Our reputational risk model is based on a preventive risk management and control approach, with effective handling of early warnings and monitoring of events and detected risks.

Key actions in 2020:

- New operating procedure, approved by the group and subsidiaries to analyse reputational risk in a broader scope of activities.
- Revision of group-wide policies on the defence industry and other sensitive industries.
- New guidelines for supplier reputation assessments, to be deployed in all geographies in 2021 (pilot in Santander España in 2020).
- Definition of a group-wide criteria for social contributions related to covid-19.
- Thematic reputational risk training sessions with first and second lines of defence on sensitive transactions and customers and general awareness for all employees across our footprint.
- More importance of risk appetite metrics in the group and core subsidiaries.
- New reputational risk tool that assesses media perception against our peers.
- Creation of the reputational risk approach for global risk profile assessments.
- Better subsidiary oversight in terms of governance and challenge with subsidiaries.

8. Model risk

8.1 Introduction

A model is a system, approach or quantitative method that applies statistical, economic, financial or mathematical theories, techniques or hypotheses to transform input data into quantitative estimates. It involves simplified representations of real world relationships between characteristics, values and observed assumptions that allows Grupo Santander to focus on specific aspects. We use models for approval (scoring/rating), capital calculation, behaviour, provisions, market, operational risk, compliance and liquidity.

Models entail model risk, which is the negative consequence of decisions based on their inaccurate, improper or incorrect use. Sources of model risk can be:

- incorrect or incomplete data in the model itself or the modelling method used in systems;
- incorrect use or implementation of the model.

Model risk can cause financial loss, erroneous commercial and strategic decision-making or damage to Grupo Santander's transactions.

We have been defining, managing and controlling model risk for several years. After years of work, the Model Risk function has been enhanced and consolidated across the Group. These functions are performed at the corporate centre and the main subsidiaries.

To ensure adequate model risk management, Grupo Santander has a set of policies and procedures that establish the principles, responsibilities and processes in the model life cycle that describe organization, governance, model management and model validation.

Supervision and control of model risk is proportional to the importance of each model. A concept of Tiering is the main attribute used to synthesize a model's level of importance and defines how intense risk management must be.

Our multiyear strategic plan, Model Risk Management 2.0 (MRM 2.0), was launched to enhance model risk management across Grupo Santander. The governance phase of each model has been reviewed and adapted to the 2018 ECB guide on internal models. MRM 2.0 is currently underway, and a high number of initiatives have already been closed. Specifically during 2020 the project has covered different initiatives focused on the following themes:

- **Key elements:** Several initiatives related to governance reinforcement, definition of risk appetite, management scope and simplification of risk policies have been undertaken, with the main focus on enhancing our framework for regulatory models.
- **Processes:** Different actions related to the improvement of the model life cycle phases have been performed, with focus on increasing the automation of our main processes.
- **Reporting:** The Senior Management awareness of Model Risk topics has been reinforced, we have a robust forward looking agenda where the relevant topics are regularly reviewed and potentially escalated.
- **Model Risk Facilitators:** Continuous enhancement of our infrastructure and tools as well as contributing to extend the model culture in the Group. High digitalization level allow us to support our decisions on real-time information.

We have continued making steady progress on our MRM 2.0 strategic plan, making sure all the upcoming regulatory requirements are thoroughly covered.

In addition to MRM 2.0, we have two specific projects underway with our regulatory credit and market risk models under scope.Both projects have the target to follow up on the TRIM (Targeted Review of Internal Models) actions, and to ensure the fulfilment of the new regulatory requirements for the coming years.
The main focus in 2021 will be to continue strengthening our regulatory model landscape, in order to fulfil ECB requirements by 2022. A high number of model changes will be delivered to the ECB, which will require formal approval before implementation.

8.2 Model risk management

Model risk management and control are structured processes known as the model life cycle. The model life cycle phases in Santander are:

Identification

Identified models must be included in the model risk control perimeter.

One key feature for proper model risk management is to have a complete inventory of used models.

Grupo Santander has a centralized inventory, based on a uniform taxonomy for all models used at business units. The inventory contains detailed information on each model allowing for close monitoring according to model significance and tier criteria.

Planning

This is an internal annual exercise, approved by our subsidiaries' governance bodies and validated by the headquarters team. It establishes a strategic action plan for models included in the model risk function's scope of management. It identifies the resources needs related to the models that are going to be developed, revised and implemented during the year.

Development

Development is the construction phase in the model's lifecycle. It is based on econometrics and carried out by specialists in methodology. Models are developed according to the needs of the business unit, as specified in the annual model plan.

To ensure the quality and consistency of the models, the development must follow common, group-wide methodological standards, as defined by the headquarters team. The recent creation of the Models & Data Unit aims at a better, more efficient and centralized execution of model builds, whilst exploiting the synergies of combining models and data.

More detail in section 2.5 Models & Data Unit of this chapter.

Internal validation

The independent validation of models is a regulatory requirement and a key feature of our management and control of model risk.

An independent specialized unit, which is part of Model Risk function, analyzes and issues technical opinions on the suitability of internal models. The validation opinion for each model is expressed through a rating that summarizes the model risk associated to it. Internal validation covers all the models within the model risk control scope, the intensity and the frequencies of the validations tasks are perfectly defined and follow a Risk-based approach.

The validation scope includes theory, methodology, the IT systems and the data quality that models rely upon for their effective functioning. It also includes detailed analysis of the model performance, as well as other risk management aspects (controls, reporting, uses, and involvement of senior management, among others).

A key task in internal validation is the consistency analysis carried out by validators, which reviews issued recommendations, severity and assigned ratings. It acts as an important point of control to ensure the homogeneity and comparability of validation tasks.

The validation tasks are only concluded once this phase of consistency has been completed. In addition, the Single Validation Office plays a key role ensuring the highest consistency of the validations across the models in the Group.

Approval

Before deployment and use, each model must be submitted to internal governance bodies for approval. A governance path for our models inventory is in place, which varies according to the model's tiering.

Deployment and use

In this phase, we implement newly developed models in IT systems. This phase is another possible source of model risk. Therefore, technical units and model owners must conduct tests to certify model implementation is according to methodology as intended and expected.

Monitoring and control

We must regularly review models to make sure they perform correctly and are suitable to their intended purpose. Otherwise, they must be adapted or redesigned.

Additionally, control teams have to ensure that model risk is managed in accordance with the principles and rules set out in the model risk framework and related internal regulations.

9. Strategic risk

9.1 Introduction

Strategic risk is the threat of loss or damage from strategic decisions, the poor implementation thereof or the inability to adapt to external developments.

Grupo Santander's business model must be considered as a key factor that is pivotal to strategic risk. It has to be viable, sustainable and should generate results in accordance with the yearly group's targets (particularly the next three years) and long-term view.

Strategic risk has three components:

1 **Business model risk,** which includes the risk that the group's model will become obsolete or irrelevant, and/or that it will lose the ability to generate expected results.

2 **Strategy design risk,** which relates to the strategy set out in Grupo Santander's long-term plan (including the risk that the plan will not be adequate) or due to its assumptions, resulting in a failure to deliver expected results.

3 **Strategy execution risk,** which involves the three-year financial plan (including internal and external impacts), the inability to react to changes in the business environment, and risks associated with corporate development transactions.

9.2 Strategic risk management

Grupo Santander views strategic risk as transversal. We have a target operating model that our subsidiaries use as a reference. It covers the governance, procedures and necessary tools for robust monitoring and control. We constantly monitor changes in the landscape (competition, regulation, market conditions, etc.) or in our own entity to determine if it is necessary to revise strategy and if mitigating factors and/or remediation plans are in place. The strategic risk function involves key areas from the first and second line of defence to make sure potential measures are ready to be implemented.

In 2020, the strategy mainly focused on the covid-19 pandemic and the extremely uncertain economic outlook. Although our strategy remains valid in the long term, the current backdrop might delay our achievement of some strategic targets. The health crisis's effects on the global economy have driven our strategic risk profile to mid-high, primarily triggered by pressure on margins, profitability and the impact assessment of the aforementioned potential threats.

Brexit governance remained in force in 2020. It built on existing working groups and the crisis management office so we could detect issues and keep senior managers duly informed.

The strategic risk function's key actions in 2020 were:

- **Challenge to strategic plans:** Supported by specialized functions within the Risk division, it challenged the three-year strategic plan (including a specific chapter in the final plan), identifying potential threats and changes in the environment that might jeopardize strategic objectives. The 2020 challenge focused on economic outlook uncertainty, since the intensity and duration of the covid-19 crisis remain unknown, and a tough environment for value creation where digital projects, such as One Santander, PagoNxt and building a global native digital consumer bank, are crucial in boosting profit growth.
- **Top risks:** Under stressed assumptions, Grupo Santander identifies, assesses, monitors and manages risks that will have a significant impact on results, liquidity or capital. Covid-19 has been a catalyst for previously identified threats, such as cyber-attacks,and macro and geopolitical threats; it is already changing market dynamics, consumer behaviour and accelerating the digitization of the economy. Climate change-related risk has also take on a more holistic view, beyond the regulatory scope.
- **Strategic risk report:** Prepared jointly with the corporate development and strategy function as a tool for monitoring and assessing the strategy and related risks, it is presented to senior managers and covers strategy execution, strategic projects, corporate development transactions, business model performance, top risks and risk profile.
- **Marketing of new products:** The strategic risk function participated in assessing and validating new product and service proposals before Grupo Santander and its subsidiaries launch them, ensuring full alignment with the approved strategy.
- **Corporate development transactions:** The strategic risk function received support from other Risk division areas to ensure risk assessments of transactions' impact on our risk profile and risk appetite.

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Glossary

1LoD	First Line of Defence
2019 AGM	Annual general meeting held on 12 April 2019
2020 AGMs	April 2020 AGM and October 2020 AGM
2021 AGM	Annual general meeting called for 25 or 26 March 2021, at first or second call respectively
2Dii	2 Degree Investing Initiative
2LoD	Second Line of Defence
Active customer	Those customers who comply with balance, income and/or transactionality demanded minimums defined according to the business area
ADS	American Depositary Shares
AEAT	*Agencia Estatal de Administración Tributaria*
AI	Artificial Intelligence
ALCO	Asset-Liability Committee
ALM	Asset and Liability Management
AML	Anti-money laundering
APM	Alternative Performance Measure
April 2020 AGM	Annual general meeting held on 3 April 2020
ASF	Available Stable Funding
ASR	Recovered write-off assets (Activos en suspenso recuperados)
AT1	Additional Tier 1
ATM	Automated teller machine
ATOMIC	Advanced Target Operating Models in Collaboration
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
BBLS	Bounce Back Loans
BCMS	Business Continuity Management System
BCP	Business continuity plans
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 Internacional
CAE	Chief audit executive
CAF	Development Bank of Latin America
CAO	Chief accounting officer
CARF	Conselho Administrativo de Recursos Fiscais
CCO	Chief compliance officer
CCP	Central Counterparties
CCPS	Contingent convertible preferred securities
CDI	Crest Depositary Interests

CDS	Credit Default Swaps
CEB	Council of Europe Development Bank
CEO	Chief executive officer
CER	Credit equivalent risk
CET1	Common equity tier 1
CFO	Chief financial officer
CIO	Chief information officer
CNMV	Spanish stock market authority (*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
CPGF	Corporate Products Governance Forum
CRD IV	The prudential framework established by the CRD and CRR currently in force
CRD V	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
CSLL	Social Contribution on Net Income
CTO	Chief technology officer
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.
DLP	Data Leakage Protection
Dodd-Frank Act	The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DTA	Deferred Tax Asset
DVA	Debt Valuation Adjustment
E&S	Environmental and social
EAD	Exposure at Default
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECB Recommendation I	The recommendation issued by the ECB on 27 March 2020 for all European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results until at least 1 October 2020 to preserve capital
ECB Recommendation II	The recommendation issued by the ECB on 27 July 2020 extending the term of ECB Recommendation I. It asked the European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results or from making irrevocable commitments to pay them until 1 January 2021
ECL	Expected credit loss
EIB	European Investment Bank
EMIR	Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories, as amended from time to time
EONIA	Euro Overnight Index Average

EPS	Earnings Per Share
ERC	Executive risk committee
ES	Expected Shortfall
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRM	Environmental and social risk management
ETF	Exchange Traded Funds
EU	European Union
EVE	Economic Value of Equity
EWIs	Early Warning Indicators
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FCA Group	Fiat Chrysler Automobiles
FCC	Financial Crime Compliance
FEBEF	Fundación Española de Banca para Estudios Financieros
FED	Federal Reserve
Final Cash Dividend	The final cash dividend of 0.10 euros per share put to a vote by the board in February 2020 at the April 2020 AGM
FROB	Fondo de Reestructuración Ordenada Bancaria
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FX	Foreign Exchange
G-SIB	Global Systematically Important Bank
GBP	Pound sterling
GCC	General Code of Conduct
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GMRA	Global master repurchase agreement
GMS	Global Merchant Services
GPPC	Global Public Policy Committee
GPTW	Great Place to Work
GRC	Governance, risk and compliance
GRI	Global Reporting Initiative
GSGM	Group-Subsidiary Governance Model
GTS	Global Trade Services
HR	Human Resources
IAS	International Accounting Standards
IBORs	Interbank offered rates
ICAAP	Internal Capital Adequacy Assessment Process
ICAC	Accounting and Audit Institute *(Instituto de Contabilidad y Auditoría de Cuentas)*
ICFR	Internal control over financial reporting
ICM	Internal control model
ICO	Instituto de Crédito Oficial
ICT	Information and Communication Technology
Identified Staff	Other executives whose activities may have a significant impact on the Group's risk profile
IFC	International Finance Corporation
IFI	Instituciones financieras internacionales
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
IRB	*Internal Rating Based*
IRC	Incremental Risk Charge
IRPJ	Imposto de Renda Pessoa Jurídica
IRR	Internal rate of return
IRS	Internal Revenue Service
ISMA	International Securities Market Association
IT	Information technology
IT	*Information Technology* (tecnología de la información)
KPI	Key performance indicator
KRI	Key Risk Indicators
LCR	Liquidity Coverage Ratio
LDA	Loss Distribution Approach
LGD	Loss Given Default
LIBOR	London Interbank Offer Rate
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
MiFID II	Markets in Financial Instruments Directive.
Mn	Million
MRAP	Market Risk Advanced Platform
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
NCAs	National competent authority
NGFS	Network for Greening the Financial System
NGO	Non-governmental organisation
NII	Net Interest Income
Nominal cap	Maximum nominal amount of a risk operation, excluding market transactions
NPLs	Non-performing loans
NPS	Net promoter score
NSFR	Net stable funding ratio
NYSE	New York Stock Exchange
o/w	Of which
October 2020 AGM	Annual meeting held on 27 October 2020
OECD	Organisation for Economic Co-operation and Development
OM	Organised Markets
ONP	Ordinary net profit
OR	Operational risk
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.
PFE	*Potential Future Exposure* (posible exposición futura)
PIS	Programa de Integraçao Social
PIT	Point in time
PIT	*Point-in-time*
PLN	Polish Zloty
POCI	Purchased or Originated Credit Impaired
POS	Point of sale
pp	percentage point
PPI	Payment protection insurance
PRA	UK Prudential Regulatory Authority
PRI	Principles for responsible Investment
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
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
RPA	Risk profile assessment
RRS	Risk Reporting Structure
RSF	Required Stable Funding
Rules and regulations of the board	Rules and regulations of the board of directors of Banco Santander, S.A.
Rules and regulations of the general meeting	Rules and regulations of the general meeting of Banco Santander, S.A.
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*
SDG	Sustainable Development Goals

SEA	Securities Exchange Act
SEC	Securities and Exchange Commission
SHUSA	Santander Holdings USA, Inc.
SICR	Aumento significativo del riesgo crediticio
SIS	Santander Investment Securities
SLA	Service Level Agreement
SMEs	Small and medium enterprises
SOX	Sarbanes-Oxley Act of 2002
Spanish Companies Act	Consolidated text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010, of 2 July
Spanish Corporate Governance Code	CNMV's Good Governance Code for Listed Companies
Spanish Securities Markets Act	Consolidated text of the Spanish Securities Markets Act approved by Royal Legislative Decree 4/2015, of 23 October
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
STF	Supreme Federal Court of Brazil
SVaR	Stressed value at risk
T&O	Technology and operations
T2	Tier 2
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	The total loss-absorbing capacity requirement which is required to be met under the CRD V package
TLTRO	Targeted longer-term refinancing operations
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
VPN	Virtual Private Network
WBCSD	World Business Council for Sustainable Development
WFH	Working From Home
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
YoY	Year over year

Part 2.
Auditor's report and Consolidated financial Statements

HELPING DEPLOY RENEWABLE ENERGY

Santander Corporate & Investment Banking has created a dedicated ESG Solutions team to help its clients' journey towards a low-carbon economy. The team recently embarked on its first project advising Plug Power, a US-based, global leader in fuel cell systems and hydrogen-related services, on the launch of a joint venture with Groupe Renault to integrate their innovative solutions into light commercial vehicles.

Eric Conway, working in the Plug Power Latham, NY manufacturing facility (US).

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Auditor's 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, 2020, 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, 2020, 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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Banco Santander, S.A. and subsidiaries

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 complexity of the expected loss impairment calculation models has increased due to the adaptations made in the context of the covid-19 crisis by incorporating new estimates and judgments such as the consideration of certain flexibility measures applied to the operations subject to moratoriums, the consideration of government guarantees or the consideration of the adjustments to the models to determine the expected loss. These estimates require an elevated component of judgment by management and are one of the most significant and complex estimates in the preparation of the consolidated annual accounts as at December 31,2020, therefore it has been considered one of the key audit matters.

The main judgements and assumptions used by management are the following:

- The estimation of the Probability of Default (PD) and Loss Given Default (LGD) parameters.
- Identification and classification of the staging criteria of loans and advances to customers, including the criteria established in the context of covid-19.
- The definition and evaluation of post model adjustments to adapt the parameters estimated by the models to the current conditions and environment derived from the covid-19 crisis.
- The main assumptions used in the determination of provisions for risks estimated individually.

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 uses internal models that allow it to estimate both the collective provisions and the provisions for risks estimated individually.

We have performed, in collaboration with our credit risk expert, an understanding of management's process to estimate the impairment of financial assets at amortised cost - loans and advances to costumers – over the estimation of impairment of financial assets assessed collectively and individually.

With respect to internal controls, 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.
- 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, placing special attention over the loan origination process subject to either moratoriums or government guarantees as a consequence of covid-19, if any.
- Periodic review process of borrower to determine proper staging criteria.
- Review process over the calculation of the principal models and portfolios.
- Review process of the post model adjustments made by management, placing special attention to those made as a consequence of covid-19.

In addition, we performed the following tests of details:

- Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology used for the estimation of the expected loss parameters; iii) data and main assumptions used, iv) staging criteria and v) scenario information and assumptions.

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Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
As a result, during fiscal year 2020 the Group has recognised an amount of 12,363 million euros of impairment of financial assets at amortised cost. Please refer to Notes 1, 2, 10 and 53 of the consolidated annual accounts as at December 31, 2020.	• For a sample of loans subject to either moratoriums or government guarantees, if any, assess the documentation used in the origination process. • Reperformance of collective impairment losses based on the expected credit loss models parameters. • Evaluation of the post model adjustments made by management. • 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	
Goodwill impairment assessment is an exercise that requires a high degree of judgment and estimation, therefore it has been considered one of the key audit matters. Due to their relevance to Santander Group, management monitors goodwill and assesses goodwill for impairment at the end of each annual reporting period or whenever there is any indication of impairment. As at December 31, 2020, management's assessment has considered the updated economic and business environment resulting from covid-19, the current market conditions and the existing economic uncertainty that has impacted the main assumptions, with special focus on the following Cash Generating Units (CGUs): Santander UK, Santander Bank Polska, Santander Bank, National Association, Santander Consumer USA and Santander Consumer Nordics. The assumptions used by management to estimate the value in use of the CGUs includes financial projections, discount rates, perpetual growth rates and market quotes (if available). Such valuations, and some of these assumptions, are performed by management's experts.	We have obtained an understanding, with the assistance of our valuation experts, of the processes performed by management to assess the recoverable amount and the process performed over the goodwill impairment assessment. With respect to internal controls, 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 goodwill impairment assessment, 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.

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Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
As a result, the Group has recognised EUR 10,100 million of goodwill impairment during the year ended 2020 related to the following CGUs: Santander UK, Santander Bank Polska, Santander Bank, National Association, Santander Consumer USA and Santander Consumer Nordics. The Group's consolidated goodwill balance was EUR 12,471 million as at December 31, 2020. Please refer to Notes 2 and 17 of the consolidated annual accounts as at December 31, 2020.	• Evaluated the reasonableness of the discount rates and perpetual growth rates used by management's experts. • Verified the mathematical accuracy of the valuation models used by management experts. • Inspected the annual valuation reports regarding the evaluation of the goodwill impairment, performed by management's experts. Based on the importance, we have conducted tests of details over the goodwill impairment assessment performed during 2020 for the following CGUs: Santander UK, Santander Bank Polska, Santander Bank, National Association, Santander Consumer USA and Santander Consumer Nordics. Considering market practices and specific sector expectations, as well as the current economic and business environment resulting from covid-19, we have performed the following procedures: • Evaluated the reasonableness of the methodology and main assumptions used by management in its goodwill impairment assessment, including the financial projections, discount rates and perpetual growth rates, and compared to external market data, if available. • Verified the mathematical accuracy of the goodwill impairment test, including the discounted cash flow projections. • Performed a specific sensitivity analysis of the main assumptions such as those related to the: i) financial projections; ii) discount rates; and iii) perpetual growth rates. • Inspected the valuation reports regarding the goodwill impairment test performed by management's internal and external experts. In addition, we have performed, among others, the following tests of details: • Evaluated the discounted cash flow projections used by management in their estimation, considering market practices and specific sector expectations, including the verification of the assumptions, such as discount rates and perpetual growth rates, of the rest of CGU valuated by their value in use.

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Key audit matter	How our audit addressed the key audit matter
	• Compared the fair value of the listed CGUs to their recoverable amount. • Verified the adequacy of the information disclosed in the consolidated annual accounts in accordance with applicable regulations. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
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, with particular relevance to the Group in Spain and Brazil, therefore it has been considered one of the key audit matters. Within the framework of the recoverability model defined by management, in relation to the Consolidated Tax Group, on an annual basis, or whenever there is any indication of impairment, each business unit compiles the assumptions that support the business plans that are projected over the time horizon established for that business. As a result of the impact of covid-19 on the main hypotheses on which financial projections are based, mainly derived by the changes in the macroeconomic variables and the actual results as compared to budget, the Group has evaluated the ability to generate future taxable profits in assessing the recoverability of the deferred tax assets recorded during fiscal year 2020. The process carried out during this period includes specific considerations that management considers in assessing the recoverability of deferred tax assets, placing special attention to the environment and uncertainty resulting from the pandemic.	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: • Process on which the financial projections used to estimate future taxable profits are based for the recoverability model of deferred tax assets. • Calculation of deductible temporary difference, including the adequacy with the current tax regulation. We also performed the following tests of details: • Evaluated the accuracy of the calculations and the reasonableness of the estimations made by management for deductible temporary differences. • Assessed the completeness and appropriateness of the assumptions used by management in their calculation of the deductible temporary differences. • Analysis of the key assumptions used by management in their estimation and monitoring of the recoverability of deferred tax assets, with special attention to the covid-19 impact, including: - Obtaining and analysing the financial projections carried out by the Group and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis.

Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
The most significant considerations made by management in this respect are: • Assuring that the tax regulations of each country are applied correctly and the temporary differences that meet the consideration as deductibles are duly recognised. • Reviewing the projections that are part of the recoverability model of deferred tax assets which is in turn used to estimate the tax profits used to assess the recoverability of the deferred tax assets that will be recoverable in future periods, are indeed achievable. • Applying the model and validating the calculations of this model to ensure that the valuation of tax assets and that the conclusions drawn regarding their recoverability are appropriate. As a result, during the year ended 2020 the Group has estimated that 2,500 million euros of deferred tax assets are not recoverable. Please refer to Notes 2 and 27 of the consolidated annual accounts as at December 31, 2020.	- Analysis of the tax strategy planned by the Group for the recoverability of the deferred tax assets. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
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. Also, there are other situations not yet subject to any judicial process that, however, have required the registration of provisions, such as aspects of conduct with clients and their compensation. These procedures generally take a long period of time to run their course, giving rise to complex processes in accordance with the applicable legislation, therefore it has been considered one of the key audit matters. Management decides when to recognize a provision for these contingent liabilities, based on an estimate calculated using certain procedures consistent with the nature of the uncertainty of the obligations.	We have obtained an understanding and evaluated the estimation process performed by management for litigation provisions and contingencies. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following process: • Additions, logs and updates over the completeness of the legal matters in the systems. • Accuracy of the key data, maintained in the systems, used in the calculation of the litigations provisions and contingencies.

Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Among these provisions, the most significant are those that cover the tax and labour proceedings in Brazil. The amount of the litigation provisions and contingencies as at December 31, 2020 is 4,425 million euros. Please refer to Notes 2 and 25 of the consolidated annual accounts as at December 31, 2020.	• Assessment of the criteria used to estimate the expected losses from litigation provisions and contingencies and evaluation of the adequacy over the calculation of 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: • Analysis for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the tax obligations for all the years open to inspection, of the communications with the regulatory bodies and analysis of the ongoing regulatory inspections. • Obtaining confirmation letters from external and internal lawyers and external tax advisors who work with the Group and performing alternative procedures. • Analysis of the recognition and reasonableness of the provisions recorded. 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 the geographies where it operates, 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 organization of the Group's Technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations, therefore it has been considered one of the key audit matters.	We have evaluated, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support 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.

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Key audit matter	How our audit addressed the key audit matter
In this respect, management continues working to reinforce the internal controls over IT systems, improving the access control that support the Group's technology processes.	• Application development and change management. • Maintenance of computer operations. In addition, considering the changes carried out by management to reinforce the internal controls over IT systems, our approach and audit plan focused on the following aspects: • Evaluation of the changes made as part of the enhancements implemented in the access control environment of the Group. • Testing of the design and operating effectiveness of the controls implemented by management. In the procedures described above, no essential exceptions were identified related to this matter.

Other information: Consolidated Directors' report

Other information comprises only the consolidated Directors' report for the 2020 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 consolidated Directors' report, in accordance with legislation governing the audit practice, is to:

a) Verify only that the statement of non-financial information and certain information included in the Annual Corporate Governance Report, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the consolidated Directors' report and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this 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 , we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation 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 2020 financial year, and its content and presentation are in accordance with applicable regulations.

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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 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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- 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

European single electronic format

We have examined the digital files of the European single electronic format (ESEF) of Banco Santander, S.A. and its subsidiaries for the 2020 financial year that comprise an XHTML file which includes the consolidated annual accounts for the financial year and XBRL files with tagging performed by the entity, which will form part of the annual financial report.

The directors of Banco Santander, S.A. are responsible for presenting the annual financial report for the 2020 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation).

Our responsibility is to examine the digital files prepared by the Parent company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the consolidated annual accounts included in the aforementioned digital files completely agrees with that of the consolidated annual accounts that we have audited, and whether the format and markup of these accounts and of the aforementioned files has been effected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital files examined completely agree with the audited consolidated annual accounts, and these are presented and have been marked up, in all material respects, in accordance with the requirements established in the ESEF Regulation.

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 23, 2021.

Banco Santander, S.A. and subsidiaries

Appointment period

The General Ordinary Shareholders' Meeting held on April 3, 2020 appointed us as auditors of the Group for a period of one year, for the year ended December 31, 2020.

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 47 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal Elorrieta (19930)

February 23, 2021

Consolidated annual accounts

Grupo Santander

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020, 2019 AND 2018

EUR million

ASSETS	Note	2020	2019	2018
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**153,839**	**101,067**	**113,663**
FINANCIAL ASSETS HELD FOR TRADING		**114,945**	**108,230**	**92,879**
Derivatives	9 and 11	67,137	63,397	55,939
Equity instruments	8	9,615	12,437	8,938
Debt instruments	7	37,894	32,041	27,800
Loans and advances		299	355	202
Central banks	6	—	—	—
Credit institutions	6	3	—	—
Customers	10	296	355	202
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**4,486**	**4,911**	**10,730**
Equity instruments	8	3,234	3,350	3,260
Debt instruments	7	700	1,175	5,587
Loans and advances		552	386	1,883
Central banks	6	—	—	—
Credit institutions	6	—	—	2
Customers	10	552	386	1,881
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**48,717**	**62,069**	**57,460**
Debt instruments	7	2,979	3,186	3,222
Loans and advances		45,738	58,883	54,238
Central banks	6	9,481	6,473	9,226
Credit institutions	6	12,136	21,649	23,097
Customers	10	24,121	30,761	21,915
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**120,953**	**125,708**	**121,091**
Equity instruments	8	2,783	2,863	2,671
Debt instruments	7	108,903	118,405	116,819
Loans and advances		9,267	4,440	1,601
Central banks	6	—	—	—
Credit institutions	6	—	—	—
Customers	10	9,267	4,440	1,601
FINANCIAL ASSETS AT AMORTIZED COST		**958,378**	**995,482**	**946,099**
Debt instruments	7	26,078	29,789	37,696
Loans and advances		932,300	965,693	908,403
Central banks	6	12,499	18,474	15,601
Credit institutions	6	37,838	40,943	35,480
Customers	10	881,963	906,276	857,322
HEDGING DERIVATIVES	**36**	**8,325**	**7,216**	**8,607**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**36**	**1,980**	**1,702**	**1,088**
INVESTMENTS	**13**	**7,622**	**8,772**	**7,588**

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020, 2019 AND 2018

EUR million

ASSETS	Note	2020	2019	2018
Joint venture entities		1,492	1,325	979
Associated entities		6,130	7,447	6,609
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	**15**	**261**	**292**	**324**
TANGIBLE ASSETS		**32,735**	**35,235**	**26,157**
Property, plant and equipment	16	31,772	34,262	24,594
For own-use		13,213	15,041	8,150
Leased out under an operating lease		18,559	19,221	16,444
Investment properties	16	963	973	1,563
Of which leased out under an operating lease		*793*	*823*	*1,195*
INTANGIBLE ASSETS		**15,908**	**27,687**	**28,560**
Goodwill	17	12,471	24,246	25,466
Other intangible assets	18	3,437	3,441	3,094
TAX ASSETS		**24,586**	**29,585**	**30,251**
Current tax assets		5,340	6,827	6,993
Deferred tax assets	27	19,246	22,758	23,258
OTHER ASSETS		**11,070**	**10,138**	**9,348**
Insurance contracts linked to pensions	14	174	192	210
Inventories		5	5	147
Other	19	10,891	9,941	8,991
NON-CURRENT ASSETS HELD FOR SALE	**12**	**4,445**	**4,601**	**5,426**
TOTAL ASSETS		**1,508,250**	**1,522,695**	**1,459,271**

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated balance sheet as of 31 December 2020.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020, 2019 AND 2018

EUR million

LIABILITIES	Note	2020	2019	2018
FINANCIAL LIABILITIES HELD FOR TRADING		**81,167**	**77,139**	**70,343**
Derivatives	9	64,469	63,016	55,341
Short positions	9	16,698	14,123	15,002
Deposits		—	—	—
Central banks	20	—	—	—
Credit institutions	20	—	—	—
Customers	21	—	—	—
Marketable debt securities	22	—	—	—
Other financial liabilities	24	—	—	—
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**48,038**	**60,995**	**68,058**
Deposits		43,598	57,111	65,304
Central banks	20	2,490	12,854	14,816
Credit institutions	20	6,765	9,340	10,891
Customers	21	34,343	34,917	39,597
Marketable debt securities	22	4,440	3,758	2,305
Other financial liabilities	24	—	126	449
Memorandum items: subordinated liabilities	*23*	—	—	—
FINANCIAL LIABILITIES AT AMORTIZED COST		**1,248,188**	**1,230,745**	**1,171,630**
Deposits		990,391	942,417	903,101
Central banks	20	112,804	62,468	72,523
Credit institutions	20	62,620	90,501	89,679
Customers	21	814,967	789,448	740,899
Marketable debt securities	22	230,829	258,219	244,314
Other financial liabilities	24	26,968	30,109	24,215
Memorandum items: subordinated liabilities	*23*	*21,880*	*21,062*	*23,820*
HEDGING DERIVATIVES	**36**	**6,869**	**6,048**	**6,363**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**36**	**286**	**269**	**303**
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	**15**	**910**	**739**	**765**
PROVISIONS	**25**	**10,852**	**13,987**	**13,225**
Pensions and other post-retirement obligations		3,976	6,358	5,558
Other long term employee benefits		1,751	1,382	1,239
Taxes and other legal contingencies		2,200	3,057	3,174
Contingent liabilities and commitments		700	739	779
Other provisions		2,225	2,451	2,475
TAX LIABILITIES		**8,282**	**9,322**	**8,135**
Current tax liabilities		2,349	2,800	2,567
Deferred tax liabilities	27	5,933	6,522	5,568
OTHER LIABILITIES	**26**	**12,336**	**12,792**	**13,088**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		—	—	—
TOTAL LIABILITIES		**1,416,928**	**1,412,036**	**1,351,910**

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020, 2019 AND 2018

EUR million

EQUITY	Note	2020	2019	2018
SHAREHOLDERS´ EQUITY	30	114,620	124,239	120,597
CAPITAL	31	8,670	8,309	8,118
Called up paid capital		8,670	8,309	8,118
Unpaid capital which has been called up		—	—	—
SHARE PREMIUM	32	52,013	52,446	50,993
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		627	598	565
Equity component of the compound financial instrument		—	—	—
Other equity instruments issued		627	598	565
OTHER EQUITY	34	163	146	234
ACCUMULATED RETAINED EARNINGS	33	65,583	61,028	56,756
REVALUATION RESERVES	33	—	—	—
OTHER RESERVES	33	(3,596)	(3,110)	(1,583)
Reserves or accumulated losses in joint venture investments		1,504	1,210	972
Others		(5,100)	(4,320)	(2,555)
(-) OWN SHARES	34	(69)	(31)	(59)
PROFIT OR LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		(8,771)	6,515	7,810
(-) INTERIM DIVIDENDS	4	—	(1,662)	(2,237)
OTHER COMPREHENSIVE INCOME OR LOSS		(33,144)	(24,168)	(24,125)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	29	(5,328)	(4,288)	(2,936)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	29	(27,816)	(19,880)	(21,189)
NON-CONTROLLING INTEREST	28	9,846	10,588	10,889
Other comprehensive income or loss		(1,800)	(982)	(1,292)
Other items		11,646	11,570	12,181
TOTAL EQUITY		**91,322**	**110,659**	**107,361**
TOTAL LIABILITIES AND EQUITY		**1,508,250**	**1,522,695**	**1,459,271**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS	35			
Loan commitments granted		241,230	241,179	218,083
Financial guarantees granted		12,377	13,650	11,723
Other commitments granted		64,538	68,895	74,389

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated balance sheet as of 31 December 2020.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

		(Debit) Credit		
	Note	2020	2019	2018
Interest income	38	45,741	56,785	54,325
Financial assets at fair value through other comprehensive income		*2,840*	*3,571*	*4,481*
Financial assets at amortized cost		*40,365*	*48,552*	*47,560*
Other interest income		*2,536*	*4,662*	*2,284*
Interest expense	39	(13,747)	(21,502)	(19,984)
Interest income/(charges)		**31,994**	**35,283**	**34,341**
Dividend income	40	391	533	370
Income from companies accounted for using the equity method	13	(96)	324	737
Commission income	41	13,024	15,349	14,664
Commission expense	42	(3,009)	(3,570)	(3,179)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	43	1,107	1,136	604
Financial assets at amortized cost		*(31)*	*308*	*39*
Other financial assets and liabilities		*1,138*	*828*	*565*
Gain or losses on financial assets and liabilities held for trading, net	43	3,211	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)		*3,211*	*1,349*	*1,515*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	43	82	292	331
Reclassification of financial assets at fair value through other comprehensive income		—	—	—
Reclassification of financial assets at amortized cost		—	—	—
Other gains (losses)		*82*	*292*	*331*
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	43	(171)	(286)	(57)
Gain or losses from hedge accounting, net	43	51	(28)	83
Exchange differences, net	44	(2,093)	(932)	(679)
Other operating income	45	1,920	1,797	1,643
Other operating expenses	45	(2,342)	(2,138)	(2,000)
Income from assets under insurance and reinsurance contracts	45	1,452	2,534	3,175
Expenses from liabilities under insurance and reinsurance contracts	45	(1,242)	(2,414)	(3,124)
Total income		**44,279**	**49,229**	**48,424**
Administrative expenses		(18,320)	(20,279)	(20,354)
Staff costs	*46*	*(10,783)*	*(12,141)*	*(11,865)*

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

		(Debit) Credit		
	Note	2020	2019	2018
Other general administrative expenses	*47*	*(7,537)*	*(8,138)*	*(8,489)*
Depreciation and amortisation cost	16 and 18	(2,810)	(3,001)	(2,425)
Provisions or reversal of provisions, net	25	(2,378)	(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		(12,382)	(9,352)	(8,986)
Financial assets at fair value through other comprehensive income		*(19)*	*(12)*	*(1)*
Financial assets at amortized cost	*10*	*(12,363)*	*(9,340)*	*(8,985)*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	17 and 18	—	—	(17)
Impairment or reversal of impairment on non-financial assets, net		(10,416)	(1,623)	(190)
Tangible assets	*16*	*(174)*	*(45)*	*(83)*
Intangible assets	*17 and 18*	*(10,242)*	*(1,564)*	*(117)*
Others		*—*	*(14)*	*10*
Gain or losses on non-financial assets and investments, net	48	114	1,291	28
Negative goodwill recognized in results		8	—	67
Gains or losses on non-current assets held for sale not classified as discontinued operations	49	(171)	(232)	(123)
Operating profit/(loss) before tax		**(2,076)**	**12,543**	**14,201**
Tax expense or income from continuing operations	27	(5,632)	(4,427)	(4,886)
Profit/(loss) from continuing operations		**(7,708)**	**8,116**	**9,315**
Profit/(loss) after tax from discontinued operations	37	—	—	—
Profit/(loss) for the year		**(7,708)**	**8,116**	**9,315**
Profit/(loss) attributable to non-controlling interests	28	1,063	1,601	1,505
Profit/(loss) attributable to the parent		(8,771)	6,515	7,810
Earnings/(losses) per share				
Basic	4	(0.538)	0.347	0.430
Diluted	4	(0.538)	0.346	0.429

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated income statement for the year ended 31 December 2020.

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

	Note	2020	2019	2018
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR		**(7,708)**	**8,116**	**9,315**
OTHER RECOGNISED INCOME AND EXPENSE		**(9,794)**	**267**	**(2,298)**
Items that will not be reclassified to profit or loss	**29**	**(1,018)**	**(1,351)**	**332**
Actuarial gains and losses on defined benefit pension plans		(25)	(1,677)	618
Non-current assets held for sale		—	—	—
Other recognised income and expense of investments in subsidiaries, joint ventures and associates		(4)	1	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	36	(917)	(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)		4	44	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		*(4)*	*(44)*	—
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		31	(156)	109
Income tax relating to items that will not be reclassified		(103)	510	(222)
Items that may be reclassified to profit or loss	**29**	**(8,776)**	**1,618**	**(2,630)**
Hedges of net investments in foreign operations (effective portion)	36	2,340	(1,151)	(2)
Revaluation gains (losses)		*2,340*	*(1,151)*	*(2)*
Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Exchanges differences		(11,040)	1,232	(2,253)
Revaluation gains (losses)		*(11,040)*	*1,232*	*(2,253)*
Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Cash flow hedges (effective portion)	36	(53)	8	174
Revaluation gains (losses)		*799*	*(1,104)*	*491*
Amounts transferred to income statement		*(852)*	*1,112*	*(317)*
Transferred to initial carrying amount of hedged items		—	—	—
Other reclassifications		—	—	—
Hedging instruments (items not designated)	36	—	—	—
Revaluation gains (losses)		—	—	—

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Debt instruments at fair value with changes in other comprehensive income		(100)	2,414	(591)
Revaluation gains (losses)	*29*	*692*	*2,588*	*(29)*
Amounts transferred to income statement		*(1,165)*	*(792)*	*(562)*
Other reclassifications		*373*	*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		(151)	(15)	(97)
Income tax relating to items that may be reclassified to profit or loss		228	(870)	139
Total recognised income and expenses for the year		**(17,502)**	**8,383**	**7,017**
Attributable to non-controlling interests		245	1,911	1,396
Attributable to the parent		(17,747)	6,472	5,621

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2020.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings
Balance at 31 December 2019	**8,309**	**52,446**	**598**	**146**	**61,028**
Adjustments due to errors	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—
Opening balance at 1 January 2020*	**8,309**	**52,446**	**598**	**146**	**61,028**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**
Other changes in equity	**361**	**(433)**	**29**	**17**	**4,555**
Issuance of ordinary shares	361	(72)	—	—	—
Issuance of preferred shares	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—
Capital reduction	—	—	—	—	—
Dividends	—	(361)	—	—	—
Purchase of equity instruments	—	—	—	—	—
Disposal of equity instruments	—	—	—	—	—
Transfer from equity to liabilities	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—
Transfers between equity items	—	—	—	—	4,555
Increases (decreases) due to business combinations	—	—	—	—	—
Share-based payment	—	—	—	(53)	—
Others increases or (-) decreases of the equity	—	—	29	70	—
Balance at 31 December 2020	**8,670**	**52,013**	**627**	**163**	**65,583**

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2020.

						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
—	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**
—	**—**	**—**	**(8,771)**	**—**	**(8,976)**	**(818)**	**1,063**	**(17,502)**
—	**(486)**	**(38)**	**(6,515)**	**1,662**	**—**	**—**	**(987)**	**(1,835)**
—	70	—	—	—	—	—	5	364
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(465)	(826)
—	—	(758)	—	—	—	—	—	(758)
—	1	720	—	—	—	—	—	721
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	298	—	(6,515)	1,662	—	—	—	—
—	—	—	—	—	—	—	(54)	(54)
—	—	—	—	—	—	—	—	(53)
—	(855)	—	—	—	—	—	(473)	(1,229)
—	**(3,596)**	**(69)**	**(8,771)**	**—**	**(33,144)**	**(1,800)**	**11,646**	**91,322**

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

	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**

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2020.

Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest: Other comprehensive income	Others items	Total
—	**(1,583)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**107,361**
—	—	—	—	—	—	—	—	—
—	(391)	—	—	—	—	—	—	(391)
—	**(1,974)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**106,970**
—	**—**	**—**	**6,515**	**—**	**(43)**	**310**	**1,601**	**8,383**
—	**(1,136)**	**28**	**(7,810)**	**575**	**—**	**—**	**(2,212)**	**(4,694)**
—	28	—	—	—	—	—	1	1,673
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(2)	(2)
—	—	—	—	(1,662)	—	—	(895)	(3,612)
—	—	(928)	—	—	—	—	—	(928)
—	(6)	956	—	—	—	—	—	950
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	246	—	(7,810)	2,237	—	—	—	—
—	—	—	—	—	—	—	110	110
—	—	—	—	—	—	—	—	(88)
—	(1,404)	—	—	—	—	—	(1,426)	(2,797)
—	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020, 2019 AND 2018

EUR million

	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**

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2020.

						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**
—	—	—	—	—	—	—	—	—
—	112	—	—	—	(160)	253	(1,545)	(1,340)
—	**(1,490)**	**(22)**	**6,619**	**(2,029)**	**(21,936)**	**(1,183)**	**12,235**	**105,493**
—	**—**	**—**	**7,810**	**—**	**(2,189)**	**(109)**	**1,505**	**7,017**
—	**(93)**	**(37)**	**(6,619)**	**(208)**	**—**	**—**	**(1,559)**	**(5,149)**
—	10	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	(2,237)	—	—	(687)	(3,892)
—	—	(1,026)	—	—	—	—	—	(1,026)
—	—	989	—	—	—	—	—	989
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	303	—	(6,619)	2,029	—	—	—	—
—	59	—	—	—	—	—	(660)	(601)
—	—	—	—	—	—	—	17	(57)
—	(465)	—	—	—	—	—	(229)	(562)
—	**(1,583)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**107,361**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 2020, 2019 Y 2018

EUR million

	Note	2020	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES		**66,153**	**3,389**	**3,416**
Profit or loss for the year		**(7,708)**	**8,116**	**9,315**
Adjustments made to obtain the cash flows from operating activities		**37,836**	**23,990**	**21,714**
Depreciation and amortisation cost		*2,810*	*3,001*	*2,425*
Other adjustments		*35,026*	*20,989*	*19,289*
Net increase/(decrease) in operating assets		**51,385**	**64,593**	**51,550**
Financial assets held-for-trading		*12,390*	*15,450*	*(31,656)*
Non-trading financial assets mandatorily at fair value through profit or loss		*(275)*	*(6,098)*	*5,795*
Financial assets at fair value through profit or loss		*(10,314)*	*4,464*	*16,275*
Financial assets at fair value through other comprehensive income		*6,549*	*1,693*	*(2,091)*
Financial assets at amortized cost		*43,541*	*49,541*	*61,345*
Other operating assets		*(506)*	*(457)*	*1,882*
Net increase/(decrease) in operating liabilities		**90,356**	**38,469**	**27,279**
Financial liabilities held-for-trading		*7,880*	*6,968*	*(36,315)*
Financial liabilities designated at fair value through profit or loss		*(10,907)*	*(8,858)*	*8,312*
Financial liabilities at amortized cost		*96,561*	*47,622*	*60,730*
Other operating liabilities		*(3,178)*	*(7,263)*	*(5,448)*
Income tax recovered/(paid)		**(2,946)**	**(2,593)**	**(3,342)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(7,220)**	**(7,229)**	**3,148**
Payments		**11,976**	**14,289**	**12,936**
Tangible assets	*16*	*7,386*	*12,766*	*10,726*
Intangible assets	*18*	*1,134*	*1,377*	*1,469*
Investments	*13*	*525*	*63*	*11*
Subsidiaries and other business units		*2,931*	*83*	*730*
Non-current assets held for sale and associated liabilities		*—*	*—*	*—*
Other payments related to investing activities		*—*	*—*	*—*
Proceeds		**4,756**	**7,060**	**16,084**
Tangible assets	*16*	*2,014*	*4,091*	*3,670*
Intangible assets	*18*	*—*	*—*	*—*
Investments	*13*	*182*	*686*	*2,327*
Subsidiaries and other business units		*1,775*	*218*	*431*
Non-current assets held for sale and associated liabilities	*12*	*785*	*2,065*	*9,656*
Other proceeds related to investing activities		*—*	*—*	*—*
C. CASH FLOW FROM FINANCING ACTIVITIES		**(1,909)**	**(10,122)**	**(3,301)**
Payments		**6,978**	**12,159**	**7,573**
Dividends	*4*	*—*	*3,773*	*3,118*
Subordinated liabilities	*23*	*3,780*	*5,123*	*2,504*
Redemption of own equity instruments		*—*	*—*	*—*
Acquisition of own equity instruments		*758*	*928*	*1,026*
Other payments related to financing activities		*2,440*	*2,335*	*925*
Proceeds		**5,069**	**2,037**	**4,272**
Subordinated liabilities	*23*	*4,095*	*1,090*	*3,283*
Issuance of own equity instruments		*—*	*—*	*—*
Disposal of own equity instruments		*721*	*947*	*989*
Other proceeds related to financing activities		*253*	*—*	*—*

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 2020, 2019 Y 2018

EUR million

	Note	2020	2019	2018
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		**(4,252)**	**1,366**	**(595)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**52,772**	**(12,596)**	**2,668**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**101,067**	**113,663**	**110,995**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**153,839**	**101,067**	**113,663**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash		*7,817*	*8,764*	*10,370*
Cash equivalents at central banks		*137,047*	*75,353*	*89,005*
Other financial assets		*8,975*	*16,950*	*14,288*
Less, bank overdrafts refundable on demand		—	—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**153,839**	**101,067**	**113,663**
In which, restricted cash		—	—	—

The accompanying notes 1 to 54 and appendices are an integral part of the consolidated statement of cash flows for the year ended 31 December 2020.

Notes to the consolidated annual accounts

Banco Santander, S.A., and Companies composing Santander Group

Notes to the consolidated financial statements (consolidated annual accounts) for the year ended 31 December 2020

1. Introduction, basis of presentation of the consolidated financial statements (consolidated annual accounts) and other information

a) Introduction

Banco Santander, S.A. ('the parent' or 'Banco Santander'), is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, where it was constituted and currently maintains its legal domicile, which is paseo de Pereda, numbers 9 to 12 (39004, Santander, Spain).

The principal headquarters of Banco Santander are located in Ciudad Grupo Santander, avenida Cantabria s/n (28660, Boadilla del Monte, Madrid, Spain).

The corporate purpose of Banco Santander, S.A., mainly entails carrying out all kinds of activities, operations and services inherent to the banking business in general and permitted by current legislation, and the acquisition, holding, enjoyment and disposal of all kinds of securities.

In addition to the operations carried on directly by it, Banco Santander is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Grupo Santander ('Santander' or 'the Group'). Therefore, Banco Santander 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 2020, Grupo Santander consisted of 711 subsidiaries of Banco Santander, S.A.. In addition, other 164 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).

Grupo Santander consolidated financial statements for 2018 were approved by the shareholders at the group´s annual general meeting on 12 April 2019.

Grupo Santander consolidated financial statements for 2019 were approved by the shareholders at the group´s annual general meeting on 3 April 2020. The Group's 2020 consolidated financial statements, the financial statements of the parent and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, Banco Santander 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

Under Regulation (EC) n.º 1606/2002 of the European Parliament and of the Council of 19 July 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 ('IFRS') previously adopted by the European Union ('EU-IFRS').

In order to adapt the accounting system of Spanish credit institutions with the principles and criteria established by the IFRS adopted by the European Union ('EU-IFRS'), the Bank of Spain published circular 4/2017, dated 27 November 2017, on Public and Confidential Financial Reporting Standards and Financial Statement Formats.

During 2020, the Bank of Spain has published circulars 2/2020 and 3/2020, of June 11 amending Circular 4/2017, of November 27 to credit institutions on Public and Confidential Financial Reporting Rules and Formats.

Grupo Santander consolidated financial statements for 2020 were authorised by the Bank's directors (at the board meeting on 22 February 2021) 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 2020, 2019 and 2018 and the consolidated results of its operations and the consolidated cash flows in 2020, 2019 and 2018. 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. These consolidated annual accounts have been prepared on the basis of the accounting records held by the Bank and by each of the other companies of the Group, and include the adjustments and reclassifications required to standardise the accounting policies and valuation criteria applied by Grupo Santander. The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board ("IFRS - IASB" and together with IFRS adopted by the European Union, "IFRS").

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 2020:

- Modification of the IFRS Conceptual Framework: Amendments to the IFRS Conceptual Framework, which sets out the fundamental concepts of financial reporting. 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.

- 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 for the purpose of making material judgements and deciding on the information to be included in the financial statements.

- 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.

- Covid-19-Related Rent Concessions - Amendments to IFRS 16 Leases: As a result of the covid-19 pandemic, IFRS 16 is amended to allow the lessee to apply a practical alternative and not to consider rental concessions as a modification of the lease agreement when the following requirements are met: the revised consideration is the same or less than the consideration before the change, the affected payments are prior to 30 June 2021, and there are no substantial changes to the remaining lease terms.

- Amendment to IFRS 9, IAS 39 and IFRS 7 on Reference Interest Rates (IBOR Reform - Phase 1). 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 comply with hedge accounting requirements that may be directly affected by the IBOR reform.

  Additional disclosures required by the amendments to IFRS 7 relating to hedging relationships are included in note 36. These exceptions will no longer be applicable when cash flow uncertainties disappear or the hedging relationship is discontinued. The amendments to IAS 39 are applicable from 1 January 2020, with the possibility of early application. In this regard, the Group chose early application in the financial statements for 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.

- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases, on Reference Interest Rates - Phase 2: The amendments allow for the temporary application of certain exceptions to the requirements of (i) assessment of derecognition of financial assets, financial liabilities and lease liabilities in the event of changes in the financial assets, financial liabilities and lease liabilities, and (ii) exemptions from hedge accounting requirements directly affected by the IBOR reform, requiring additional disclosures, (iii) exemptions for lease modifications that allow the liability to be measured using the reformed interest rate curves against the right-of-use. These new exemptions require additional disclosures. The amendments will become effective as of 1 January 2021, with the possibility of early application and will cease to be applicable when the uncertainties about the hedged risks, cash flows of the financial instruments affected or the hedging relationship is terminated. In this regard, the Group has chosen to apply the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in the preparation of the financial statements for the year ending 31 December 2020.

The additional breakdowns required by the amendments to IFRS 7 relating to hedging relationships are included in note 36. A description of the Grupo Santander's management of the transition to alternative reference rates, as well as the changes in risk management strategy is included in note 53.

Following is a detail of the carrying amount at 31 December 2020 of financial assets, financial liabilities, derivatives and loan commitments that continue to be referenced to the indices subject to the IBOR Reform:

EUR million

Gross Carrying amount	Loans and advances	Debt securities acquired (Assets)	Deposits	Debt securities issued (Liabilities)	Derivatives (Assets)	Derivatives (Liabilities)	Loan Commitments
Referenced to EONIA	**102**	**68**	**2,510**	**284**	**213**	**419**	**2**
of which maturing after 2021	*—*	*68*	*7*	*284*	*213*	*406*	*—*
Referenced to LIBOR	**64,604**	**2,648**	**10,994**	**10,806**	**24,070**	**22,452**	**38,385**
of which USD	*39,517*	*711*	*8,843*	*7,734*	*13,967*	*9,437*	*24,907*
of which GBP	*20,611*	*1,934*	*1,638*	*2,756*	*9,786*	*11,314*	*13,308*
TOTAL	**64,706**	**2,716**	**13,504**	**11,090**	**24,283**	**22,871**	**38,387**

The application of the aforementioned amendments to accounting standards and interpretations did not have any material effects on Grupo Santander consolidated financial statements.

At the date of approved of these consolidated annual accounts, the following amendments with an effective date subsequent to 31 December 2020 were in force:

- Amendment to IFRS 4 Insurance Contracts, which is aimed at extending the expiry date of the temporary exemption from applying IFRS 9 by two years (from 1 January 2021 to 1 January 2023) for entities whose activities are predominantly insurance-related. This achieves alignment with the effective date of IFRS 17 Insurance Contracts (1 January 2023). It will apply from 1 January 2021.

Lastly, at the date of formulation of these consolidated annual accounts, the following standards which effectively come into force after 31 December 2020 had not yet been adopted by the European Union:

- Amendment to IFRS 3 Business Combinations: to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRIC 21 Levies. The amendments also confirm that an acquirer should not recognize contingent assets acquired in a business combination. It will apply from 1 January 2022.

- Amendment to IAS 16 Property, Plant and Equipment: prevents an entity from deducting from the cost of an item of property, plant and equipment any revenue from the sale of finished goods while the entity is preparing the item for its intended use. It is also clear that an entity is "testing whether the asset is functioning properly" when evaluating the technical and physical performance of the asset. The financial performance of the asset should not be taken into account for this evaluation.

  Additionally, entities should disclose separately the amounts of income and expenses related to finished goods that are not the product of the entity's ordinary activities. It will apply from 1 January 2022.

- Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. It will apply from 1 January 2022.

- Amendment to IFRS Cycle (2018-2020): introduces minor amendments, to be applied from 1 January 2022, with early application permitted, to the following standards:

  - IFRS 9 Financial Instruments: clarifies which rates must be included in the 10% test for derecognition of financial liabilities.

  - IFRS 16 Leases: amendment to remove possible confusion regarding the treatment of leasing incentives in the application of IFRS 16 Leases, as illustrated in example 13.

  - IFRS 1, in relation to the first-time adoption of International Financial Reporting Standards, allows entities that have measured their assets and liabilities at the carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment also applies to associates and joint ventures that have adopted the same exemption from IFRS 1.

- 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 closing date of the reporting period.

  They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. It will apply from 1 January 2023.

- IFRS 17 Insurance Contracts: new general accounting standard for insurance contracts, which includes the recognition, measurement, presentation and disclosure of information. Insurance contracts combine financial and service provision features that, in many cases, generate variable long-term cash flows. To properly reflect these characteristics, IFRS 17 combines the measurement of future cash flows with the recording of the result of the contract during the period in which the service is provided, presents separately the financial results from the results for the provision of the service and allows entities, through the choice of an accounting policy option, to recognize the financial results in the income statement or in other comprehensive income. It will apply from 1 January 2023.

Grupo Santander 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 2020 were applied in the preparation of these consolidated annual accounts.

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 Grupo Santander 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, 18 and 53).

- 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 and the income tax expense (see note 27).

- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations (see note 3).

To update the estimates described above, the Group's Management has taken into account the current situation as a result of covid-19, classified as a pandemic by the World Health Organization, which significantly affects the economic activity worldwide and, as a result, the Group's operations and financial results, and which generates uncertainty in the Group's estimates. Therefore, the Group's Management has made an assessment of the current situation according to the best information available to date, disclosing in the notes the main estimates made and the potential impacts of covid-19 on them for the period ended 31 December 2020 (see notes 17, 27 and 53).

Although these estimates have been made on the basis of the best information available at the end of the year 2020, and considering information updated at the date of preparation of these consolidated annual accounts, it is possible that events that may take place in the future may make it necessary to modify them (upwards or downwards) in the coming years, which would be done, if appropriate, in a prospective manner, recognising the effects of the change in estimate in the corresponding consolidated income statement.

d) Information relating to 2019 and 2018

In July 2016, the IASB published IFRS 16, Leases, which was adopted by the Group in accordance with the standard on 1 January 2019. 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 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:

i) 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.
- 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 Grupo Santander 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.
- 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).

ii. Recognised effects on the adoption of the standard

With the adoption of IFRS 16, Grupo Santander 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.

Grupo Santander 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:

	EUR million
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 Grupo Santander 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 bp.

As indicated in that standard, Grupo Santander chose not to restate the comparative financial statements, and the information relating to the year ended 31 December 2018 was not restated under those criteria, so that it is not comparative.

In 2018, Grupo Santander 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, Grupo Santander 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.

Additionally, the segment information corresponding to the year ended 31 December 2019 and 2018 were restated for comparative purposes in accordance with the Group's new organizational structure, as required by IFRS 8 (see note 51).

In addition, in July 2014, the IASB published IFRS 9 which, together with subsequent amendments, has been adopted by the Group effective 1 January 2018. IFRS 9 establishes requirements for the recognition and measurement of both financial instruments and certain types of non-financial purchase and sale contracts. The aforementioned requirements must be applied retrospectively, adjusting the opening balance at 1 January 2018, without the need to restate the 2017 comparative financial statements, including the breakdown in the statement of changes in equity, so that this information is not comparative.

Finally, based on the meeting held on 3 March 2020 by the International Financial Reporting Standards Committee (IFRIC), the Group has changed its accounting policy in relation to the presentation of exchange differences and the effects of hyperinflation of the operations generated in Argentina with retroactive effect (see note 2.a.iv).

In addition to the above, the information in note 4.a relating to the shares outstanding in 2019 and 2018 has been restated due to the capital increase described in note 31.a in accordance with IAS 33 Earnings per Share.

In order to interpret the changes in the balances with respect to 31 December 2020, it is necessary to take into consideration the exchange rate effect arising from the volume of foreign currency balances held by Grupo Santander 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 2020, based on the exchange rates at the end of 2020: Mexican peso (-13.17%), US dollar (-8.45%), Brazilian real (-29.15%), Argentine peso (-34.80%), Sterling pound (-5.26%), Chilean peso (-3.00%), and Polish zloty (-6.63%); as well as the evolution of the comparable average rates: Mexican peso (-11.56%), US dollar (-1.85%), Brazilian real (-24.16%), Sterling pound (-1.33%), Chilean peso (-12.92%) and Polish zloty (-3.24%).

e) Capital management

i. Regulatory and economic capital

The financial institutions must meet a set of minimum capital and liquidity requirements. These minimum requirements are regulated in the European capital requirements regulation, better known as CRR, and in the capital requirements directive, known as CRD. In June 2019 these regulations were significantly modified, so that CRR2 and CRDV will be understood as said regulations with the latest modifications incorporated.

Among the amendments to the CRR2, it is worth highlighting the introduction of the minimum requirement of TLAC (Total Loss Absorbing Capacity) applicable only to entities of global systemic importance (G-SIB). This requirement is a minimum requirement for own funds and eligible liabilities (currently 16% and, after the transitional period, 18%).

The CRDV, as a directive, must be transposed into the national legal system to be applicable in the member States. In Spain, the transposition is expected to be developed during 2021. The CRDV includes relevant amendments such as the regulation of Pillar 2 Guidance requirements.

Regarding to the Resolution regulations, the institutions must have an adequate financing structure that allows, in the event of financial difficulties, to recover their situation or to resolve it, ensuring the protection of depositors and the financial stability. The directive that regulates the aforementioned resolution framework is the Restructuring and Resolution Directive, BRRD. Like CRR2 and CRDV, BRRD was amended in June 2019, so BRRD2 refers to all of these amendments. The transposition of this directive in Spain is also planned for 2021.

The BRRD2 has introduced important modifications to the minimum requirement for own funds and eligible liabilities (MREL). Thus, for example, the aforementioned TLAC requirement is now considered a Pillar 1 resolution requirement for G-SIB. For large banks (which are defined as those whose total assets exceed 100,000 million euros) or those that, without being large, the resolution authority considers that they may be systemic, the BRRD2 establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the exposure of the leverage ratio, whichever is higher. For the rest of the entities, the subordination requirement will be determined case by case by the resolution authority.

The severe economic disruption caused by the covid-19 pandemic in 2020 has revealed the importance of institutions' funding functions in contributing to recovery. The competent authorities (national, European and international) have acted by reducing the liquidity, capital and operational requirements so the financial institutions can continue to provide financing to the economy, while ensuring that institutions continue to act prudently because these can also be affected by the deterioration of the economic situation. As part of the measures of the European Central Bank, it was issued a recommendation in March 2020 urging European banks to refrain from paying dividends out of the 2019 and 2020 financial years. On 27 July, the ECB extended its recommendation until 1 January 2021.

The national governments have taken measures to address the economic and social impact of the vine population, in particular legislative moratoria that were aimed at containing NPLs and helping the population to meet liquidity needs. Throughout 2020, the EBA adopted a series of guidelines, including the Guidelines on legislative and non-legislative moratoria applied in the context of the Cov19 crisis on 2 April 2020 (EBA/GL/2020/08). These guidelines clarify the requirements for public and private moratoria to avoid classification of exposures affected by moratoria as forborne exposures.

Although these guidelines were initially going to apply to moratoria granted before 30 June 2020, the EBA decided on 2 December 2020 to reactivate the application of these guidelines (EBA/GL/2020/02) for moratoria requested before 31 March 2021.

Other measures adopted to provide flexibility in complying with the requirements have been the approval and entry into force of the 'quick fix' of the CRR (urgent and extraordinary regulatory measures aimed at making the regulatory framework more flexible in response to the covid 19), regulation by which modifies CRR2. Among the amendments introduced by the quick fix, it is worth highlighting the extension of the transitional period granted before the pandemic due to the entry into force of IFRS 9, due to the sudden and significant increase in provisions for expected credit losses that must be recognized. Additionally, the application of certain provisions of CRR2 has been delayed, such as those relating to the leverage ratio buffer (whose application date is postponed until 1 January 2023), and the possibility has been included to exclude from the calculation of said ratio exposures to central banks. In the same way, the date of application of other favourable provisions for entities such as the support factor for smes and the support factor for infrastructures has been brought forward, as well as the new treatment of software assets (applicable since the day following the publication of the Delegated Regulation where it is developed).

At 31 December 2020 Grupo Santander met the minimum capital requirements established by current legislation (see note 53).

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

Grupo Santander continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks. 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 2020 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 , all in the context of the current supervisory focus on the robustness and correct adaptation of the available models, as well as the simplification strategy recently agreed with the ECB, of which a practical example carried out is the recent supervisory approval for the reversion to the standard of the sovereign model in foreign currency.

Grupo Santander 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 2020, the authorization of the Atacado portfolio in Brazil was achieved for the use of the AIRB 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

No significant events occurred from 1 January 2021 to the date on which these consolidated financial statements were authorized for issue.

h) Other information

The UK's withdrawal from the European Union could have a material adverse effect on our operations, financial condition and prospects

On 31 January 2020 the UK ceased to be a member of the EU, on withdrawal terms which established a transition period until 31 December 2020, during which the UK continued to be treated as an EU member state and applicable EU legislation continued to be in force. A trade deal was agreed between the UK and the EU prior to the end of the transition period and the new regulations came into force on 1 January 2021.

The trade deal, however, did not include agreements on certain areas, such as financial services and data adequacy, although a further transitional period has been agreed with respect to rules on the transfer of personal data between the EU and the UK until the end of June 2021. Without equivalence decisions or other agreements that provide market access on a stable and widespread basis, Santander UK has, and will continue to have, a limited ability to provide cross-border services to EU customers and to trade with EU counterparties. It is uncertain whether equivalence decisions will be granted or whether a trade agreement with respect to financial services between the EU and the UK will be reached. The impact of any such trade agreement, equivalence decisions or any other cooperation mechanisms on financial markets generally, the extent of legislative and regulatory convergence and regulatory cooperation that would be required between the UK and the EU member states, as well as the level of access that may be granted to financial services firms across EU and UK markets is uncertain. The wider impact of Brexit on financial markets through market fragmentation, reduced access to finance and funding, and lack of access to certain financial market infrastructure, may affect our operations, financial condition and prospects and those of our customers and clients.

Uncertainty also remains around the effect of the current trade deal on economic growth in the UK given that it does not address services. The effect of the additional non-tariff trade barriers imposed on products is equally unknown. It is likely that growth will initially be disrupted as businesses adapt to the new cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers and suppliers.

While the longer term effects of the UK's withdrawal from the EU are difficult to predict, there is ongoing political and economic uncertainty, which is likely to continue in the medium term and which could negatively impact Santander UK's customers and clients and counterparties.

There are also other potential longer term impacts resulting from Brexit which could impact the UK economy and Grupo Santander's business in the UK such as:

- Increased calls for a second referendum on Scottish independence from the UK; and
- Instability in Northern Ireland, if the current arrangements regarding the borders between the Republic of Ireland, Northern Ireland and Great Britain are called into further question.

If one or more of these risks were to materialise it could have a material adverse effect on our operations, financial condition and prospects.

We considered these circumstances in our assessment of the recoverability of the cash-generating unit that supports Santander UK's goodwill, which was impaired during 2020 and 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

Banco Santander'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).
- 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

When a subsidiary operates in a country with hyperinflationary economy, IAS 29 Financial Information in Hyperinflationary Economies is applied, which means that:

- Historical cost of non-monetary assets and liabilities and of the various items of equity have to be adjusted to reflect the changes in the purchasing power of the currency due to inflation from their date of acquisition or incorporation into the consolidated balance sheet.
- The different items of the income statement are adjusted by the inflationary index since their generation, with a balancing entry in 'Other comprehensive income'.
- The loss on the net monetary position is recorded in the income for the year against 'Accumulated Other comprehensive income'.
- All components of the financial statements of the subsidiary are translated at the closing exchange rate.

The deterioration of the economic situation in Argentina over the last years caused, among other impacts, a significant increase in inflation, which by the end of 2018 had reached 48% per year (147% accumulated in three years). This led the Group to conclude that it was necessary to apply IAS 29 Financial Information in Hyperinflationary Economies to its activities in the country in question in its consolidated financial statements from that year on.

At that moment, according with Group's accounting policies, 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 were recorded in the consolidated statement of changes in total 'Equity-Other reserves'.

As a result, at 1 January 2018 an amount of EUR 1,716 million corresponding to exchange rate losses for 2017 and previous years was reclassified in the statement of changes in 'Equity' from the heading 'Accumulated Other Comprehensive Income - Conversion Differences' to 'Other Reserves'. Also at that date, the adjustment of the historical cost of non-monetary assets and liabilities and of the various items of equity of the companies in Argentina recognized with a credit to 'Other reserves' for an amount of EUR 131 million.

However, on the basis of the meeting held on 3 March 2020 by the International Financial Reporting Standards Committee (IFRIC), in 2020 Grupo Santander has changed its accounting policy with regard to the presentation of exchange differences and the effects of hyperinflation in the operations generated in Argentina, which at 1 January 2019 and 2018 resulted in a reclassification of EUR -1,984 million and EUR -1,585 million respectively, from the heading "Other reserves" to "Accumulated other comprehensive income", (at 31 December 2019 and 2018 the Grupo Santander restated EUR -2,136 and EUR -1,984 million, respectively, for comparability purposes), from "Other reserves" to "Accumulated other comprehensive income", corresponding to the accumulated amount of exchange differences related to foreign operations in a hyperinflationary economy and the amount corresponding to the adjustment of the historical cost of the Argentine companies reflecting the changes in the purchasing power of the currency derived from inflation. This change in accounting policy and its consequent restatement between different equity items has no impact on the total equity of Grupo Santander.

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 inflation indexes applied are the wholesale internal price index (WPI) until 30 November 2016 and the National Consumer Price Index published by the National Institute of Statistics and Censuses (Indec) from 1 December 2016 on. Inflation during 2020 was 36.1% for the year. The exchange rate at 31 December 2020 has been of Argentine pesos 103.16 per euro (Argentine pesos 67.26 per euro at 31 December 2019).

The net impact on Other Comprehensive Income in 2020 of the effects derived from the exchange differences arising on the translation to the Group´s presentation currency of financial statements of the subsidiaries located in Argentina and the application of IAS 29 was a loss of EUR 202 million.

At 31 December 2020, no other country in which the consolidated and associated entities of Grupo Santander are located is considered to have a hyperinflationary economy in accordance with the criteria established in this regard by the International Financial Reporting Standards adopted by the European Union.

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 Grupo Santander 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 Grupo Santander and on consolidated profit of a 1% appreciation of the euro against the corresponding currency is as follows:

EUR million

	Effect on consolidated equity			Effect on consolidated profit		
Currency	2020	2019	2018	2020	2019	2018
US dollar	(123.6)	(161.3)	(162.3)	(4.1)	(3.5)	(4.1)
Chilean peso	(20.4)	(21.8)	(22.9)	(4.4)	(2.3)	(5.1)
Pound sterling	(107.9)	(189.2)	(171.2)	(1.2)	(3.9)	(4.5)
Mexican peso	(21.7)	(22.6)	(18.3)	(2.0)	(3.3)	(1.7)
Brazilian real	(75.0)	(71.6)	(85.6)	(12.6)	(10.4)	(5.6)
Polish zloty	(26.7)	(38.3)	(36.2)	(2.2)	(1.2)	(4.2)
Argentine	(7.9)	(6.9)	(7.8)	(1.8)	(1.2)	(0.6)

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:

EUR million

	Effect on consolidated equity			Effect on consolidated profit		
Currency	2020	2019	2018	2020	2019	2018
US dollar	126.1	164.6	165.6	4.2	3.5	4.2
Chilean peso	20.8	22.2	23.4	4.5	2.4	5.2
Pound sterling	110.1	193.0	174.7	1.2	4.0	4.6
Mexican peso	22.1	23.1	18.6	2.0	3.4	1.8
Brazilian real	76.5	73.1	87.4	12.8	10.6	5.7
Polish *zloty*	27.2	39.0	36.9	2.2	1.2	4.2
Argentine peso	8.0	7.0	8.0	1.8	1.3	0.6

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 2020, 2019 and 2018.

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 Grupo Santander 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 2020 Grupo Santander controls a 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 Grupo Santander 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 Banco Santander is in a position to exercise significant influence, but not control or joint control. It is presumed that Banco Santander 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 Grupo Santander 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. At 31 December 2020, this was the situation of the investment in Project Quasar Investments 2017, S.L., despite maintaining a 49% interest in its share capital (see appendix II). The remaining 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 Grupo Santander 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, when 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 Grupo Santander; 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 Grupo Santander 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, which are consolidated in the case of the Special Purpose Vehicles (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 Grupo Santander obtains control over an entity or a business are recognised for accounting purposes as follows:

- Grupo Santander 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 (CPPS), 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.

Grupo Santander 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.

Grupo Santander 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) at initial recognition.

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.

In most cases, changes in the fair value of financial liabilities designated at fair value through profit or loss, caused by the entity's credit risk, are recognized in 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.

Liabilities may only be included in this portfolio at the date of issue or origination.

- 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 Grupo Santander, 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.

On 6 June 2019 the European Central Bank announced a new programme of Targeted Longer-Term Refinancing Operations (TLTRO III), additionally, the conditions of the initial programme were amended on 30 April 2020, reducing the interest rate by 25 bp to -0.5% from June 2020 to June 2021 and providing that for banks meeting a certain eligible lending volume, the interest rate may be -1% for the period from June 2020 to June 2021. These conditions were extended on 10 December 2020 for operations contracted between 1 October 2020 and 31 December 2021, including the option to cancel or reduce the amount of financing before maturity in windows that coincide with the interest rate review and adjustment periods.

The accounting policy states that in recording amortised cost an entity "shall use a shorter period when fees, basis points paid or received, transaction costs, premiums or discounts relate to it, which is the case when the variable to which the fees, basis points paid or received, transaction costs, discounts or premiums relate is adjusted to market rates before the expected maturity of the financial instrument. In this case, the appropriate amortisation period is the period to the next reset date.

In this case, the applicable interest rate of 1% from June 2020 to June 2021 (arising from the March 2020 programme amendment) and from June 2021 to June 2022 (arising from the December 2020 programme amendment) corresponds to a specific period after which the funding is adjusted to market rates (namely the average rate applied in the Eurosystem's OPLs) and should therefore be accrued until the next adjustment date. The early amortisation windows of this funding programme are substantive conditions, given that at that moment of adjustment of the cost of the funding to the market, the entity can choose to renew or cancel it and obtain new funding at more favourable conditions.

Grupo Santander has opted to accrue interest in accordance with the specific periods of adjustment to market rates, so that interest for the period from June 2020 to June 2022 will be recorded in the income statement, the interest corresponding to that period, 1% assuming compliance with the threshold of eligible loans that gives rise to the extra rate, which takes as a reference the budget for 2021 and the entity's historical information.

- 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. Grupo Santander 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 2020, 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 derivatives.

The fair value of 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, 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, as long as they comply with the 'SPPI' (Solely Payments of Principal and Interest) test, 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, Grupo Santander 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 2020, 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:

EUR million

	2020			2019			2018		
	price quotations in active markets (level 1)	Internal Models (level 2 and 3)	Total	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	46,379	68,566	114,945	44,581	63,649	108,230	37,108	55,771	92,879
Non-trading financial assets mandatorily at fair value through profit or loss	1,756	2,730	4,486	1,530	3,381	4,911	1,835	8,895	10,730
Financial assets designated at fair value through profit or loss	2,509	46,208	48,717	2,572	59,497	62,069	3,102	54,358	57,460
Financial assets at fair value through other comprehensive income	91,771	29,182	120,953	103,089	22,619	125,708	103,590	17,501	121,091
Hedging derivatives (assets)	—	8,325	8,325	—	7,216	7,216	—	8,607	8,607
Financial liabilities held for trading	9,863	71,304	81,167	9,781	67,358	77,139	16,104	54,239	70,343
Financial liabilities designated at fair value through profit or loss	2,118	45,920	48,038	1,484	59,511	60,995	987	67,071	68,058
Hedging derivatives (liabilities)	—	6,869	6,869	—	6,048	6,048	5	6,358	6,363
Liabilities under insurance or reinsurance contracts	—	910	910	—	739	739	—	765	765

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.

Grupo Santander 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 over the counter (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.
- Severity: 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 2020 amounted to EUR 408 million (resulting in an increase of 49.8% compared to 31 December 2019) and DVA amounted to EUR 233 million (resulting in an increase of 36% compared to 31 December 2019). These impacts are due to the fact that credit spread levels are at levels above 25% compared to 2019 due to the covid-19 pandemic. During the last semester there has been a significant drop in spreads, however the markets continue to reflect levels higher than those existing prior to the start of the pandemic.

The CVA at 31 December 2019 amounted to EUR 272 million (decrease of 22.5% compared to 31 December 2018) and DVA amounted EUR 171 million (decrease of 34.6% compared to 31 December 2018). The decrease is mainly due to improvements in the credit quality of counterparties, which has led to reductions in credit spreads in percentages of around 40% in the most liquid maturities.

The CVA at 31 December 2018 amounted to EUR 351 million (increase of 8.8% compared to 31 December 2017) and DVA amounted EUR 261 million (increase of 18.9% compared to 31 December 2017). The changes were due to the increase in credit spreads of more than 30% in the most liquid terms

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 2020, 2019 and 2018.

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.

Grupo Santander has not carried out significant reclassifications of financial instruments between levels other than those disclosed in level 3 movement table during 2020.

In 2019, the Group reclassified between levels 2 and 3 financial instruments for a net amount of EUR 708 million (mainly due to reclassifications to level 2 of positions, both derivatives as debt instruments, with maturities for that there were already observable assessment inputs or on which new sources of information have been recurring prices, and at level 3 certain bonds in Brazil that, based on the criteria of observability of the Group, did not meet the requirements to be considered as observable inputs).

In 2018, the Group reclassified at level 3 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 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 stock 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 Consumer Price Index (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 2020, 2019 and 2018:

EUR million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**146,468**	**8,543**		
Financial assets held for trading	**67,826**	**740**		
Credit institutions	3	—	Present value method	Yield curves, FX market prices
Customers**	296	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	1,453	10	Present value method	Yield curves, FX market prices
Derivatives	66,074	730		
Swaps	*54,488*	*272*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*696*	*22*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,129*	*241*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*1,069*	—	Present value method	Yield curves, FX market prices
Index and securities options	*554*	*94*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*6,138*	*101*	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	**8,325**	**—**		
Swaps	*6,998*	—	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*25*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*1,302*	—	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	**1,796**	**934**		
Equity instruments	984	505	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	555	134	Present value method	Yield curves
Loans and receivables**	257	295	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**45,559**	**649**		
Central banks	9,481	—	Present value method	Yield curves, FX market prices
Credit institutions	11,973	163	Present value method	Yield curves, FX market prices
Customers****	24,102	19	Present value method	Yield curves, FX market prices, HPI
Debt instruments	3	467	Present value method	Yield curves, FX market prices
Equity instruments	—	—		
Financial assets at fair value through other comprehensive income	**22,962**	**6,220**		
Equity instruments	75	1,223	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	18,410	206	Present value method	Yield curves, FX market prices
Loans and receivables	4,477	4,791	Present value method	Yield curves, FX market prices and Credit curves

EUR million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**124,098**	**905**		
Financial liabilities held for trading	**71,009**	**295**		
Derivatives	63,920	295		
Swaps	*51,584*	*81*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*724*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*4,226*	*49*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*456*	*97*	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*1,054*	*2*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*5,876*	*65*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	*7,089*	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,869**	**—**		
Swaps	*5,821*	—	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*13*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*1,035*	—	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	**45,310**	**610**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**910**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

EUR million

	Fair values calculated using internal models at 2019*		Fair values calculated using internal models at 2018*		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
ASSETS	**149,711**	**6,651**	**140,659**	**4,473**	
Financial assets held for trading	**63,051**	**598**	**55,033**	**738**	
Credit institutions	—	—	—	—	Present Value method
Customers**	355	—	205	—	Present Value method
Debt and equity instruments	760	65	314	153	Present Value method
Derivatives	61,936	533	54,514	585	
Swaps	*51,594*	*182*	*44,423*	*185*	Present Value method, Gaussian Copula***
Exchange rate options	*469*	*8*	*617*	*2*	Black-Scholes Model
Interest rate options	*3,073*	*177*	*3,778*	*149*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	*190*	—	—	—	Present Value method
Index and securities options	*1,164*	*95*	*1,118*	*198*	Black-Scholes Model
Other	*5,446*	*71*	*4,578*	*51*	Present Value method, Monte Carlo simulation and others
Hedging derivatives	**7,216**	**—**	**8,586**	**21**	
Swaps	*6,485*	—	*7,704*	*21*	Present Value method
Interest rate options	*25*	—	*20*	—	Black's Model
Other	*706*	—	*862*	—	N/A
Non-trading financial assets mandatorily at fair value through profit or loss	**1,780**	**1,601**	**7,492**	**1,403**	
Equity instruments	*1,272*	*550*	*985*	*462*	Present Value method
Debt securities issued	*498*	*675*	*5,085*	*481*	Present Value method
*Loans and receivables***	*10*	*376*	*1,422*	*460*	Present Value method, swap asset model & CDS
Financial assets designated at fair value through profit or loss	**58,833**	**664**	**53,482**	**876**	
Central banks	6,474	—	9,226	—	Present Value method
Credit institutions	21,598	50	22,897	201	Present Value method
Customers****	30,729	32	21,355	560	Present Value method
Debt instruments	32	582	4	115	Present Value method
Financial assets at fair value through other comprehensive income	**18,831**	**3,788**	**16,066**	**1,435**	
Equity instruments	98	407	455	581	Present Value method
Debt instruments	17,486	188	14,699	165	Present Value method
Loans and receivables	1,247	3,193	912	689	Present Value method

EUR million

	Fair values calculated using internal models at 2019*		Fair values calculated using internal models at 2018*		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
LIABILITIES	**132,582**	**1,074**	**127,991**	**442**	
Financial liabilities held for trading	**67,068**	**290**	**53,950**	**289**	
Central banks	—	—	0	—	Present Value method
Credit institutions	—	—	0	—	Present Value method
Customers	—	—	0	—	Present Value method
Derivatives	61,789	290	53,950	289	
Swaps	*49,927*	*115*	*43,489*	*111*	Present Value method, Gaussian Copula***
Exchange rate options	*658*	*1*	*610*	*7*	Black-Scholes Model
Interest rate options	*4,291*	*34*	*4,411*	*26*	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*1,309*	*88*	*1,233*	*143*	Black-Scholes Model
Interest rate and equity futures	*20*	*2*	*7*	—	Present Value method
Other	*5,584*	*50*	*4,200*	*2*	Present Value method, Monte Carlo simulation and others
Short positions	5,279	—	*0*	—	Present Value method
Hedging derivatives	**6,048**	**—**	**6,352**	**6**	
Swaps	*4,737*	—	*5,868*	*6*	Present Value method
Interest rate options	*10*	—	*158*	—	Black's Model
Other	*1,301*	—	*326*	—	Present Value method, Advanced stochastic volatility models and other
Financial liabilities designated at fair value through profit or loss	**58,727**	**784**	**66,924**	**147**	**Present Value method**
Liabilities under insurance contracts	**739**	**—**	**765**	**—**	**Present Value method with actuarial techniques**

* 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 -4 million at 31 December 2020 (31 December 2019 and 2018: net fair value of EUR 6 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.

Financial Instruments (level 3)

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.
- Derivatives on long-term interest rate and FX in some Latam units (mainly Brazil), where for certain underlyings it is not possible to demonstrate observability to these terms.
- Debt instruments in Latam units linked to certain illiquid interest rates, for which there is no reasonable market observability.
- Illiquid equity in non-trading portfolios, classified at fair value through profit or loss and at fair value through equity.
- 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 2020 arising from models whose significant inputs are unobservable market data (level 3) amounted to EUR 193 million profit (EUR 185 million profit in 2019 and EUR 10 million profit in 2018).

The table below shows the effect, at 31 December 2020 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:

2020

Portfolio/ Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (EUR million) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	31.55%	(0.07)	0.05
CCS	Discounted Cash Flows	Interest rate	(0.30)% - 0.66%	0.66%	—	0.20
Convertibility curve - NDFs Offshore	Forward stimation	Price	0% - 2%	0.61%	(0.72)	0.31
EQ Options	EQ option pricing model	Volatility	7.86% - 93.67%	48.37%	(1.46)	1.81
FRAs	Asset Swap model	Interest rate	0% - 5%	2.22%	(0.78)	0.63
FX Forward	Discounted Cash Flows	Swap Rate	(0.02)% - 0.30%	0.11%	—	—
FX Options	FX option pricing model	Volatility	0% - 50%	32.14%	(0.39)	0.70
Inflation Derivatives	Asset Swap model	Inflation Swap Rate	(100)% - 50%	83.33%	(0.63)	0.31
Inflation Derivatives	Volatility option model	Volatility	0% - 50%	16.67%	(0.47)	0.23
IR Futures	Asset Swap model	Interest rate	0% - 15%	0.94%	(0.94)	0.06
IR Options	IR option pricing model	Volatility	0% - 100%	19.05%	(0.27)	0.06
IRS	Asset Swap model	Interest rate	(6)% - 12.50%	10%	(0.08)	0.13
IRS	Discounted Cash Flows	Swap Rate	5.90% - 6.31%	2.26%	(0.01)	0.02
IRS	Discounted Cash Flows	Credit spread	78.97bps - 202.37bps	9.82bps	(2.81)	1.29
IRS	Prepayment modelling	Prepayment rate	2.47% - 6.22%	0.06%	(0.12)	0.05
Property derivatives	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(17.82)	17.82
Swaptions	IR option pricing model	Volatility	0% - 50%	33.33%	(0.16)	0.31
Financial assets designated at fair value through profit or loss						
Loans and advances to customers						
Repos / Reverse repos	Asset Swap Repo Model	Long-term repo spread	n/a	n/a	(0.18)	0.23
Mortgage portfolio	Black Scholes model	HPI Forward growth rate	0% - 5%	2.50%	(2.23)	2.23
Other loans	Present value method	Credit spreads	0.07% - 1.55%	0.74%	(0.35)	0.35
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	0% - 10%	8.33%	(0.78)	3.91
Other debt securities	Price based	Market Price	90% - 110%	10%	(0.15)	0.15
Property securities	Probability weighting	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(7.24)	7.24
Non-trading financial assets mandatorily at fair value through profit or loss						
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(50.47)	50.47
Financial assets at fair value through other comprehensive income						
Loans and advances to customers						
Loans	Discounted Cash Flows	Credit spread	n/a	n/a	(6.72)	—
Loans	Discounted Cash Flows	Interest rate curve	(0.15)% - 0.15%	0.15%	(0.09)	0.09
Other loans	Present value method	Credit spreads	0.15% - 0.53%	0.19%	(0.04)	0.04
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	1.10% - 1.30%	0.10%	—	—
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(122.14)	122.14
Financial liabilities held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	34.61%	(0.02)	0.01
EQ Options	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(6.35)	6.35

Lastly, the changes in the financial instruments classified as Level 3 in 2020, 2019 and 2018 were as follows:

	01/01/2020	Changes						31/12/2020
EUR million	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	**598**	**52**	**(98)**	**330**	**—**	**(45)**	**(97)**	**740**
Debt instruments	65	7	(27)	1	—	—	(39)	7
Equity instruments	—	3	—	—	—	—	—	3
Trading derivatives	533	42	(71)	329	—	(45)	(58)	730
Swaps	182	—	(8)	116	—	(8)	(10)	272
Exchange rate options	*8*	*—*	*—*	*15*	*—*	*—*	*(1)*	*22*
Interest rate options	*177*	*15*	*(12)*	*61*	*—*	*—*	*—*	*241*
Index and securities options	*95*	*25*	*(43)*	*85*	*—*	*(38)*	*(30)*	*94*
Other	*71*	*2*	*(8)*	*52*	*—*	*1*	*(17)*	*101*
Financial assets at fair value through profit or loss	**664**	**280**	**(45)**	**17**	**—**	**(91)**	**(176)**	**649**
Credit entities	50	164	—	(1)	—	(50)	—	163
Loans and advances to customers	32	—	(15)	3	—	—	(1)	19
Debt instruments	582	116	(30)	15	—	(41)	(175)	467
Non-trading financial assets mandatorily at fair value through profit or loss	**1,601**	**120**	**(292)**	**(36)**	**—**	**(119)**	**(340)**	**934**
Loans and advances to customers	376	104	(136)	12	—	(30)	(31)	295
Debt instruments	675	—	(144)	(63)	—	2	(336)	134
Equity instruments	550	16	(12)	15	—	(91)	27	505
Financial assets at fair value through other comprehensive income	**3,788**	**8,795**	**(7,616)**	**—**	**(390)**	**571**	**1,072**	**6,220**
TOTAL ASSETS	**6,651**	**9,247**	**(8,051)**	**311**	**(390)**	**316**	**459**	**8,543**
Financial liabilities held for trading	**290**	**40**	**(14)**	**130**	**—**	**(96)**	**(55)**	**295**
Trading derivatives	290	40	(14)	130	—	(96)	(55)	295
Swaps	*115*	*8*	*—*	*(7)*	*—*	*(26)*	*(9)*	*81*
Exchange rate options	*1*	*—*	*—*	*2*	*—*	*—*	*(2)*	*1*
Interest rate options	*34*	*11*	*(2)*	*6*	*—*	*—*	*—*	*49*
Index and securities options	*88*	*21*	*(8)*	*95*	*—*	*(70)*	*(29)*	*97*
Securities and interest rate futures	*2*	*—*	*—*	*—*	*—*	*—*	*—*	*2*
Others	*50*	*—*	*(4)*	*34*	*—*	*—*	*(15)*	*65*
Financial liabilities designated at fair value through profit or loss	**784**	**4**	**(3)**	**(12)**	**—**	**(32)**	**(131)**	**610**
TOTAL LIABILITIES	**1,074**	**44**	**(17)**	**118**	**—**	**(128)**	**(186)**	**905**

EUR million	01/01/2019 Fair value calculated using internal models (level 3)	Changes: Purchases /Issuances	Sales/ Settlements	Changes in fair value recognized in profit or loss	Changes in fair value recognized in equity	Level reclassifications	Other	31/12/2019 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**

EUR million	01/01/2018 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	31/12/2018 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**

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.

Regarding contractual modifications of financial assets, Grupo Santander has differentiated them into two main categories in relation to the conditions under which a modification leads to a derecognition or disposal of the financial asset (and the recognition of a new financial asset) and those under which the accounting of the original financial instrument with the modified terms is maintained:

- Contractual modifications for commercial or market reasons, which are generally carried out at the request of the debtor to apply current market conditions to the debt. The new contract is considered a new transaction and, consequently, it is necessary to derecognize the original financial asset and recognize a new financial asset subject to the classification and measurement requirements established by IFRS 9. Also, the new financial asset will be recorded at fair value and, if applicable, the difference between the carrying amount of the asset derecognized and the fair value of the new asset will be recognized in profit or loss.

- Modifications due to refinancing or restructuring, in which the payment conditions are modified to allow a customer that is experiencing financial difficulties (current or foreseeable) to meet its payment obligations and that, if such modification had not been made, it would be reasonably certain that it would not be able to meet such payment obligations. In this case, the modification does not result in the derecognition of the financial asset, but rather the original financial asset is maintained and does not require a new assessment of its classification and measurement. When assessing credit impairment, the current credit risk (considering the modified cash flows) should be compared with the credit risk at initial recognition. Finally, the gross carrying amount of the financial asset (the present value of the renegotiated or modified contractual cash flows that are discounted at the original effective interest rate of the financial asset) should be recalculated, with a gain or loss recognized in profit or loss for the difference.

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 2020, 2019 and 2018:

	31 December 2020		
	EUR million		
Assets	Gross amount of financial assets	Gross amount of financial assets offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	136,437	(60,975)	75,462
Reverse repurchase agreements	82,865	(16,078)	66,787
Total	**219,302**	**(77,053)**	**142,249**

	31 December 2019		
	EUR million		
Assets	Gross amount of financial assets	Gross amount of financial assets 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 2018		
	EUR million		
Assets	Gross amount of financial assets	Gross amount of financial assets 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 2020		
	EUR million		
Liabilities	Gross amount of financial liabilities	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	132,313	(60,975)	71,338
Reverse repurchase agreements	77,925	(16,078)	61,847
Total	**210,238**	**(77,053)**	**133,185**

	31 December 2019		
	EUR million		
Liabilities	Gross amount of financial liabilities	Gross amount of financial liabilities 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		
	EUR million		
Liabilities	Gross amount of financial liabilities	Gross amount of financial liabilities 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**

At 31 December 2020, Grupo Santander has offset other items amounting to EUR 1,194 million (EUR 1,366 million and EUR 1,445 million at 31 December 2019 and 2018, respectively).

At 31 December 2020 the balance sheet shows the amounts EUR 130,653 million (EUR 141,201 million and EUR 128,637 million at 31 December 2019 and 2018) on derivatives and repos as assets and EUR 122,416 million (EUR 134,694 million and EUR 130,969 million at 31 December 2019 and 2018) on derivatives and repos as liabilities that are subject to netting and collateral arrangements.

g) Impairment of financial assets

i. Definition

Grupo Santander 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.

    Grupo Santander 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

Grupo Santander 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.

  Grupo Santander 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.).

The estimation of expected losses requires expert judgment and the support of historical, current and future information. The probability of loss is measured considering past events, the present situation and future trends of macroeconomic factors.

Grupo Santander uses forward-looking information in both internal risk management and prudential regulation processes, so that for the calculation of the impairment loss allowance, various scenarios are incorporated that take advantage of the experience with such information, thus ensuring consistency in obtaining the expected loss.

The challenge of the exercise has focused on the uncertainty of the economic outlook caused by the covid-19 crisis, coupled with a complex environment for value creation.

Grupo Santander has internally ensured the criteria to be followed for guarantees received from government bodies, both through credit lines and other public guarantees, so that when they are adequately reflected in each of the contracts, they are recognised as mitigating factors of the potential expected losses, and therefore of the provisions to be recognised, based on the provisions of the applicable standard (IFRS 9 Par. B5.5.55). Furthermore, where applicable, these guarantees are appropriately reflected in the mitigation of the significant increase in risk, considering their nature as personal guarantees.

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 53 b.

iv. Detail of individual estimate of impairment

For the individual estimate of the assessment 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 (going concern approach).

Going concern approach:

a. Evaluation of the effectiveness of guarantees

Grupo Santander assesses the effectiveness of all the guarantees associated considering the following:

- The time required to execute these guarantees.
- Grupo Santander'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

Grupo Santander 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

Grupo Santander 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 assessment for impairment

Grupo Santander determines the perimeter over which it makes an estimate of the assessment 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 (Santander Corporate & Investment Banking or SCIB) 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.

Grupo Santander 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 2020 are as follows: Gloval Valuation, S.A.U.,Tinsa Tasaciones Inmobiliarias, S.A.U., Gesvalt Sociedad de Tasación, S.A. and Sociedad de tasación, 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 2020 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 560 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, and further modifications, 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).

1. The assets in a situation of "stopped development" are included under "land".

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 89% 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.

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

- 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.

  – 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.

Grupo Santander 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 Grupo Santander 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.

- 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	2.4%
Furniture	8.3%
Fixtures	8.3%
Office and IT equipment	23.0%
Lease use rights	Less than the lease term or the useful life of the underlying asset

At the end of each reporting period, consolidated entities assess whether there is any indication that the carrying amount of an asset exceeds its recoverable amount, in which case they write down the carrying amount of the asset to its recoverable amount and adjust future depreciation charges in proportion to its adjusted carrying amount and to its new remaining useful life, if the useful life needs 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 Grupo Santander 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

On 1 January 2019, Grupo Santander changed the accounting policy for leases when acting as a lessee (see note 1.d).

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, Other Assets at 31 December 2019 included the right of collection acquired from Enagás Transporte 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 Royal Decree 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 Royal Decree 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 Royal Decree 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 Royal Decree 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.

Due to the termination of the payment of the collection right and the obligation to reimburse the amounts received as a result of the declaration of unconstitutionality of the Royal DL, Banco Santander initiated in 2018 the administrative and judicial proceedings that considered appropriate to defend its rights. Regarding the claim for liability of the legislating State (the most relevant by amount) was resolved favourably for the parent by Supreme Court Ruling of 27 October 2020. In execution of this sentence, on 31 December 2020, a payment of EUR 740.7 million was received from the Public Treasury (comprising the principal amount of the claim plus the appropriate legal interest), while proceedings for an aggregate amount of nearly EUR 56 million corresponding to interest collected by Banco Santander and returned to the administration, and which, in view of the decision of the Supreme Court, is expected to be resolved in an equally favourable manner for Banco Santander.

This compensation 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, Banco Santander'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.

  Santander UK plc is cooperating with an FCA civil regulatory investigation which commenced in July 2017 into its compliance with the Money Laundering Regulations 2007 and potential breaches of FCA principles and rules relating to anti-money laundering and financial crime systems and controls. The FCA's investigation focuses primarily on the period 2012 to 2017 and includes consideration of high risk customers including Money Service Businesses. It is not currently possible to make a reliable assessment of any liability resulting from the investigation including any financial penalty.

- 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.

Grupo Santander'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 2020 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, Grupo Santander 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 Grupo Santander 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.

Grupo Santander 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.

Grupo Santander'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

Grupo Santander 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 Grupo Santander.

If Grupo Santander 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.

Grupo Santander will recognise the following items in the income statement:

- 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 - 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 568.8 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 50.

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.

  Grupo Santander 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 2020 Grupo Santander received interest amounting to EUR 43,953 million (EUR 55,269 million and EUR 50,685 million in 2019 and 2018, respectively) and paid interest amounting to EUR 13,690 million (EUR 20,671 and EUR 19,927 million in 2019 and 2018, respectively).

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. Grupo Santander

a) Banco Santander, S.A., and international Group structure

The growth of Grupo Santander in the last decades has led Banco Santander 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 Banco Santander, 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 a significant stake in Ebury

On 28 April 2020, the investment in Ebury, a payments and currencies platform for SMEs, announced on 4 November 2019, was completed. The transaction involved a total outlay of GBP 357 million (EUR 409 million) of which GBP 70 million (approximately EUR 80 million) was for new shares. At 2019 year-end the Group had already acquired 6.4% of the company for GBP 40 million (approximately EUR 45 million). Following the disbursement made in April 2020, the Group is entitled to receive 50.38% of the dividends distributed by the company. This interest is recognized under 'Investments in Joint Ventures and Associates - Associates' in the consolidated balance sheet.

ii. 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 (IIC), and pension plans through the Banco Popular network (the 'Agreement'). Under this Agreement, the Group held a 40% stake in the capital of Popular Spain Holding de Inversiones, S.L.U., classified as investments in joint ventures and associated entities for an overall amount of EUR 409 million on 31 December 2019.

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) and the acquisition of the remaining 60% of the capital of Popular Spain Holding de Inversiones, S.L.U.

On 10 July, 51% of the life-risk insurance business held by Banco Santander and the 51% of the new General Insurance business from Banco Popular's network not transferred to Mapfre (in accordance with the agreement indicated below) was acquired by Aegon, valuing these businesses at a total of approximately EUR 557 million.

The total amount of the life-savings business, collective investment institutions and pension plans is EUR 711 million and has resulted in the recognition of EUR 271 million of goodwill.

In addition, under the agreement reached between Banco Santander and Mapfre on 21 January 2019, 50.01% of the car, commercial multi-risk, SME multi-risk and corporate liability insurance business in the whole network of Banco Santander in Spain was acquired by Mapfre on 25 June 2019 amounting to EUR 82 million.

iii. 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 consisted 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% remained 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 Crédit 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 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 was recorded under the heading of 'Investments - Associates' of the consolidated balance sheet for an amount of EUR 1,010 million.

iv. 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 became 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 EUR 191 million in Capital, EUR 1,491 million in issue premium and a decrease of EUR 670 million in Reserves and EUR 1,012 million in minority interests.

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. 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, Banco Santander, S.A., 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 Servicios de Gestión Inmobiliaria, 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.

viii. 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.

c) Offshore entities

According to current Spanish regulation (Royal Decree 1080/1991, of 5 July), Santander has two subsidiaries and three branches in the offshore territories of Jersey, the Isle of Man and the Cayman Islands. Santander also has three other offshore subsidiaries that are tax resident in the UK and subject to British tax law.

I) Offshore subsidiaries

A subsidiary resident in Jersey was liquidated in 2020 so at the reporting date, Grupo Santander has two subsidiaries resident in these territories: Abbey National International Limited in Jersey and ALIL Services Limited (in liquidation) on the Isle of Man. In 2020, those subsidiaries' contribution to Santander's consolidated profit was insubstantial.

II) Offshore branches

Grupo Santander also has three operative offshore branches. One is found in the Cayman Islands, one is on the Isle of Man and another is in Jersey. They report to, and consolidate balance sheets and income statements with, their foreign headquarters. They are taxed either with their headquarters (the Cayman Islands branch in Brazil) or in the territories they are located in (the Jersey and Isle of Man branches pertain to the UK). There was a fourth branch in the Cayman Islands, pertain to the US, which was closed in 2020.

The entities mentioned in Sections I and II had 141 employees as of December 2020.

III) Offshore subsidiaries that are tax resident in other jurisdictions

Grupo Santander also has three subsidiaries that were incorporated in offshore territories but are not deemed offshore entities. They only operate from, and are tax resident in, the UK and, thus, are subject to British tax law (one is expected to be wound up in 2021). In 2020, a subsidiary incorporated in Jersey but tax resident in Spain transferred legal residence to Spain.

IV) Other offshore holdings

From Brazil, Grupo Santander manages Santander Brazil Global Investment Fund SPC, a segregated portfolio company located in the Cayman Islands. From the UK, it manages Guaranteed Investment Products 1 PCC Limited, a protected cell company found in Guernsey. It also has two small holdings in entities located in the Cayman Islands.

Organization for Economic Cooperation and Development (OECD)

Grupo Santander is not in any of the uncooperative tax havens the OECD released in December 2020. Furthermore, Jersey, the Isle of Man and the Cayman Islands satisfy OECD standards on transparency and exchange of information for tax purposes.

The European Union (EU)

As of October 2020, the EU's blacklist comprises 12 jurisdictions where Santander is not present. Santander is also not present in the 10 jurisdictions on the EU's grey list, which have sufficiently committed to adapt legislation to international standards, subject to monitoring by the EU.

The Group's presence in offshore territories at the end of 2020 is as follows:

Presence of the Group in Tax Havens/Non-cooperative jurisdictions	Spanish legislation		OECD		European Commission Blacklist	
	Sub.	Branch	Sub.	Branch	Sub.	Branch
Jersey	1	1				
Isle of Man	1	1				
Guernsey*						
Bermuda*						
Cayman Islands		1				
2020	**2**	**3**	**—**	**—**	**—**	**—**
2019**	**3**	**4**	**—**	**—**	**1**	**2**

* Additionally, there are 2 entities constituted in Guernsey and 1 in Bermuda, but resident for tax purposes in the United Kingdom.

** Since December 31st 2019, the number of subsidiaries has been decreased in Jersey (1) and Panama (1), this last territory is currently included in the EU blacklist. Additionally, the Cayman Islands (1 operative branch and 1 branch closed in 2020) left the EU blacklist in October 2020.

Forthcoming changes to Spain's tax law

On 23 October 2020, the Draft Law on measures to prevent and fight against tax fraud was published in the *Official Bulletin of the Spanish Parliament*. The law expands the meaning of tax havens, which it renames "non-cooperative jurisdictions". It also allows government to update the non-cooperative jurisdictions list. Nonetheless, until that list conforms to the new criteria, the former list set out in Royal Decree 1080/1991 of 5 July will remain in effect.

Grupo Santander has the right mechanisms (risk management, supervision, verification and review plans, and regular reporting) to prevent reputational, tax and legal risk with those entities. Grupo Santander also maintains its policy of reducing the number of these units.

PwC (PricewaterhouseCoopers) member firms audited the financial statements of Grupo Santander's offshore units in 2020, 2019 and 2018.

4. Distribution of Banco Santander's profit, shareholder remuneration scheme and earnings per share

a) Distribution of Banco Santander's profit and shareholder remuneration scheme

The board of directors proposes to the shareholders to approve at the 2021 general shareholders' meeting the application of the results of Banco Santander, S.A., for 2020, which consisted in losses amounting to EUR 3,557 million, by charging them against:

i) To share premium account to the extent that the indicated charge against the share premium reserve is approved by the European Central Bank under Articles 77 and 78 of

Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

ii) The voluntary reserve account, to the amount by which the referred losses are not applied in accordance with the provisions of paragraph (i) above.

- In September 2019, the board of directors approved an interim cash dividend against 2019 results in the amount of 0.10 euros per share (EUR 1,662 million), which was paid on 1 November.
- On 27 March 2020, the ECB issued a recommendation urging all European banks under its supervision to abstain from paying dividends out of 2019 and 2020 results at least until 1 October 2020 in order to preserve capital (ECB Recommendation I).

  Taking into consideration ECB Recommendation I and in line with Santander's mission to help people and companies to progress, on 2 April 2020 the Board of Directors decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, to withdraw the proposals relating to the Final Cash Dividend and the SDE Program from the agenda of the aforementioned General Meeting of April 2020, which had already been convened, and to postpone the decision on the application of the results obtained in the financial year 2019 to a meeting to be held no later than 31 October 2020.
- On 27 July 2020, the ECB issued a second recommendation in which it extended the effects of ECB Recommendation I requiring all European credit institutions under its supervision to abstain, until 1 January 2021, from distributing dividends out of the results of the financial years 2019 and 2020 or from entering into irrevocable commitments to distribute them (ECB Recommendation II).

  In September 2020, the board of directors convened the general shareholders' meeting of October 2020, at which it proposed (a) in compliance with ECB Recommendation II, to allocate all of the profit obtained by Banco Santander in 2019 to increase the Voluntary Reserve, except for the amount already allocated to the payment of the interim dividend that had been paid prior to the issuance of ECB Recommendation I, and (b) to increase the capital charged to reserves to allow the payment of a total remuneration for the 2019 financial year, in addition to the interim dividend, for an amount equivalent to 0.10 euros per share through the delivery of new shares and with no cash alternative.

  Both proposals were approved at the general shareholders' meeting in October 2020.
- Following the ECB Recommendation II extending the effects of the previous recommendation until 1 January 2021, the board of directors decided to propose to the annual general meeting in October 2020 a resolution allowing the payment in 2021 of up to 0.10 per share as remuneration out of the results of the financial year 2020 from the share premium reserve and conditional on the ECB's recommendations permitting it and obtaining its authorization, on the condition that after the payment the CET 1 capital ratio remains within the target of 11—12% or above and on the condition that the payment does not exceed 50% of the consolidated ordinary (underlying) profit.

  The proposal was approved at the general shareholders' meeting in October 2020.
- On 15 December 2020, the ECB recommended that banks under its supervision limit shareholder remuneration until 30 September 2021 to an amount not exceeding either 15% of adjusted profits earned in 2020 (and in 2019, but only for those banks that, unlike Banco Santander, S.A., had not paid dividends in 2019) or the equivalent of 20 basis points of the CET 1 ratio.
- On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of EUR 2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation. This payment will be made in execution of the share premium distribution agreement approved at the aforementioned October 2020 general meeting.

  The board aims to restore a payout ratio of 40—50% of underlying profit, in cash, in the medium term. With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the ECB recommendations so allow. The ECB has said it intends to repeal the recommendation in September 2021 in the absence of materially adverse developments. In the meantime, and in line with the announcement of April 2020, the dividend policy will remain suspended.

b) Earnings/loss per share from continuing and discontinued operations

i. Basic earnings / loss per share

Basic earnings/loss 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 that period, excluding the average number of own shares held through that period.

Accordingly:

	2020	2019	2018
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515	7,810
Remuneration of contingently convertible preference shares (CCP) (EUR million) (Note 23)	(552)	(595)	(560)
	(9,323)	5,920	7,250
Of which:			
Profit (Loss) from discontinued operations (non controlling interest net) (EUR million)	—	—	—
Profit (Loss) from continuing operations (PPC net) (EUR million)	*(9,323)*	*5,920*	*7,250*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883	16,150,090,739
Impact factor correction*	Not applicable	710,800,691	702,177,858
Adjusted number of shares	17,316,288,908	17,059,216,574	16,852,268,597
Basic earnings (Loss) per share (euros)	**(0.538)**	**0.347**	**0.430**
Of which, from discounted operations (euros)	**—**	**—**	**—**
Basic earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.347**	**0.430**

* Correction factor for the capital increase released on 3 December 2020 (see notes 1.d and 31.a).

ii. Diluted earnings / loss per share

Diluted earnings/loss 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/loss per share were determined as follows:

	2020	2019	2018
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515	7,810
Remuneration of contingently convertible preference shares (CCP) (EUR million) (Note 23)	(552)	(595)	(560)
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	—	—	—
	(9,323)	5,920	7,250
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (EUR million)	—	—	—
Profit (Loss) from continuing operations (net of non-controlling interests and CCP) (EUR million)	*(9,323)*	*5,920*	*7,250*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883	16,150,090,739
Dilutive effect of options/rights on shares	Not applicable	35,891,644	42,873,078
Impact factor correction*	Not applicable	712,361,197	704,041,905
Adjusted number of shares	17,316,288,908	17,096,668,724	16,897,005,722
Diluted earnings (Loss) per share (euros)	**(0.538)**	**0.346**	**0.429**
Of which, from discounted operations (euros)	**—**	**—**	**—**
Diluted earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.346**	**0.429**

* Correction factor for the capital increase released on 3 December 2020 (see notes 1.d and 31.a).

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 2020 and 2019:

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 2020 (same amount as in 2019), with two components: (a) an annual emolument and (b) attendance fees.

As a gesture of responsibility in view of the situation created by the health emergency the board of directors agreed on 5 May 2020 to reduce their allotments by 20% for the balance of 2020, with effect from 1 April 2020, and propose that amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

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 2020 amounted to EUR 4.1 million (4.9 million in 2019).

Annual emolument

The annual amounts received individually by the directors in 2020 and 2019 based on the positions held by them on the board and their membership of the board committees were as follows:

	2020		2019
Amount per director in euros	1 Apr to 31 Dec	1 Jan to 31 Mar	
Members of the board of directors	49,500	22,500	90,000
Members of the executive committee	93,500	42,500	170,000
Members of the audit committee	22,000	10,000	40,000
Members of the appointments committee	13,750	6,250	25,000
Members of the remuneration committee	13,750	6,250	25,000
Members of the risk supervision, regulation and compliance committee	22,000	10,000	40,000
Members of the responsible banking, sustainability and culture committee	8,250	3,750	15,000
Chairman of the audit committee	38,500	17,500	70,000
Chairman of the appointments committee	27,500	12,500	50,000
Chairman of the remuneration committee	27,500	12,500	50,000
Chairman of the risk supervision, regulation and compliance committee	38,500	17,500	70,000
Chairman of the responsible banking, sustainability and culture committee	27,500	12,500	50,000
Lead director	60,500	27,500	110,000
Non-executive vice chairmen	16,500	7,500	30,000

* Mr. Bruce Carnegie-Brown, in view of the positions held on the board and its committees, in particular as chairman of the appointments and remuneration committees and as coordinating director, and the time and dedication required to properly perform such positions, has been assigned a minimum total annual remuneration of EUR 700,000 since 2015, including the annual allowance for the items corresponding to him of those indicated above and attendance fees. However, in line with the decision taken by the board of directors to reduce his fees by 20% with effect from April 1, 2020, which is shared by Mr. Bruce Carnegie-Brown, the same reduction shall be applied to this amount. Accordingly, the amount assigned for 2020 will be EUR 595,000.

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 mentioned above, executive committee meetings— for 2020 were set at the same amounts as in 2019.

However, on 5 May 2020, as a gesture of responsibility in view of the situation created by the health emergency, the board of directors agreed to reduce their attendance fees by 20% for the balance of 2020, with effect from 1 April 2020, and propose that the amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

The fees for 2019 and 2020 are as follows:

Attendance fees per director per meeting in euros	2020 1 Apr to 31 Dec	2020 1 Jan to 31 Mar	2019
Board of directors	2,080	2,600	2,600
Audit committee and risk supervision, regulation and compliance committee	1,360	1,700	1,700
Other committees (excluding executive committee)	1,200	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 2022 and 2023) will be conditional on none of the malus clauses being triggered.
  - The accrual of the third, fourth, and fifth portion (payment in 2024, 2025 and 2026), is linked to objectives related to the period 2020—2022 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 2020, 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.

In the case of Sergio Rial, who was appointed director on April 2020, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020, but he qualifies as an executive director pursuant to section 529 duodecies of the Spanish Companies Act (Ley de Sociedades de Capital), because of his role as CEO and vice-president of Banco Santander (Brasil) S.A., the principles herein are the same for his remuneration as CEO and vice-president of Banco Santander (Brasil) S.A.

The same policy and principles above apply to Sergio Rial's remuneration as CEO in Santander Brasil.

Voluntary Reduction of Executive Remuneration (Chairman and CEO)

On 23 March 2020, given the health crisis created by the covid-19 pandemic, Ana Botín and José Antonio Álvarez proposed to reduce their 2020 total compensation (salary and bonus) by 50% and use the amounts saved to finance the Santander covid-19 relief fund. This proposal was supported by the remuneration committee and approved by the board of directors.

To achieve the 50% reduction compared to 2019, the board of directors decided to apply an additional adjustment to Ana Botín's and José Antonio Alvarez's variable compensation, reducing the variable compensation by 74% in the case of Ana Botín and 79% in the case of José Antonio Álvarez.

Ana Botín's total salary and bonus for 2019 was EUR 9,688 thousand, with EUR 3,176 thousand salary and EUR 6,512 thousand bonus (of which EUR 4,168 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 2,344 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of her salary and bonus for 2020 has been established at EUR 4,844 thousand, with EUR 3,176 thousand salary and EUR 1,668 thousand bonus (of which EUR 1,068 thousand is the sum immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 600 thousand is deferred variable remuneration linked to long-term objectives at face value).

José Antonio Álvarez's total salary and bonus for 2019 was EUR 6,893 thousand, with EUR 2,541 thousand salary and EUR 4,352 thousand bonus (of which EUR 2,786 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 1,566 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of his salary and bonus for 2020 has been established at EUR 3,446.5 thousand, with EUR 2,541 thousand salary and EUR 906 thousand bonus (of which EUR 580 thousand is immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 326 thousand is deferred variable remuneration linked to long-term objectives at face value).

The chart below shows the comparison between the amounts received in 2019 and those received in 2020:

	2019			2020			% Var. 2020 vs 2019
	Salary	Bonus	Total	Salary	Bonus	Total	
Chairman	3,176	6,512	9,688	3,176	1,668	4,844	(50)%
CEO	2,541	4,352	6,893	2,541	906	3,447	(50)%

Additionally, Ana Botin has made a personal decision to donate the full amount of the cash bonus paid this year for 2020 to Banco Santander's *Euros de tu nómina* program, through which employees can give up part of their pay to projects sponsored by a group of charities voted for by employees and the bank matches the employee's donation, and to *Empieza por Educar*, the Spanish affiliate of Teach for All.

iii. Detail by director

The detail, by bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2020 and 2019 is provided below:

EUR thousand

	2020							
	Bylaw-stipulated emoluments							
	Annual emolument							
	Board[N]	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
Ms Ana Botín-Sanz de Sautuola y O'Shea	77	145	—	—	—	—	13	55
Mr José Antonio Álvarez Álvarez	77	145	—	—	—	—	—	49
Mr Bruce Carnegie-Brown	326	145	—	21	21	—	—	82
Ms Homaira Akbari	77	—	34	—	—	—	13	79
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A]	77	—	—	—	—	—	—	45
Mr Álvaro Antonio Cardoso de Souza[B]	136	—	—	—	—	34	13	60
Mr Ramón Martín Chávez Márquez[C]	8	—	—	1	5	8	—	15
Ms Sol Daurella Comadrán	77	—	—	21	21	—	13	82
Mr Henrique Manuel Drummond Borges Cirne de Castro[D]	77	—	34	—	21	—	—	85
Ms Gina Díez Barroso[E]	2	—	—	—	—	—	—	2
Mr Luis Isasi Fernández de Bobadilla[F]	44	84	—	—	12	20	—	43
Mr Ramiro Mato García-Ansorena	119	145	34	—	—	34	13	86
Mr Sergio Rial[G]	42	—	—	—	—	—	—	21
Ms Belén Romana García	98	145	34	—	—	34	13	94
Mrs Pamela Ann Walkden[H]	114	—	34	—	—	—	—	66
Mr Rodrigo Echenique Gordillo[I]	75	—	—	21	—	—	—	60
Mr Ignacio Benjumea Cabeza de Vaca[J]	35	65	—	—	10	15	6	43
Mr Guillermo de la Dehesa Romero[K]	23	44	—	6	6	—	—	28
Ms Esther Giménez-Salinas i Colomer[L]	64	—	—	18	—	28	11	71
Mr Carlos Fernández González[M]	—	—	—	—	—	—	—	—
Total 2020	1,548	918	170	88	96	173	95	1,066
Total 2019	1,794	1,247	168	117	125	200	120	1,094

A. All amounts received were reimbursed to Fundación Botín.
B. Director since 1 April 2018.
C. Director since 27 October 2020.
D. Director since 17 July 2019.
E. Director since 22 December 2020.
F. Director since 19 May 2020.
G. Executive director since 30 May 2020.
H. Director since 29 October 2019.
I. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.
J. Stepped down as director on 5 May 2020.
K. Stepped down as director on 3 April 2020.
L. Stepped down as director on 27 October 2020.
M. Stepped down as director on 28 October 2019.
N Includes emoluments for chairing committees and other roles.

	2020									2019
	Short-term and deferred (not subject to long-term goals) salaries of executive directors									
		Variable - immediate payment		Deferred variable						
	Fixed	In cash	In shares	In cash	In shares	Total	Pension contribution	Other remuneration[7]	Total	Total
	3,176	333	334	200	200	4,243	1,155	1,131	6,819	9,954
	2,541	181	181	108	109	3,120	864	1,764	6,019	8,270
	—	—	—	—	—	—	—	—	595	700
	—	—	—	—	—	—	—	—	203	226
	—	—	—	—	—	—	—	—	122	137
	—	—	—	—	—	—	—	—	243	276
	—	—	—	—	—	—	—	—	37	—
	—	—	—	—	—	—	—	—	214	240
	—	—	—	—	—	—	—	—	217	86
	—	—	—	—	—	—	—	—	4	—
	—	—	—	—	—	—	—	740	943	—
	—	—	—	—	—	—	—	—	431	500
	—	—	—	—	—	—	—	—	63	—
	—	—	—	—	—	—	—	—	418	525
	—	—	—	—	—	—	—	—	214	34
	—	—	—	—	—	—	—	1,800	1,956	4,874
	—	—	—	—	—	—	—	102	276	524
	—	—	—	—	—	—	—	—	107	399
	—	—	—	—	—	—	—	—	192	228
	—	—	—	—	—	—	—	—	—	214
	5,717	514	515	308	309	7,363	2,019	5,537	19,073	—
	6,317	2,572	2,572	1,543	1,543	14,547	2,003	5,772	—	27,187

Following is the detail, by executive director, of the salaries linked to multi-year 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 46.

EUR thousand

	2020			2019
	Variable subject to Long-term objectives[1]			
	In cash	In shares	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	210	210	420	1,642
Mr José Antonio Álvarez Álvarez	114	114	228	1,096
Mr Rodrigo Echenique Gordillo	—	—	—	504
Total	**324**	**324**	**648**	**3,242**

1. Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2024, 2025 and 2026, 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 2020 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 46).

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 2020 and 2019 variable remuneration plans.

In the case of Sergio Rial, as mentioned above, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020. The remuneration he has received in his role as CEO and vice-president of Banco Santander (Brasil) (Santander Brasil) is:

2020	BRL thousand	EUR thousand
Base salary	12,645	2,175
Other fixed benefits	39	7
Pensions	5,041	867
Variable remuneration	30,240	5,201
Total	**47,965**	**8,250**

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 2020 and 2019 the Bank's directors did not receive any remuneration in respect of these representative duties.

On the other hand, Mr. Álvaro Cardoso de Souza, in his role as non-executive Chairman of Banco Santander (Brasil) S.A., received a remuneration in 2020 of 1,947 thousand Brazilian reales (EUR 335 thousand), Ms. Homaira Akbari was paid USD 190 thousand (EUR 156 thousand) as member of the board of Santander Consumer USA (SCUSA) and EUR 17,200 as member of the Board of PagoNxt), and Mr. Henrique Manuel Drummond Borges Cirne de Castro and Mr. Ramón Martín Chávez Márquez, were also each paid paid EUR 17,200 as members of the board of PagoNxt.

Likewise, Luis Isasi was paid EUR 740 thousand as chairman of the board of Santander Spain (amount included in the chart below as "other remuneration" as it is paid by Banco Santander, S.A.)

c) Post-employment and other long-term benefits

In 2012, the contracts of Ms. Ana Botín and Mr. José Antonio Alvarez (and other members of the Bank's senior management) with defined benefit pension commitments were modified to transform these commitments into a defined contribution system, which covers the contingencies of retirement, disability and death. From that moment on, the Bank makes annual contributions to their pension system for their benefit.

This system gives them 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, Ms Ana Botín and Mr José Antonio Alvarez, have the right to receive an annual allotment.

The initial balance for each of them 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 Grupo Santander or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement).

The benefit plan system 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 2020 and 2019 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

EUR thousand

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,155	1,145
Mr José Antonio Álvarez Álvarez	864	858
Total	**2,019**	**2,003**

Following is a detail of the balances relating to each of the executive directors under the welfare system as of 31 December 2020 and 2019:

EUR thousand

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	49,444	48,104
Mr José Antonio Álvarez Álvarez	18,082	17,404
Mr Rodrigo Echenique Gordillo[1]	—	13,268
Total	**67,526**	**78,776**

1. Mr Rodrigo Echenique has not participated in the defined contribution pension scheme described in the preceding paragraphs. However, for reference purposes, this year's table details his rights before he was named an executive director. Mr. Rodrigo Echenique's accrued obligation as of December 2020 is zero, since he received the benefit in the form of capital in 2020. Therefore, there is no pending commitment in this regard in respect of Rodrigo Echenique.

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

EUR thousand

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	21,984	22,475
Mr José Antonio Álvarez Álvarez	18,703	19,373
Mr Rodrigo Echenique Gordillo	—	5,400
Total	**40,687**	**47,248**

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 2020 and 2019, the Group has disbursed a total amount of 19.5 million euros and 11.6 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 2020 and 2019, 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 2020 and 2019 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2020 and prior years, as well as on the deliveries, in shares or in cash, made to them in 2020 and 2019 once the conditions for the receipt thereof had been met (see note 46):

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.

In the case of Sergio Rial, who does not receive any remuneration for executive duties in Banco Santander, S.A., the same policy principles, deferrals, multi year targets linked to the payment of deferred amounts and *malus* and *clawback* principles described herein apply to his variable remuneration in the subsidiary where he is the CEO.

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 2020 has been approved by the Board of Directors and implemented through the fifth 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 2022 and 2023) is conditional on none of the *malus* clauses being triggered.
- The accrual of the third, fourth and fifth parts (instalments in 2024, 2025 and 2026) is linked to the fulfilment of certain objectives related to the 2020-2022 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 2022 compared to 2019;
  - the relative performance of the Bank's total shareholder return (RTA) in the 2020-2022 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 2022.

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 2020 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.

In the case of Mr. Sergio Rial, although as stated above he does not receive any remuneration for executive duties in Banco Santander, S.A., he is included as CEO of Santander Brasil in the deferred variable compensation plan linked to multiannual objectives and thus subject to the same conditions and principles of deferral, multiannual objectives, deferrals and *malus* and *clawback* herein in respect of the remuneration he receives in his role as CEO of this subsidiary.

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 2019, 31 December 2019 and 31 December 2020, as well as the gross shares that were delivered to them in 2019 and 2020, 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 of each plan had accrued. They come from each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2015 and of the deferred conditional and linked to multiannual objectives in 2016, 2017, 2018, 2019 and 2020.

Share-based variable remuneration

	Maximum number of shares to be delivered at January 1,2019	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)
2015 variable remuneration[4]						
Ms Ana Botín-Sanz de Sautuola y O'Shea	193,213	—	—	—	(64,404)	—
Mr José Antonio Álvarez Álvarez	128,431	—	—	—	(42,811)	—
Mr Rodrigo Echenique Gordillo[3]	95,134	—	—	—	(31,712)	—
	416,778				**(138,927)**	
2016 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	288,410	—	—	(72,102)	—	—
Mr José Antonio Álvarez Álvarez	194,665	—	—	(48,667)	—	—
Mr Rodrigo Echenique Gordillo[3]	144,180	—	—	(36,046)	—	—
	627,255			**(156,815)**		
2017 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	344,625	—	(68,925)	—	—	—
Mr José Antonio Álvarez Álvarez	230,471	—	(46,094)	—	—	—
Mr Rodrigo Echenique Gordillo[3]	179,608	—	(35,922)	—	—	—
	754,704		**(150,941)**			
2018 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	860,865	(344,346)	—	—	—	—
Mr José Antonio Álvarez Álvarez	575,268	(230,107)	—	—	—	—
Mr Rodrigo Echenique Gordillo[3]	456,840	(182,736)	—	—	—	—
	1,892,973	**(757,189)**				
2019 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	887,193
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	592,915
Mr Rodrigo Echenique Gordillo[3]	—	—	—	—	—	272,480
						1,752,588
2020 variable remuneration[1]						
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	—
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	—
Mr Sergio Rial[2]	—	—	—	—	—	—

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. Mr. Sergio Rial's share-based variable remuneration awarded in shares of Banco Santander (Brasil). He has the right to a maximum of 51,483 Santander shares and 269,148 options over Santander shares for his participation in the 2019 Digital Transformation Award.
3. Mr. Rodrigo Echenique stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.
4. In addition, Mr. Ignacio Benjumea Cabeza de Vaca received 35,372 shares during 2020 and maintains the right to a maximum of 35,369 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, 2019	Instruments matured but not consolidated at January 1, 2020	Shares delivered in 2020 (immediate payment 2019 variable remuneration)	Shares delivered in 2020 (deferred payment 2018 variable remuneration)	Shares delivered in 2020 (deferred payment 2017 variable remuneration)	Shares delivered in 2020 (deferred payment 2016 variable remuneration)	Shares delivered in 2020 (deferred payment 2015 variable remuneration)	Variable remuneration 2020 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2020
128,809	—	—	—	—	—	(64,404)	—	64,405
85,620	—	—	—	—	—	(42,811)	—	42,809
63,422	—	—	—	—	—	(31,712)	—	31,710
277,851						**(138,927)**		**138,924**
216,308	(51,265)	—	—	—	(55,014)	—	—	110,029
145,998	(34,602)	—	—	—	(37,133)	—	—	74,263
108,134	(25,628)	—	—	—	(27,503)	—	—	55,003
470,440	**(111,495)**				**(119,650)**			**239,295**
275,700	—	—	—	(68,925)	—	—	—	206,775
184,377	—	—	—	(46,094)	—	—	—	138,283
143,686	—	—	—	(35,922)	—	—	—	107,764
603,763				**(150,941)**				**452,822**
516,519	—	—	(103,304)	—	—	—	—	413,215
345,161	—	—	(69,032)	—	—	—	—	276,129
274,104	—	—	(54,821)	—	—	—	—	219,283
1,135,784			**(227,157)**					**908,627**
887,193	—	(354,877)	—	—	—	—	—	532,316
592,915	—	(237,166)	—	—	—	—	—	355,749
272,480	—	(108,992)	—	—	—	—	—	163,488
1,752,588		**(701,035)**						**1,051,553**
—	—	—	—	—	—	—	310,615	310,615
—	—	—	—	—	—	—	168,715	168,715
—	—	—	—	—	—	—	355,263	355,263
							834,593	**834,593**

In addition, the table below shows the cash delivered in ###2020 and 2019, 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:

EUR thousand

	2020		2019	
	Cash paid (immediate payment 2019 variable remuneration)	Cash paid (deferred payments from 2018, 2017, 2016 and 2015 variable remuneration)	Cash paid (immediate payment 2018 variable remuneration)	Cash paid (deferred payments from 2017, 2016 and 2015 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,302	1,383	1,480	1,025
Mr. José Antonio Álvarez Álvarez	870	925	989	686
Mr. Rodrigo Echenique Gordillo	400	712	785	519
	2,572	**3,020**	**3,254**	**2,230**

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 2019 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 2020 and 2019 to former board members, upon achievement of the conditions for the receipt thereof (see note 46):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	60,847	121,694
Deferred conditional variable remuneration plan and linked to objectives (2016)	65,502	98,253
Deferred conditional variable remuneration plan and linked to objectives (2017)	47,956	140,531

Number of shares delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	60,847	60,847
Performance shares plan ILP (2015)	0	129,612
Deferred conditional variable remuneration plan and linked to objectives (2016)	32,751	42,924
Deferred conditional variable remuneration plan and linked to objectives (2017)	35,132	35,132

In addition, EUR 612 thousand and EUR 663 thousand relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2020 and 2019.

f) Loans

Grupo Santander'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 recognized:

EUR thousand

	2020			2019		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Mrs. Ana Patricia Botín	14	—	14	18	—	18
Mr. José Antonio Álvarez Álvarez	5	—	5	27	—	27
Mr. Bruce Carnegie-Brown	—	—	—	—	—	—
Mr. Rodrigo Echenique Gordillo**	—	—	—	33	—	33
Mr. Javier Botín-Sáenz de Sautuola	2	—	2	21	—	21
Mrs. Sol Daurella Comadrán	22	—	22	55	—	55
Mrs. Esther Gimenéz-Salinas i Colomer****	—	—	—	1	—	1
Mr. Ignacio Benjumea Cabeza de Vaca*	—	—	—	1	—	1
Mrs. Belén Romana García	—	—	—	21	—	21
Mr. Guillermo de la Dehesa Romero***	—	—	—	56	—	56
Mr. Ramiro Mato García-Ansorena	—	—	—	—	—	—
Mrs. Homaira Akbari	—	—	—	—	—	—
Mr. Álvaro Antonio Cardoso de Souza	—	—	—	—	—	—
Mr. Henrique Manuel Drummond Borges Cirne de Castro	—	—	—	—	—	—
Mrs. Pamela Ann Walkden	—	—	—	—	—	—
Mr. Luis Isasi Fernández de Bobadilla	—	—	—	—	—	—
Mr. Sergio Agapito Lires Rial	—	—	—	—	—	—
Mr. R. Martín Chávez	—	—	—	—	—	—
Mrs. Gina Lorenza Díez Barroso Arcárraga	6	—	6	—	—	—
	49	**—**	**49**	**233**	**—**	**233**

* Mr. Ignacio Benjumea Cabeza de Vaca resigns as a member of the Board in June 2020.
** Mr. Rodrigo Echenique Gordillo resigns as a member of the Board in December 2020.
*** Mr. Guillermo de la Dehesa resigns as a member of the Board in June 2020.
**** Ms. Esther Gimenez-Salinas i Colomer resigns as a member of the Board in December 2020.

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2020 and those at 31 December 2019, excluding the remuneration of the executive directors, which is detailed above:

EUR thousand

		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]
2020	18	21,642	5,739	5,740	2,470	2,471	6,039	6,312	50,413
2019	18	22,904	7,668	7,669	3,336	3,337	6,282	15,337	66,532

1. Includes other remuneration items such as life and medical insurance premiums and localization aids.
2. The amount of immediate payment in shares for 2020 is 2,135,700 shares (2,090,536 Santander shares in 2019).
3. The deferred amount in shares not linked to long-term objectives for 2020 is 919,308 shares (909,534 Santander shares in 2019).

At the annual general meeting on 3 April 2020, shareholders approved the 2020 Digital Transformation Incentive, a variable remuneration scheme that delivers Santander shares and share options if the group hits major milestones on its digital roadmap.

Three senior executives are included within this plan (aimed at a group of up to 250 employees whose functions are deemed essential to Santander Group's growth and digital transformation) and, thus, can receive a total of EUR 1,700 thousand to be paid in thirds on the third, fourth and fifth anniversary of the authorisation date (2024, 2025 and 2026). This amount is implemented in 316,574 Santander shares and 944,445 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (EUR 0.90).

Of the EUR 30,000 thousand approved by the 2020 general meeting as maximum amount for the 2020 Digital Transformation Award, a total overall cost of EUR 17,800 thousand has been approved, based on the final number of participants and the level of achievement of milestones.

The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries.

The 2019 Digital Transformation Incentive, which terms are substantially the same as those of the 2020 one, included three senior executives, who may receive up to a total of EUR 2,100 thousand.

See note 46 to the 2020 Group's consolidated financial statements for further information on the Digital Transformation Incentive.

In 2020, the ratio of variable to fixed pay components was 80% of the total for senior managers, well within the maximum limit of 200% set by shareholders.

Also, the detail of the breakdown of the remuneration linked to long-term objectives of the members of senior management at 31 December 2020 and 31 December 2019 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 46):

EUR thousand

		Variable remuneration subject to long-term objectives[1]		
Year	Number of people	Cash payment	Share payment	Total
2020	18	2,594	2,594	5,188
2019	18	3,503	3,504	7,007

1. Relates to the fair value of the maximum annual amounts for years 2024, 2025 and 2026 of the fifth cycle of the deferred conditional variable remuneration plan (2022, 2024 and 2025 for the fourth cycle of the deferred variable compensation plan linked to annual objectives for the year 2019).

Senior executive vice presidents who retired in 2020 and, therefore, were not members of senior management at year-end, received in 2020 salaries and other remuneration relating to their termination amounting to EUR 5,984 thousand (EUR 6,789 thousand in 2019). 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 EUR 133 thousand (this right has been generated in 2019 for a total amount of EUR 615 thousand). The average total remuneration awarded to women who were part of the senior management during 2020, excluding executive directors, is 37% lower 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 31 December 2020 and 31 December 2019 relating to the deferred portion under the various plans then in force is the following (see note 46):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,617	391,074
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan (2018)	6,949	—
remuneration plan and linked to objectives (2016)	417,818	660,205
remuneration plan and linked to objectives (2017)	791,360	1,115,570
remuneration plan and linked to objectives (2018)	1,512,992	1,986,754
remuneration plan and linked to objectives (2019)	2,154,312	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 2020 and 2019 to the senior management, in addition to the payment of the related cash amounts:

Number of shares delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,614	257,187
Performance shares plan ILP (2015)	—	515,456
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan (2018)	3,474	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	170,185	215,868
Deferred conditional variable remuneration plan and linked to objectives (2017)	219,363	245,575
Deferred conditional variable remuneration plan and linked to objectives (2018)	342,884	—

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. Banco Santander 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 Banco Santander 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 that 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.

The contracts of some senior executives were modified at the beginning of 2018 with the same objective and changes indicated in section c of this note for Ms Ana Botín and Mr José Antonio Álvarez. The modifications, which are aimed at aligning the annual contributions with the practices of comparable institutions and reducing the risk of future obligations by eliminating the supplementary scheme for death (widowhood and orphanhood) and permanent disability in service without increasing the costs to the bank, are as follows

- 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 31 December 2020 in the pension system for those who were part of senior management during the year amounted to EUR: 59.4 million (EUR 69.8 million at 31 December 2019).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 6.4 million in 2020 (EUR 6.3 million in 31 December 2019).

In 2020 and 2019 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 31 December 2020 of this group amounts to EUR 135.1 million (EUR 134.1 million at 31 December 2019).

h) Post-employment benefits to former Directors and former senior executive vice presidents

The post-employment benefits and settlements paid in 2020 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 11.2 million and EUR 6.3 million in 2019, respectively. Also, the post-employment benefits and settlements paid in 2020 to former executive vice presidents amounted to EUR 10.26 million and EUR 6.5 million in 2019, respectively.

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 0.17 million in 2020 (EUR 0.2 million in 2019). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous senior managers amounted to EUR 5.8 million in 2020 (EUR 5.5 million in 2019).

During the 2020 financial year, a release of 5 million euros was recorded in the consolidated income statement for pension commitments and similar obligations held by the Group with previous former members of the bank's board of directors (in 2019, no provisions/releases were recorded), and no provisions/releases has been recorded in respect of former senior managers in 2020 and 2019.

In addition, 'Provisions - Pension Fund and similar obligations' in the consolidated balance sheet as at 31 December 2020 included EUR 52 million in respect of the post-employment benefit obligations to former Directors of the Bank (EUR 65.7 million at 31 December 2019) and EUR 159 million corresponding to former senior managers (EUR 172 million at 31 December 2019).

i) Pre-retirement and retirement

The board of directors has approved, subject to the condition that the remuneration policy be approved at the annual general shareholders' meeting, an amendment to the contracts of the executive directors whereby:

- Ms Ana Botín ceases to have the right to pre-retire if she leaves the Bank out of her own volition, keeping this right in case of termination by the Bank until 1 September 2022. After this date, she does not have the right to pre-retire. While she keeps this right 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 is subject to the *malus* and *clawback* provisions in place for a period of five years.

- Mr. José Antonio Álvarez ceases to have the right to pre-retire in case of termination of his contract.

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 Banco Santander 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 Banco Santander were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at Banco Santander's disposal for a period of 4 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 have declared that they or persons related to them may have a direct or indirect conflict of interest with the interests of Banco Santander, S.A., as set forth in Article 229 of the Corporate Enterprises Act.

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:

EUR million

	2020	2019	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	9,481	6,473	9,226
Financial assets designated at fair value through other comprehensive income	—	—	—
Financial assets at amortised cost	12,499	18,474	15,601
	21,980	**24,947**	**24,827**
Type			
Time deposits	11,757	17,533	15,601
Reverse repurchase agreements	10,223	7,414	9,226
Impaired assets	—	—	—
Valuation adjustments for impairment	—	—	—
	21,980	**24,947**	**24,827**
CREDIT INSTITUTIONS			
Classification			
Financial assets held for trading	3	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	2
Financial assets designated at fair value through profit or loss	12,136	21,649	23,097
Financial assets designated at fair value through other comprehensive income	—	—	—
Financial assets at amortised cost	37,838	40,943	35,480
	49,977	**62,592**	**58,579**
Type			
Time deposits	7,338	9,699	10,759
Reverse repurchase agreements	20,862	31,180	33,547
Non- loans advances	21,784	21,726	14,283
Impaired assets	1	1	2
Valuation adjustments for impairment	(8)	(14)	(12)
	49,977	**62,592**	**58,579**
CURRENCY			
Euro	22,260	32,248	24,801
Pound sterling	4,127	3,659	4,073
US dollar	13,209	14,442	19,238
Brazilian real	26,437	30,919	28,310
Other currencies	5,924	6,271	6,984
TOTAL	**71,957**	**87,539**	**83,406**

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 are mainly time accounts and deposits.

Note 50 contains a detail of the residual maturity periods of 'Financial assets at amortised cost' and of the related average interest rates.

At 31 December 2020 the exposure by impairment stage of the assets accounted for amounts to EUR 50,344, EUR 0 and EUR 1 million (EUR 59,430, EUR 0 and EUR 1 million in 2019 and EUR 51,090, EUR 1 and EUR 2 million in 2018), and the loan loss provision by impairment stage amounts to EUR 8, EUR 0 and EUR 0 million (EUR 14, EUR 0 and EUR 0 million in 2019 and EUR 12, EUR 0 and EUR 0 million in 2018) in stage 1, stage 2 and stage 3, respectively.

7. Debt instruments

a) Detail

The detail, by classification, type and currency, of Debt instruments in the consolidated balance sheets is as follows:

EUR million

	2020	2019	2018
Classification			
Financial assets held for trading	37,894	32,041	27,800
Non-trading financial assets mandatorily at fair value through profit or loss	700	1,175	5,587
Financial assets designated at fair value through profit or loss	2,979	3,186	3,222
Financial assets designated at fair value through other comprehensive income	108,903	118,405	116,819
Financial assets at amortised cost	26,078	29,789	37,696
	176,554	**184,596**	**191,124**
Type			
Spanish government debt securities	30,397	42,054	50,488
Foreign government debt securities	110,570	107,434	99,959
Issued by financial institutions	10,133	9,670	10,574
Other fixed-income securities	25,337	25,265	29,868
Impaired financial assets	401	647	870
Impairment losses	(284)	(474)	(635)
	176,554	**184,596**	**191,124**
Currency			
Euro	58,850	70,357	76,513
Pound sterling	7,372	15,713	19,153
US dollar	29,009	29,846	22,864
Brazilian real	35,139	38,316	40,871
Other currencies	46,468	30,838	32,358
Total gross	**176,838**	**185,070**	**191,759**
Impairment losses	(284)	(474)	(635)
	176,554	**184,596**	**191,124**

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 reclassification.

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 2020, 2019 and 2018 the exposure by impairment stage of the book assets under IFRS 9 amounted to EUR 134,792 million, EUR 147,575 million and EUR 154,164 million in stage 1; EUR 72 million, EUR 446 million and EUR 117 million in stage 2, and EUR 401 million, 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 2020, 2019 and 2018, net of impairment losses, is as follows:

EUR million

	2020				2019				2018			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
Spain	1,588	30,397	31,985	18.12%	3,634	42,054	45,688	24.75%	4,748	50,488	55,236	28.90%
United Kingdom	3,099	2,795	5,894	3.34%	3,806	11,479	15,285	8.28%	5,615	9,512	15,127	7.91%
Portugal	3,095	6,462	9,557	5.41%	2,979	7,563	10,542	5.71%	3,663	6,943	10,606	5.55%
Italy	1,047	4,688	5,735	3.25%	1,384	3,620	5,004	2.71%	857	3,134	3,991	2.09%
Ireland	2,924	2	2,926	1.66%	2,387	2	2,389	1.29%	4,543	2	4,545	2.38%
Poland	3,126	11,400	14,526	8.23%	460	9,361	9,821	5.32%	683	10,489	11,172	5.85%
Other European countries	8,211	2,891	11,102	6.29%	7,186	1,784	8,970	4.86%	6,101	1,518	7,619	3.99%
United States	6,386	14,645	21,031	11.91%	5,915	15,609	21,524	11.66%	6,833	10,362	17,195	9.00%
Brazil	5,179	33,316	38,495	21.80%	5,808	35,036	40,844	22.13%	5,285	36,583	41,868	21.91%
Mexico	435	19,053	19,488	11.04%	708	13,234	13,942	7.55%	520	11,325	11,845	6.20%
Chile	41	8,082	8,123	4.60%	50	4,819	4,869	2.64%	79	2,729	2,808	1.47%
Other American countries	274	3,098	3,372	1.91%	605	1,095	1,700	0.92%	1,111	1,375	2,486	1.30%
Rest of the world	182	4,138	4,320	2.44%	186	3,832	4,018	2.18%	639	5,987	6,626	3.47%
	35,587	**140,967**	**176,554**	**100%**	**35,108**	**149,488**	**184,596**	**100%**	**40,677**	**150,447**	**191,124**	**100%**

The detail, by issuer rating, of Debt instruments at 31 December 2020, 2019 and 2018 is as follows:

EUR million

	2020				2019				2018			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
AAA	14,088	2,099	16,187	9.17%	14,737	1,085	15,822	8.57%	18,901	834	19,735	10.33%
AA	1,714	18,784	20,498	11.61%	5,133	28,325	33,458	18.13%	2,715	20,966	23,681	12.39%
A	6,228	53,655	59,883	33.92%	3,238	59,744	62,982	34.12%	3,464	69,392	72,856	38.12%
BBB	6,515	31,204	37,719	21.36%	4,889	24,766	29,655	16.06%	5,093	21,837	26,930	14.09%
Below BBB	3,431	35,164	38,595	21.86%	1,244	35,466	36,710	19.89%	668	37,412	38,080	19.92%
Unrated	3,611	61	3,672	2.08%	5,867	102	5,969	3.23%	9,836	6	9,842	5.15%
	35,587	**140,967**	**176,554**	**100%**	**35,108**	**149,488**	**184,596**	**100%**	**40,677**	**150,447**	**191,124**	**100%**

During 2020 and 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.

The detail, by type of financial instrument, of private fixed-income securities at 31 December 2020, 2019 and 2018, net of impairment losses, is as follows:

EUR million

	2020	2019	2018
Securitised mortgage bonds	5,926	5,494	7,803
Other asset-backed bonds	5,479	6,388	9,805
Floating rate debt	7,829	10,348	13,721
Fixed rate debt	16,353	12,878	9,348
Total	**35,587**	**35,108**	**40,677**

c) Impairment losses

The changes in the impairment losses on debt instruments are summarised below:

EUR million

	2020	2019	2018
Balance at beginning of year	474	635	704
Net impairment losses for the year*	*79*	(170)	43
Of which:			
Impairment losses charged to income	*91*	*77*	*138*
Impairment losses reversed with a credit to income	*(12)*	*(247)*	*(95)*
Exchange differences and other items	(269)	9	(112)
Balance at end of year	**284**	**474**	**635**
Of which:			
By geographical location of risk:			
European Union	*21*	*14*	*22*
Latin America	*263*	*460*	*613*

* Of the EUR 79 million corresponding to net provisions for the year ended 31 December 2020 (EUR -170 million and EUR 43 million at 31 December 2019 and 2018, respectively), EUR 77 million relates to financial assets at amortized cost (EUR -176 million and EUR 43 million at 31 December 2019 and 2018, respectively) and EUR 2 million relates to financial assets designated at fair value through other comprehensive income (EUR 6 million and EUR 0 million at 31 December 2019 and 2018, respectively).

At 31 December 2020, 2019 and 2018 the loan loss provision by impairment stage of the assets accounted for under IFRS9 amounted to EUR 25 million, EUR 22 million and EUR 30 million in stage 1, EUR 2 million, EUR 6 million and EUR 9 million in stage 2, and EUR 257 million, 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:

EUR million

	2020	2019	2018
Classification			
Financial assets held for trading	9,615	12,437	8,938
Non-trading financial assets mandatorily at fair value through profit or loss	3,234	3,350	3,260
Financial assets designated at fair value through other comprehensive income	2,783	2,863	2,671
	15,632	**18,650**	**14,869**
Type			
Shares of Spanish companies	3,364	3,711	3,448
Shares of foreign companies	10,437	12,682	9,107
Shares of investment funds	1,831	2,257	2,314
	15,632	**18,650**	**14,869**

Note 29 contains a detail of the 'Other comprehensive income', recognised in equity, on 'Financial assets designated at fair value through other comprehensive income'.

b) Changes

The changes in 'Financial assets at fair value through other comprehensive income' were as follows:

EUR million

	2020	2019	2018
Balance at beginning of the year	2,863	2,671	3,169
Net additions (disposals)	837	221	(324)
Valuation adjustment and other items	(917)	(29)	(174)
Balance at end of year	**2,783**	**2,863**	**2,671**

c) Notifications of acquisitions of investments

The notifications of the acquisitions and disposals of holdings in investees made by the Bank in 2020, 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):

EUR million

	2020		2019		2018	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate risk	43,832	41,085	42,614	40,956	36,087	36,487
Currency risk	21,162	22,028	18,085	19,870	16,912	17,025
Price risk	1,931	944	2,329	1,772	2,828	1,673
Other risks	212	412	369	418	112	156
	67,137	**64,469**	**63,397**	**63,016**	**55,939**	**55,341**

b) Short positions

Following is a breakdown of the short positions (liabilities):

EUR million

	2020	2019	2018
Borrowed securities			
Debt instruments	625	390	1,213
Of which:			
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*625*	*390*	*1,213*
Equity instruments	289	393	1,087
Of which:			
Banco Santander, S.A.	*289*	*308*	*987*
Short sales			
Debt instruments	15,784	13,340	12,702
Of which:			
Banco Santander, S.A.	*8,645*	*7,980*	*5,336*
Banco Santander (Brasil) S.A.	*7,085*	*5,194*	*7,300*
	16,698	**14,123**	**15,002**

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:

EUR million

	2020	2019	2018
Financial assets held for trading	296	355	202
Non-trading financial assets mandatorily at fair value through profit or loss	552	386	1,881
Financial assets designated at fair value through profit or loss	24,121	30,761	21,915
Financial assets at fair value through other comprehensive income	9,267	4,440	1,601
cost	881,963	906,276	857,322
Of which:			
Impairment losses	*(23,595)*	*(22,242)*	*(23,307)*
	916,199	942,218	882,921
Loans and advances to customers disregarding impairment losses	**939,794**	**964,460**	**906,228**

Note 50 contains a detail of the residual maturity periods of 'Financial assets at amortised cost' and of the related average interest rates.

Note 53 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 of the loans and advances granted to the Group's customers, which reflect the Group's exposure to credit risk in its main activity, without considering the balance of value adjustments for impairment, taking into account the type and situation of the transactions, the geographical area of their residence and the type of interest rate on the transactions:

EUR million

	2020	2019	2018
Loan type and status			
Commercial credit	37,459	37,753	33,301
Secured loans	503,014	513,929	478,068
Reverse repurchase agreements	35,702	45,703	32,310
Other term loans	269,143	267,154	265,696
Finance leases	36,251	35,788	30,758
Receivable on demand	7,903	7,714	8,794
Credit cards receivables	19,507	23,876	23,083
Impaired assets	30,815	32,543	34,218
	939,794	**964,460**	**906,228**
Geographical area			
Spain	215,330	204,810	215,764
European Union (excluding Spain)*	192,988	460,338	411,550
United States and Puerto Rico	93,405	100,152	89,325
Other OECD countries*	338,362	86,327	82,607
South America (non - OECD)	79,629	92,145	87,406
Rest of the world	20,080	20,688	19,576
	939,794	**964,460**	**906,228**
Interest rate formula			
Fixed rate	550,883	546,619	497,365
Floating rate	388,911	417,841	408,863
	939,794	**964,460**	**906,228**

* The amounts referring to the year 2020 for the United Kingdom have been considered in the line Other OECD countries, instead of in the line European Union (excluding Spain) due to the leaving of the United Kingdom from the European Union (see Note 1.h).

At 31 December 2020, 2019 and 2018 the Group had granted loans amounting to EUR 12,104, 9,993 and 13,615 million to spanish public sector agencies which had a rating at 31 December 2020 of A (ratings of A at 31 December 2019 and 31 December 2018), and EUR 10,779, 12,218, and 10,952 million to the public sector in other countries (at 31 December 2020, the breakdown of this amount by issuer rating was as follows: 0.9% AAA, 15.0% AA, 4.3% A, 69.5% BBB and 10.3% below BBB).

Without considering the public administrations, the amount of the loans and advances at 31 December 2020, 2019 and 2018 amounts to EUR 916,911 million, EUR 942,249 million and EUR 881,661 million, of which, EUR 886,118 million, EUR 909,741 million and EUR 847,443 million are classified as performing, respectively.

Following is a detail, by activity, of the loans to customers at 31 December 2020, net of impairment losses:

EUR million

			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	21,227	20,510	216	501	95	78	41	483	20
Other financial institutions (financial business activity)	62,827	20,795	1,291	40,741	845	842	427	39,371	547
Non-financial corporations and individual entrepreneurs (non-financial business activity) (broken down by purpose)	319,853	182,861	63,463	73,529	25,175	24,194	21,678	45,270	20,675
Of which:									
Construction and property development	*16,804*	*2,620*	*9,375*	*4,809*	*5,340*	*4,713*	*1,538*	*1,180*	*1,413*
Civil engineering construction	*3,300*	*1,963*	*280*	*1,057*	*113*	*230*	*162*	*731*	*101*
Large companies	*167,390*	*110,387*	*20,994*	*36,009*	*8,775*	*7,358*	*9,025*	*23,111*	*8,734*
SMEs and individual entrepreneurs	*132,359*	*67,891*	*32,814*	*31,654*	*10,947*	*11,893*	*10,953*	*20,248*	*10,427*
Households – other (broken down by purpose)	497,987	92,157	331,210	74,620	84,449	104,187	116,586	61,532	39,076
Of which:									
Residential	*324,152*	*1,563*	*322,100*	*489*	*77,764*	*98,134*	*108,699*	*33,426*	*4,566*
Consumer loans	*157,118*	*88,232*	*1,621*	*67,265*	*3,401*	*3,529*	*4,837*	*23,897*	*33,222*
Other purposes	*16,717*	*2,362*	*7,489*	*6,866*	*3,284*	*2,524*	*3,050*	*4,209*	*1,288*
Total*	**901,894**	**316,323**	**396,180**	**189,391**	**110,564**	**129,301**	**138,732**	**146,656**	**60,318**
Memorandum item									
*Refinanced and restructured transactions***	20,997	5,278	12,327	3,392	2,965	2,640	2,430	2,560	5,124

* In addition, the Group has granted advances to customers amounting to EUR 14,305 million, bringing the total of loans and advances to EUR 916,199 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 2020 provided by the latest available appraisal value of the collateral.

Note 53 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" during 2020, 2019 and 2018:

2020

EUR million	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of year	849,939	50,476	31,837	932,252
Movements				
Transfers				
Transfer to stage 2 from stage 1	(43,170)	43,170		—
Transfer to stage 3 from stage 1	(5,120)		5,120	—
Transfer to stage 3 from stage 2		(8,734)	8,734	—
Transfer to stage 1 from stage 2	13,459	(13,459)		—
Transfer to stage 2 from stage 3		1,831	(1,831)	—
Transfer to stage 1 from stage 3	578		(578)	—
Net changes on financial assets	53,555	(2,951)	(659)	49,945
Write-offs	—	—	(8,930)	(8,930)
Exchange differences and others	(51,335)	(4,229)	(3,375)	(58,939)
Balance at the end of the year	**817,906**	**66,104**	**30,318**	**914,328**

2019

EUR million	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
Balance at the end of the year	**849,939**	**50,476**	**31,837**	**932,252**

2018

EUR million	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)
Balance at the end of the year	**795,829**	**52,183**	**33,461**	**881,473**

In addition, at 31 December 2020, the Group had EUR 497 million (EUR 706 million at 31 December 2019 and EUR 757 million at 31 December 2018) in purchased credit-impaired assets, which relate mainly to the business combinations carried out by Grupo Santander.

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:

EUR million

	2020	2019	2018
Amount at beginning of the year	22,242	23,307	25,936
Impairment losses charged to income for the year	13,385	11,108	10,501
Of which:			
Impairment losses charged to profit or loss	*20,909*	*19,192*	*17,850*
Impairment losses reversed with a credit to profit or loss	*(7,524)*	*(8,084)*	*(7,349)*
Change of perimeter	(82)	—	—
Write-off of impaired balances against recorded impairment allowance	(8,930)	(12,593)	(12,673)
Exchange differences and other changes	(3,020)	420	(457)
Amount at end of the year	**23,595**	**22,242**	**23,307**
Which correspond to:			
Impaired assets	*13,658*	*13,933*	*14,906*
Other assets	*9,937*	*8,309*	*8,401*
Of which:			
Individually calculated	*2,679*	*3,555*	*4,905*
Collective calculated	*20,916*	*18,687*	*18,402*

In addition, additions with a debit to fixed-income results amounting to EUR 79 million were recorded in the year (releases amounting to EUR 170 million and additions amounting EUR 43 million as of 31 December 2019 and 2018, respectively), written-off assets recoveries have been recorded in the year amounting to EUR 1,221 million (EUR 1,586 million and EUR 1,558 million at 31 December 2019 and 2018, respectively) and EUR 139 million were recorded in the account for losses on renegotiation or contractual modification at 31 December 2020 (with no amount recorded at 31 December 2019 and 2018). 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'; amounts EUR 12,382 million (EUR 9,352 million and EUR 8,986 million at 31 December 2019 and 2018, respectively).

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers during 2020, 2019 and 2018:

2020

EUR million

	Stage 1	Stage 2	Stage 3	Total
Loss allowance at the beginning of the year	3,835	4,474	13,933	22,242
Transfers				
Transfer to stage 2 from stage 1	(1,040)	2,880		1,840
Transfer to stage 3 from stage 1	(255)		2,386	2,131
Transfer to stage 3 from stage 2		(971)	2,066	1,095
Transfer to stage 1 from stage 2	294	(976)		(682)
Transfer to stage 2 from stage 3		303	(727)	(424)
Transfer to stage 1 from stage 3	53		(138)	(85)
Net changes of the exposure and modifications in the credit risk	1,966	535	7,009	9,510
Write-offs	—	—	(8,930)	(8,930)
FX and other movements	(588)	(573)	(1,941)	(3,102)
Loss allowance at the end of the year	**4,265**	**5,672**	**13,658**	**23,595**

2019

EUR million

	Stage 1	Stage 2	Stage 3	Total
Loss allowance at the beginning of the year	3,658	4,743	14,906	23,307
Transfers				
Transfer to stage 2 from stage 1	(964)	3,235		2,271
Transfer to stage 3 from stage 1	(214)		1,296	1,082
Transfer to stage 3 from stage 2		(3,065)	5,612	2,547
Transfer to stage 1 from stage 2	301	(1,048)		(747)
Transfer to stage 2 from stage 3		381	(817)	(436)
Transfer to stage 1 from 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
Loss allowance at the end of the year	**3,835**	**4,474**	**13,933**	**22,242**

2018

EUR million	Stage 1	Stage 2	Stage 3	Total
Loss allowance at the beginning of the year	4,349	5,079	16,507	25,935
Transfers				
Transfer to stage 2 from stage 1	(1,173)	3,854		2,681
Transfer to stage 3 from stage 1	(279)		1,264	985
Transfer to stage 3 from stage 2		(1,971)	4,528	2,557
Transfer to stage 1 from stage 2	438	(1,656)		(1,218)
Transfer to stage 2 from stage 3		435	(1,264)	(829)
Transfer to stage 1 from 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)
Loss allowance at the end of the year	**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 Loans to customers' considered to be impaired due to credit risk is as follows:

EUR million	2020	2019	2018
Balance at beginning of year	32,543	34,218	36,280
Net additions	10,577	10,755	10,821
Written-off assets	(8,930)	(12,593)	(12,673)
Changes in the scope of consolidation	(39)	—	177
Exchange differences and other	(3,336)	163	(387)
Balance at end of year	**30,815**	**32,543**	**34,218**

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 2020, the Group's written-off assets totalled EUR 39,087 million (EUR 46,209 million and EUR 47,751 million at 31 December 2019 and 2018, respectively).

Following is a detail of the financial assets classified as 'Financial assets at amortised cost' and considered to be impaired due to credit risk at 31 December 2020, classified by geographical location of risk and by age of the first maturity of each operation:

EUR million

	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	4,520	719	542	679	8,145	14,605
European Union (excluding Spain)*	1,766	353	202	317	2,136	4,774
United States and Puerto Rico	1,306	524	18	31	144	2,023
Other OECD countries*	3,084	1,038	554	140	1,097	5,913
Latin America (non-OECD)	1,766	701	444	314	275	3,500
	12,442	**3,335**	**1,760**	**1,481**	**11,797**	**30,815**

* The amounts referring to the year 2020 for the United Kingdom have been considered in the line Other OECD countries, instead of in the line European Union (excluding Spain) due to the leaving of the United Kingdom from the European Union (see note 1.h).

The detail at 31 December 2019 is as follows:

EUR million

	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:

EUR million

	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**

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 2020:

EUR million

	Gross amount	Allowance recognised	Estimated collateral value*
Without associated real collateral	11,611	7,852	—
With real estate collateral	14,659	3,687	10,348
With other collateral	4,545	2,119	1,759
Total	**30,815**	**13,658**	**12,107**

* 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 2020, 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:

EUR million

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	1,232	337	311
Of which public sector	*1*	—	—
Total	**1,232**	**337**	**311**

e) Transferred credits

'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.

The breakdown of securitized loans held on the balance sheet, according to the nature of the financial instrument in which they are originated, is shown below:

EUR million

	2020	2019	2018
Retained on the balance sheet	88,662	93,553	88,767
Of which			
Securitised mortgage assets	*30,145*	*31,868*	*33,900*
Of which: UK assets	*9,034*	*13,002*	*13,519*
Other securitised assets	*58,517*	*61,685*	*54,867*
Total*	**88,662**	**93,553**	**88,767**

* Note 22 details the liabilities associated with these securitisation transactions.

Additionally at 31 December 2020, there are EUR 599 million (EUR 676 million and EUR 797 million in 2019 and 2018, 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.

At 31 December 2020, Grupo Santander had loans that had been fully derecognised and for which it retained servicing amounting to EUR 13,999 million (EUR 16,786 million and EUR 17,645 million at 31 December 2019 and 2018, respectively).

11. Trading derivatives

The detail of the notional amounts and the market values of the trading derivatives held by the Group in 2020, 2019 and 2018 is as follows:

EUR million

	2020		2019		2018	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Trading derivatives						
Interest rate risk						
Forward rate agreements	515,889	—	218,252	(8)	308,340	(1)
Interest rate swaps	3,789,169	3,638	4,322,199	2,573	4,197,246	115
Options, futures and other derivatives	698,500	(891)	794,140	(907)	543,138	(514)
Credit risk						
Credit default swaps	12,378	(133)	23,701	(71)	18,889	33
Foreign currency risk						
Foreign currency purchases and sales	304,280	(45)	325,720	(441)	275,449	301
Foreign currency options	45,074	(7)	44,763	(182)	54,215	2
Currency swaps	394,178	(814)	379,176	(1,162)	334,524	(416)
Securities and commodities derivatives and other	70,861	920	61,966	579	59,932	1,078
Total	**5,830,329**	**2,668**	**6,169,917**	**381**	**5,791,733**	**598**

12. Non-current assets

The detail of Non-current assets held for sale in the consolidated balance sheets is as follows:

EUR million

	2020	2019	2018
Tangible assets	4,445	4,588	5,424
Of which:			
Foreclosed assets	*4,081*	*4,485*	*5,334*
*Of which property assets in Spain**	*3,485*	*3,667*	*4,488*
Other tangible assets held for sale	*364*	*103*	*90*
Other assets	—	13	2
Total	**4,445**	**4,601**	**5,426**

* During 2019, the sale of real estate assets to Cerberus from foreclosures materialized, generating losses of EUR 180 million.

At 31 December 2020, the allowances recognised for the total non-current assets held for sale represented 48% (EUR 48% in 2019 and EUR 49% in 2018). The charges recorded in those years amounted to EUR 250 million, EUR 279 million and EUR 320 million, respectively, and the recoveries during these exercises are amounted to EUR 35 million, EUR 133 million and EUR 61 million, respectively.

13. Investments

a) Breakdown

The detail, by company, of Investments is as follows:

EUR million			
	2020	2019	2018
Associated entities			
Merlin Properties, SOCIMI, S.A.	1,581	1,511	1,358
Metrovacesa, S.A.	1,157	1,226	1,255
Caceis (note 3)	1,077	1,010	—
Zurich Santander Insurance America, S.L. - Consolidated	955	1,009	961
Companies Santander Insurance - Consolidated	439	402	392
Ebury Partners Limited (note 3)	388	—	—
Popular Spain Holding de Inversiones, S.L.U. (former Allianz Popular, S.L.) (note 3)	—	409	431
Project Quasar Investment 2017 S.L.*	—	1,351	1,701
Other companies	533	529	511
	6,130	**7,447**	**6,609**
Joint Ventures entities			
Santander Vida Seguros y Reaseguros (note 3)	381	170	163
Santander CACEIS Latam Holding 1, S.L. - Consolidated (former Santander Securities Services Latam Holding, S.L.)	326	349	—
U.C.I., S.A. - Consolidated	168	206	202
Other companies	617	600	614
	1,492	**1,325**	**979**

* At 31 December 2020, the Group does not hold significant influence over this company, despite holding a 49% interest in it, since it does not meet any of the requirements established in the Standard by which an entity is considered to exercise significant influence over another.

Of the entities included above, at 31 December 2020, the entities Merlin Properties, SOCIMI, S.A, Metrovacesa S.A., Compañía Española de Viviendas en Alquiler, S.A. and Unicre - Instituição Financeira de Crédito, S.A. are the only listed companies.

b) Changes

The changes in the investments were as followed:

EUR million			
	2020	2019	2018
Balance at beginning of year	8,772	7,588	6,150
Acquisitions (disposals) of companies and capital increases (reductions)	676	(123)	(1,761)
Of which:			
Ebury Partners Limited (note 3)	*409*	—	—
Santander Vida Seguros y Reaseguros (note 3)	*219*	—	—
WiZink Bank, S.A.	—	—	*(1,033)*
Changes in the consolidation method (note 3)	(1,359)	1,368	2,967
Of which:			
Project Quasar Investments 2017, S.L.	*(956)*	—	*1,701*
Popular Spain Holding de Inversiones, S.L.U. (former Allianz Popular, S.L.)	*(409)*	—	—
Caceis	—	*1,010*	—
Metrovacesa, S.A.	—	—	*1,255*
Santander CACEIS Latam Holding 1, S.L. - Consolidado (former Santander Securities Services Latam Holding, S.L.)	—	*349*	—
Effect of equity accounting	(96)	324	737
Dividends paid and reimbursements of share premium	(186)	(407)	(404)
Exchange differences and other changes	(185)	22	(101)
Balance at end of year	**7,622**	**8,772**	**7,588**

In 2020, 2019 and 2018 there was no evidence of material impairment on the Group's investments.

c) Impairment adjustments

During the years 2020, 2019 and 2018 there was no evidence of significant impairment in the Group's associated interests.

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):

EUR million

	2020	2019	2018
Total assets	183,735	164,215	74,765
Total liabilities	(167,209)	(144,602)	(58,153)
Net assets	**16,526**	**19,613**	**16,612**
Investments in Group joint ventures and associates in the net assets of associates	5,760	6,729	6,157
Goodwill	1,862	2,043	1,431
Of which:			
Zurich Santander Insurance America, S.L. - Consolidated	*526*	*526*	*526*
Caceis	*337*	*466*	*—*
Santander Vida Seguros y Reaseguros, S.A. - Consolidated	*255*	*73*	*—*
Sociedades Santander Insurance - Consolidated	*205*	*205*	*205*
de Inversiones, S.L.U. (former Allianz Popular, S.L.)	*—*	*347*	*347*
Total Group share	**7,622**	**8,772**	**7,588**
Total income	12,758	14,172	12,174
Total profit	*703*	1,375	1,867

A summary of the financial information at the end of December 2020 of the main associates and joint ventures (obtained from the information available at the date of preparation of the consolidated financial statements) is shown below:

EUR million

	Total assets	Total liabilities	Total income	Total profit
Joint ventures entities	**25,179**	**23,045**	**4,127**	**231**
Of which:				
U.C.I., S.A. - Consolidated	*12,032*	*11,696*	*248*	*(33)*
Santander Vida Seguros y Reaseguros, S.A. - Consolidated	*3,901*	*3,645*	*1,998*	*81*
Santander Caceis Latam Holding, S.L. - Consolidated	*517*	*128*	*81*	*10*
Associated entities	**158,556**	**144,164**	**8,631**	**472**
Of which:				
Caceis	*119,533*	*117,109*	*1,990*	*189*
Zurich Santander Insurance América, S.L. - Consolidated	*13,021*	*12,144*	*4,566*	*315*
Sociedades Santander Insurance - Consolidated	*2,408*	*1,933*	*722*	*80*
Total	**183,735**	**167,209**	**12,758**	**703**

14. Insurance contracts linked to pensions

The detail of Insurance contracts linked to pensions in the consolidated balance sheets is as follows:

EUR million

	2020	2019	2018
Assets relating to insurance contracts covering post-employment benefit plan obligations:			
Banco Santander, S.A.	174	192	210
	174	**192**	**210**

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:

EUR million

	2020			2019			2018		
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	51	(45)	6	59	(52)	7	52	(47)	5
Life insurance	189	(137)	52	206	(151)	55	227	(163)	64
Unearned premiums and risks	*126*	*(122)*	*4*	*139*	*(132)*	*7*	*140*	*(127)*	*13*
Mathematical provisions	*63*	*(15)*	*48*	*67*	*(19)*	*48*	*87*	*(36)*	*51*
Claims outstanding	561	(59)	502	399	(55)	344	397	(86)	311
Bonuses and rebates	23	(11)	12	22	(10)	12	20	(9)	11
Other technical provisions	86	(9)	77	53	(24)	29	69	(19)	50
	910	**(261)**	**649**	**739**	**(292)**	**447**	**765**	**(324)**	**441**

16. Tangible assets

a) Changes

The changes in Tangible assets in the consolidated balance sheets were as follows:

EUR million

	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 2018	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)				
Balance 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)
Balance at 31 December 2019	**27,108**	**24,454**	**1,450**	**53,012**	**5,686**	**—**	**—**	**5,686**
Additions / disposals (net) due to change in the scope of consolidation	(16)	1,082	7	1,073	(37)	—	—	(37)
Additions / disposals (net)	827	512	(29)	1,310	(1,339)*	—	—	(1,339)
Transfers, exchange differences and other items	(3,023)	(1,844)	32	(4,835)	(362)	—	—	(362)
Balance at 31 December 2020	**24,896**	**24,204**	**1,460**	**50,560**	**3,948**	**—**	**—**	**3,948**
Accumulated depreciation:								
Balances at 1 January 2018	(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)				
Balance 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
Balance at 31 December 2019	**(11,974)**	**(5,210)**	**(144)**	**(17,328)**	**(765)**	**—**	**—**	**(765)**
Disposals due to change in the scope of consolidation	(40)	—	—	(40)	(3)	—	—	(3)
Disposals	527	2,387	11	2,925	167	—	—	167
Charge for the year	(1,906)	—	(8)	(1,914)	(706)	—	—	(706)
Transfers, exchange differences and other items	1,850	(2,762)	8	(904)	90	—	—	90
Balance at 31 December 2020	**(11,543)**	**(5,585)**	**(133)**	**(17,261)**	**(1,217)**	**—**	**—**	**(1,217)**

* Includes contract extensions on operating leases and repurchases.

EIR million

	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 2018	(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)**	**—**	**—**	**—**	**—**
Impairment charge for the year	(104)	(70)	(11)	(185)	(4)	—	—	(4)
Releases	4	2	5	11	1	—	—	1
Disposals due to change in the scope of consolidation	—	—	—	—	—	—	—	—
Disposals	20	—	3	23	—	—	—	—
Exchange differences and other	33	31	(28)	36	(6)	—	—	(6)
Balances at 31 December 2020	**(140)**	**(60)**	**(364)**	**(564)**	**(9)**	**—**	**—**	**(9)**

Tangible assets, net:								
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
Balances at 31 December 2020	**13,213**	**18,559**	**963**	**32,735**	**2,722**	**—**	**—**	**2,722**

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:

EUR million

	Tangible assets for own use				
	Cost	Accumulated depreciation	Impairment losses	Carrying amount	Of which: Right-of-use for operating lease
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
Land and buildings	13,081	(3,215)	(133)	9,733	2,716
IT equipment and fixtures	5,562	(4,416)	—	1,146	1
Furniture and vehicles	6,085	(3,854)	—	2,231	5
Construction in progress and other items	168	(58)	(7)	103	—
Balances at 31 December 2020	**24,896**	**(11,543)**	**(140)**	**13,213**	**2,722**

The carrying amount at 31 December 2020 in the foregoing table includes the following approximate amounts EUR 6,299 million (EUR 7,737 million at 31 December 2019 and EUR 5,390 million at 31 December 2018) relating to property, plant and equipment owned by group entities and branches located abroad.

c) Tangible assets - Leased out under an operating lease

Grupo Santander 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.

Grupo Santander 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 2020, 2019 and 2018 the Group did not recognise any material impairment in this respect.

Of the EUR 18,559 million that the Group had assigned to operating leases at 31 December 2020 (EUR 19,221 million and EUR 16,444 million at 31 December 2019 and 2018, respectively), EUR 13,455 million (EUR 14,799 million at 31 December 2019) relate to vehicles of Santander Consumer USA Holdings Inc.. The variable lease payments of various items of this entity are not representative.

In addition, the maturity analysis of the payments for assets leased out under operating leases from Santander Consumer USA Holdings Inc. is as follows:

EUR million

	2020
Maturity Analysis	
2021	3,841
2022	4,288
2023	4,344
2024	1,593

d) Tangible assets - Investment property

The fair value of investment property at 31 December 2020 amounted to EUR 1,055 million (EUR 1,076 million at 31 December 2019 and EUR 1,825 million at 31 December 2018). A comparison of the fair value of investment property at 31 December 2020, with the net book value shows gross unrealised gains of EUR 92 million (EUR 103 million in 2019 and EUR 262 in 2018), 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 2020, 2019 and 2018 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:

EUR million

	2020	2019	2018
Banco Santander (Brasil)	3,109	4,388	4,459
SAM Investment Holdings Limited	1,444	1,173	1,173
Santander Consumer Germany	1,314	1,236	1,217
Santander Bank Polska	1,104	2,427	2,402
Santander Portugal	1,040	1,040	1,040
Santander España	1,027	1,027	1,023
Santander Consumer USA	904	2,143	2,102
Santander Bank, National Association	594	1,828	1,793
Santander UK	592	7,147	8,307
Banco Santander - Chile	571	589	627
Grupo Financiero Santander (México)	399	460	434
Santander Consumer Nordics	216	496	502
Other companies	157	292	387
Total Goodwill	**12,471**	**24,246**	**25,466**

The changes in goodwill were as follows:

EUR million

	2020	2019	2018
Balance at beginning of year	24,246	25,466	25,769
Additions (note 3)	429	41	383
Of which:			
SAM Investment Holdings Limited	*271*	*—*	*—*
Santander España	*—*	*4*	*375*
Impairment losses	(10,100)	(1,491)	—
Of which:			
Santander UK	*(6,101)*	*(1,491)*	*—*
Santander Bank Polska	*(1,192)*	*—*	*—*
Santander Bank, National Association	*(1,177)*	*—*	*—*
Santander Consumer USA	*(1,153)*	*—*	*—*
Santander Consumer Nordics	*(277)*	*—*	*—*
Disposals or changes in scope of consolidation	—	—	(130)
Exchange differences and other items	(2,104)	230	(556)
Balance at end of year	**12,471**	**24,246**	**25,466**

Grupo Santander has goodwill generated by cash-generating units located in non-euro currency countries (mainly Brazil, Poland, the United States, the United Kingdom, Chile, Mexico, Norway and Sweden) 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 2020 there was a decrease of EUR 2,104 million (an increase of EUR 230 million in 2019 and a decrease of EUR 556 million in 2018), due to exchange differences and other items which, pursuant to current standards, were recognised with a change 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), Grupo Santander performs an analysis of the potential impairment of its recorded goodwill with respect to its recoverable amount.The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, which are the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash flows of 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.

Grupo Santander'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 valuations performed by internal and external experts.

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.

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 periods (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 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 budgets.

During the second quarter 2020, considering the worsening of the macroeconomic environment caused by covid-19, an impairment test was conducted for certain CGU. This test took into account the negative evolution forecast by various national and international organisations of magnitudes such as GDP (which could take between two and three years to recover in most countries), the unemployment rate, the growth of credit portfolios, etc. As a result, the Group recognised goodwill impairment of EUR 10,100 million. The impairment was the result of a combination of factors, mainly due to the new macroeconomic outlook mentioned above, which caused the Group to project lower earnings in some units, in addition to reducing the assumptions on perpetual growth rates and increasing the discount rates used to estimate the value in use of these CGU.

These goodwill impairment losses were recognized within 'Impairment or reversal of impairment on non-financial assets, net - Intangible assets caption', of which EUR 6,101 million correspond to Santander UK (EUR 1,491 million in 2019), EUR 1,192 million to Santander Bank Polska, EUR 1,177 million to Santander Bank, National Association, EUR 1,153 million to Santander Consumer USA, and EUR 277 million to Santander Consumer Nordics. The recoverable amount of the above cash-generating units is sensitive to changes in cash flow projections, discount rates and nominal perpetual growth rates; therefore, changes in these assumptions could result in additional impairment losses. It should be noted that goodwill is deducted from the CET1 for regulatory purposes, therefore an impairment of this intangible asset has no impact on the Group's capital ratios.

Following is a detail of the main assumptions taken into account in determining the recoverable amount, at 2020 year-end, of the most significant cash-generating units which were valued using the discounted cash flow method:

	2020		
	Projected period	Discount rate*	Nominal perpetual growth rate
Santander UK	5 years	9.5%	2.3%
Santander Bank Polska	5 years	10.0%	3.5%
Santander Consumer USA	3 years	10.7%	1.5%
Santander Bank, National Association**	5 years	11.6%	2.5%
Santander Consumer Germany	5 years	9.0%	1.8%
SAM Investment Holdings Limited	5 years	10.1%	2.5%
Santander Portugal	5 years	9.8%	1.8%
Santander Consumer Nordics	5 years	10.1%	2.0%

* Post-tax discount rate.
** Weighted information of the main assumptions of the segments to which goodwill has been allocated.

The assumptions taken into account to determine the recoverable amount in the second quarter of 2020 did not vary significantly from the measurement made at the end of 2020 and no additional impairment was recognized at 31 December 2020.

The discount and nominal perpetual growth rates taken into account in 2019 and 2018 are presented below for comparison purposes:

	Discount rate*		Nominal perpetual growth rate	
	2019	2018	2019	2018
Santander UK	8.5%	8.4%	2.5%	2.5%
Santander Bank Polska**	9.2%	n.a.	3.5%	n.a.
Santander Consumer USA	9.5%	11.1%	1.5%	1.5%
Santander Bank, National Association***	9.6%	10.6%	3.6%	3.8%
Santander Consumer Germany	8.2%	8.5%	2.5%	2.5%
SAM Investment Holdings Limited	10.0%	9.6%	2.5%	2.5%
Santander Portugal	8.9%	9.6%	2.0%	2.0%
Santander Consumer Nordics	8.6%	9.2%	2.5%	2.5%

* Post-tax discount rate.
** The recoverable amount has been calculated using the market price in previous years.
*** Weighted information of the main assumptions of the segments to which goodwill has been allocated.

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 the cash-generating units not reflecting an impairment charge in 2020 still exceeds their recoverable amount.

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 quoted market prices of their shares at year-end. This value exceeded the amount to be recovered. A significant reduction in the quoted market prices of these cash generating unit could result in an indication of impairment which in turn may lead to a goodwill impairment charge in the future.

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 2020, 2019, and 2018 is as follows:

EUR million

	Estimated useful life	31 December 2019	Net additions and disposals	Change in scope of consolidation	Amortization and impairment	Application of amortization and impairment	Exchange differences and other	31 December 2020
With indefinite useful life:								
Brand names		42	—	—		—	(5)	37
With finite useful life:								
IT developments	3 -7 years	7,945	1,123	(34)		(224)	(910)	7,900
Other		1,276	328	1		(17)	(149)	1,439
Accumulated amortisation		(5,686)	35	49	(896)	105	584	(5,809)
Development		*(5,139)*	—	*49*	*(792)*	*88*	*487*	*(5,307)*
Other		*(547)*	*35*	—	*(104)*	*17*	*97*	*(502)*
Impairment losses		(136)	—	—	(142)	136	12	(130)
Of which addition		—	—	—	*(142)*	—	—	—
Liberation		—	—	—	—	—	—	—
		3,441	**1,486**	**16**	**(1,038)**	**—**	**(468)**	**3,437**

EUR million

	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**

EUR million	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**

In 2020, 2019 and 2018, impairment losses of EUR 142 million, EUR 73 million and EUR 117 million, respectively, were recognised under Impairment or reversal of impairment on non-financial assets, net – intangible assets. This impairment losses are 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:

EUR million	2020	2019	2018
Transactions in transit	88	157	143
Net pension plan assets (Note 25)	635	903	1,015
Prepayments and accrued income	2,806	3,129	3,089
Other (Note 2.n)	7,362	5,752	4,744
	10,891	**9,941**	**8,991**

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:

EUR million	2020	2019	2018
CENTRAL BANKS			
Classification			
Financial liabilities held for trading	—	—	—
Financial liabilities designated at fair value through profit or loss	2,490	12,854	14,816
Financial liabilities at amortized cost	112,804	62,468	72,523
	115,294	**75,322**	**87,339**
Type			
Deposits on demand	10	5	5
Time deposits	108,090	67,424	82,797
Reverse repurchase agreements	7,194	7,893	4,537
	115,294	**75,322**	**87,339**
CREDIT INSTITUTIONS			
Classification			
Financial liabilities held for trading	—	—	—
Financial liabilities designated at fair value through profit or loss	6,765	9,340	10,891
Financial liabilities at amortized cost	62,620	90,501	89,679
	69,385	**99,841**	**100,570**
Type			
Deposits on demand	5,727	9,136	6,154
Time deposits	43,308	61,406	53,422
Reverse repurchase agreements	20,179	29,115	40,873
Subordinated deposits	171	184	121
	69,385	**99,841**	**100,570**
Currency:			
Euro	104,499	79,008	97,323
Pound sterling	23,339	18,129	19,301
US dollar	26,581	53,403	45,848
Brazilian real	12,356	13,022	18,657
Other currencies	17,904	11,601	6,780
TOTAL	**184,679**	**175,163**	**187,909**

At 31 December 2020, the European Central Bank's targeted longer-term refinancing operations (TLTRO (Targeted Long-Term Refinancing Operation)) amounted to EUR 77,732 million, of which EUR 77,460 million correspond to TLRTO III (EUR 46,201 million at 31 December 2019 and EUR 55,382 million at 31 December 2018). Total net reliance on European Central Bank amounts to EUR 13,494 million.

In December 2020, the income recognized in the consolidated consolidated income statement corresponding to TLTRO III amounts to EUR 391 million. Note 50 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:

EUR million	2020	2019	2018
Classification			
Financial liabilities held for trading	—	—	—
Financial liabilities designated at fair value through profit or loss	34,343	34,917	39,597
Financial liabilities at amortized cost	814,967	789,448	740,899
	849,310	**824,365**	**780,496**
Geographical area			
Spain	294,516	271,103	267,210
European Union (excluding Spain)*	106,013	334,542	309,615
United States and Puerto Rico	59,057	60,011	53,843
Other OECD countries*	306,243	71,235	67,462
South America	83,481	87,474	82,343
Rest of the world	—	—	23
	849,310	**824,365**	**780,496**
Type			
Demand deposits-	642,897	588,533	548,711
Current accounts	*418,752*	*373,146*	*346,345*
Savings accounts	*216,500*	*208,701*	*196,493*
Other demand deposits	*7,645*	*6,686*	*5,873*
Time deposits-	171,939	196,921	199,025
Fixed-term deposits and other term deposits	*170,127*	*194,163*	*195,540*
Home-purchase savings accounts	*43*	*44*	*40*
Discount deposits	*3*	*3*	*3*
Hybrid financial liabilities	*1,743*	*2,711*	*3,419*
Subordinated liabilities	*23*	*—*	*23*
Repurchase agreements	34,474	38,911	32,760
	849,310	**824,365**	**780,496**

* The amounts referring to the year 2020 for the United Kingdom have been considered in the line Other OECD countries, instead of in the line European Union (excluding Spain) due to the leaving of the United Kingdom from the European Union (see note 1.h).

22. Marketable debt securities

a) Breakdown

The detail, by classification and type, of Marketable debt securities is as follows:

EUR million

	2020	2019	2018
Classification			
Financial liabilities held for trading	—	—	—
Financial liabilities designated at fair value through profit or loss	4,440	3,758	2,305
Financial liabilities at amortized cost	230,829	258,219	244,314
	235,269	**261,977**	**246,619**
Type			
Bonds and debentures outstanding	191,577	208,455	195,498
Subordinated	21,686	20,878	23,676
Notes and other securities	22,006	32,644	27,445
	235,269	**261,977**	**246,619**

The distribution of the book value of debt securities issued by contractual maturity is shown below:

EUR million

	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	—	—	—	—	741	3,505	17,440	21,686
Senior unsecured debt	—	2,259	1,985	14,476	34,814	29,037	22,959	105,530
Senior secured debt	—	9,068	6,668	9,025	25,116	15,508	20,662	86,047
Promissory notes and other securities	—	3,942	9,975	8,089	—	—	—	22,006
Debt securities issued	**—**	**15,269**	**18,628**	**31,590**	**60,671**	**48,050**	**61,061**	**235,269**

The distribution by contractual maturity of the notional amounts of these debt securities issued is as follows:

EUR million

	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	—	—	—	—	732	3,463	17,233	21,428
Senior unsecured debt	—	2,168	1,905	13,895	33,415	27,871	22,039	101,293
Senior secured debt	—	8,982	6,605	8,939	24,878	15,361	20,466	85,231
Promissory notes and other securities	—	4,158	10,521	8,531	—	—	—	23,210
Debt securities issued	**—**	**15,308**	**19,031**	**31,365**	**59,025**	**46,695**	**59,738**	**231,162**

b) Bonds and debentures outstanding

The detail, by currency of issue, of 'Bonds and debentures outstanding' is as follows:

	EUR million			2020	
Currency of issue	2020	2019	2018	Outstanding issue amount in foreign currency (Million)	Annual interest rate (%)
Euro	89,031	89,008	85,479	89,031	1.08%
US dollar	61,174	64,952	62,021	75,064	2.92%
Pound sterling	16,569	20,178	16,616	14,880	2.16%
Brazilian real	8,398	15,292	15,778	53,522	2.99%
Chilean peso	5,624	6,848	6,460	4,903,110	4.67%
Other currencies	10,781	12,177	9,144		
Balance at end of year	**191,577**	**208,455**	**195,498**		

The changes in 'Bonds and debentures outstanding' were as follows:

EUR million

	2020	2019	2018
Balance at beginning of year	**208,455**	**195,498**	**176,719**
Net inclusion of entities in the Group	785	—	—
Issues	**54,905**	**64,184**	**68,306**
Of which:			
Santander Consumer USA Holdings Inc.	*12,246*	*15,631*	*15,627*
Banco Santander (Brasil) S.A.	*11,036*	*13,227*	*16,422*
Banco Santander, S.A.	*10,220*	*12,066*	*7,683*
Santander UK Group Holdings plc group	*6,320*	*4,547*	*14,984*
Santander Consumer Finance, S.A.	*2,394*	*5,150*	*3,605*
SC Germany S.A., Compartment Consumer 2020-1	*1,800*	*—*	*—*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*1,770*	*577*	*560*
Santander International Products, Plc.	*1,588*	*848*	*249*
Santander Holdings USA, Inc.	*1,269*	*2,778*	*1,210*
Santander Consumer Bank AS	*773*	*1,572*	*1,342*
Banco Santander - Chile	*766*	*1,644*	*1,483*
SCF Rahoituspalvelut IX DAC	*650*	*—*	*—*
PSA Financial Services Spain, E.F.C., S.A.	*605*	*—*	*—*
Santander Consumer Bank AG	*500*	*750*	*—*
PSA Banque France	*385*	*1,132*	*716*
PSA Bank Deutschland GmbH	*—*	*1,104*	*600*
SCF Rahoituspalvelut VIII DAC	*—*	*799*	*—*
Redemptions and repurchases	**(62,699)**	**(52,462)**	**(48,319)**
Of which:			
Banco Santander (Brasil) S.A.	*(14,211)*	*(12,817)*	*(14,802)*
Santander UK Group Holdings plc group	*(14,102)*	*(9,115)*	*(6,800)*
Santander Consumer USA Holdings Inc.	*(13,959)*	*(14,517)*	*(11,939)*
Banco Santander, S.A.	*(5,991)*	*(3,303)*	*(4,752)*
Santander Consumer Finance, S.A.	*(4,371)*	*(2,550)*	*(2,366)*
Banco Santander - Chile	*(1,974)*	*(848)*	*(204)*
Santander Holdings USA, Inc.	*(1,201)*	*(1,990)*	*(903)*
Santander Consumer Bank AS	*(936)*	*(1,551)*	*(1,268)*
Banco Santander Totta, S.A.	*(784)*	*(739)*	*(41)*
PSA Banque France	*(684)*	*—*	*—*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(415)*	*(159)*	*(579)*
Santander International Products, Plc.	*(324)*	*(722)*	*(491)*
PSA Bank Deutschland GmbH	*—*	*(902)*	*(488)*
Banca PSA Italia S.p.A.	*—*	*—*	*(600)*
Exchange differences and other movements	(9,869)	1,235	(1,208)
Balance at year-end	**191,577**	**208,455**	**195,498**

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 and Banco Santander - Chile.

d) Guarantees

Set forth below is information on the liabilities secured by assets:

EUR million

	2020	2019	2018
Asset-backed securities	35,753	38,616	38,140
Of which, mortgage-backed securities	*2,274*	*3,819*	*5,197*
Other mortgage securities	49,425	50,269	46,026
Of which: mortgage-backed bonds	*24,736*	*24,736*	*22,023*
Territorial covered bond	869	1,270	1,270
	86,047	**90,155**	**85,436**

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: includes asset-backed securities, notes issued by securitization funds collateralized mainly by mortgage loans that do not meet the above requirements and other loans (mainly personal loans with an average maturity of five years and loans to SMEs with average maturities of seven years) and private issues of Santander Consumer Usa Holdings Inc collateralized by vehicles assigned under operating leases.

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 Grupo Santander's 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.

Grupo Santander'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.

Grupo Santander entities have specialised document comparison procedures and tools for verifying customer information and solvency (see note 53).

Grupo Santander 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:

EUR million

	2020	2019	2018
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)	76,554	84,720	85,610
Of which:			
Loans eligible to cover issues of mortgage-backed securities	*57,382*	*59,517*	*60,195*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*17,610*	*14,569*	*15,807*

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 'person especially related' to the issuing entity in accordance with Royal Legislative Decree 1/2020, of 5 May, approving the revised text of the Bankruptcy Law and Law 22/2003, of 9 July, on Bankruptcy (the Insolvency Law'), will enjoy the special privilege established in Article 270.1.1 of the aforementioned Insolvency Law. Without prejudice to the foregoing, in accordance with Article 242.10 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 (Article 14 of Law 2/1981 of 25 March 1981 regulating the mortgage market).

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 it would be necessary to proceed in accordance with the terms of Article 212.1 and, in accordance with the requirements of Article 413 of the Insolvency Law, 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 Grupo Santander totalled EUR 24,736 million at 31 December 2020 (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 2020 and 2019 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, deposits and markatable debt securities, in the consolidated balance sheets is as follows:

	EUR million			2020	
Currency of issue	2020	2019	2018	Outstanding issue amount in foreign currency (million)	Annual interest rate (%)
Euro	13,570	12,542	14,001	13,570	3.86%
US dollar	5,991	6,506	7,813	7,351	5.16%
Pound sterling	565	655	628	507	8.89%
Brazilian real	—	—	—	—	—
Other currencies	1,754	1,359	1,378		
Balance at end of year	**21,880**	**21,062**	**23,820**		
Of which preference shares	*196*	*321*	*345*		
Of which preference participations	*7,425*	*7,709*	*9,717*		

Note 50 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 marketable debt securities in the last three years were as follows:

EUR million

	2020	2019	2018
Balance at beginning of year	20,878	23,676	21,382
Net inclusion of entities in the Group (Note 3)	—	—	—
Placements	4,075	1,056	3,266
Of which:			
Banco Santander, S.A.	*3,722*	*1,056*	*2,750*
Banco Santander - Chile	*353*	—	—
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	—	—	*281*
Santander Bank Polska S.A.	—	—	*235*
Net redemptions and repurchases*	(2,838)	(4,009)	(1,259)
Of which:			
Banco Santander, S.A.	*(1,671)*	*(3,782)*	*(401)*
Santander UK plc	*(740)*	*(16)*	*(313)*
Santander UK Group Holdings plc	*(316)*	—	—
Santander Bank, National Association	*(111)*	*(19)*	*(163)*
Banco Santander (Brasil) S.A.	—	*(124)*	*(61)*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	—	*(69)*	*(125)*
Santander Holdings USA, Inc.	—	—	*(195)*
Exchange differences and other movements	(429)	155	287
Balance at end of year	**21,686**	**20,878**	**23,676**

* The balance relating to issuances, redemptions and repurchases (EUR 1,237 million), together with the interest paid in remuneration of these issuances including PPCC (EUR 942 million), is included in the cash flow from financing activities.

c) Other disclosures

This caption includes contingent convertible or redeemable preferred participations, as well as other subordinated financial instruments issued by consolidated companies, which do not qualify as equity (preferred shares).

Preferred shares do not have voting rights and are non-cumulative. They have been subscribed by third parties outside the Group, and except for the issues of Santander UK plc mentioned below, the rest are redeemable by decision of the issuer, according to the terms of each issue.

Banco Santander's contingently convertible preferred participations are subordinated debentures and rank after common creditors and any other subordinated credit that by law and/or by their terms, to the extent permitted by Spanish law, ranks higher than the contingently convertible preferred participations. Their remuneration is conditioned to the obtainment of sufficient distributable profits, and to the limitations imposed by the regulations on shareholders' equity, and they have no voting rights. The other issues of Banco Santander S.A. mentioned in this caption are also subordinated debentures and, for credit ranking purposes, they rank behind all the common creditors of the issuing entities and ahead of any other subordinated credit that ranks pari passu with the Bank's contingently convertible preferred participations.

The main issues of subordinated debt securities issued, broken down by company, are detailed below:

Issues by Banco Santander, S.A.

In December 2020, Banco Santander, S.A. issued subordinated debentures with a ten-year term of USD 1,500 million. The issue bears interest at an annual rate of 2.749%, payable semiannually.

In October 2020, it carried out a ten-year subordinated debenture issue for an amount of EUR 1,000 million. The issue bears interest at an annual rate of 1.625%, payable annually.

In March 2020, it proceeded to redeem early and voluntarily the entire outstanding issue of Tier 1 Contingently Convertible Preferred Participations Series I/2014, for a total nominal amount of EUR 1,500 million.

In January 2020, it carried out a placement of contingently convertible preferred participations into newly issued ordinary shares of the Bank (the 'PPCCs'), excluding the pre-emptive subscription rights of its shareholders and for a nominal amount of EUR 1.5 billion (the 'Issue' and the 'PPCCs').

The Issue was made at par and the remuneration of the PPCCs, the payment of which is subject to certain conditions and is also discretionary, was set at 4.375% per annum for the first six years, revised every five years thereafter by applying a margin of 453.4 basis points over the 5-year Mid-Swap Rate (5-year Mid-Swap Rate).

On March 5, May 8 and September 2, 2014, three issues of contingently convertible preferred participations into newly issued ordinary shares of the Bank (the PPCC) were made, for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million respectively, the payment of which is subject to certain conditions and is also discretionary. The remuneration of the issues was set at 6.25% p.a. for the first five years (revised thereafter by applying a margin of 541 basis points over the 5-year Mid-Swap Rate) for the March issue, at 6.375% p.a. for the first five years revised thereafter by applying a margin of 478.8 basis points over the 5 year Mid-Swap Rate)- for the May issue and at 6.25% p.a. for the first seven years (reviewed every five years thereafter by applying a margin of 564 basis points over the 5 year Mid-Swap Rate) for the September issue.

In April 2019, the voluntary early redemption of the preferred shares relating to the second issue made on 8 May 2014 was communicated for an amount of USD 1,500 million at the redemption date.

At 8 February 2019, Banco Santander, S.A, carried out an issue of PPCC for a nominal amount of USD 1,200 million (EUR 1,056 million). The remuneration of the issues 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 (revised thereafter by applying a margin of 489.9 points over the mid-swap rate).

At 19 March 2018, a "PPCC" issue was carried out, for a nominal amount of EUR 1,500 million. The remuneration of the issue, the payment of which is subject to certain conditions and is also discretionary, was set at 4.75% per annum, payable quarterly, for the first seven years (revised thereafter by applying a margin of 410 basis points over the Mid-swap rate).

At 8 February 2018, a ten-year subordinated debenture issue of EUR 1,250 million was carried out. The issue bears interest at an annual rate of 2.125% payable annually.

At 25 April and 29 September 2017, Banco Santander, S.A. carried out issues of PPCC, for a nominal amount of EUR 750 million, and EUR 1,000 million respectively. The remuneration of the PPCC, the payment of which is subject to certain conditions and is also discretionary, was set at 6.75% per annum for the first five years (revised thereafter by applying a margin of 680.3 basis points over the 5-year Mid-Swap Rate) for the issue disbursed in April, at 5.25% per annum 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 issue disbursed in September.

Issues by Banco Santander - Chile

In June 2020, Banco Santander Chile issued subordinated debentures for a term of fifteen years, in the amount of UF 5 million (equivalent to USD 185 million). The issue bears annual interest at 3.5%.

In April 2020, Banco Santander Chile issued two subordinated debentures, the first for a term of fourteen years, for an amount of UF 3 million (equivalent to USD 100 million), bearing annual interest at 3%, and the second for a term of nineteen years, for an amount of UF 3 million (equivalent to USD 100 million), bearing annual interest at 3.15%.

Issues Banco Santander (Brasil) S.A.

On 29 January 2014 Banco Santander (Brasil) S.A. issued Tier 1 perpetual subordinated notes for a nominal amount of USD 1,248 million and the Group acquired 89.6% of the issue. The notes are perpetual and would be converted into common shares of Banco Santander (Brasil) S.A. if the common equity Tier 1 ratio, calculated as established by the Central Bank of Brazil, were lower than 5.125%. This issue was fully redeemed in fiscal year 2019.

Issues by Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

At 1 October 2018, a ten-year subordinated debenture issue was made by by Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México for a nominal amount of USD 1,300 millions and at an interest rate of 5.95%, with the group having acquired 75% of the issue.

Additionally, at 30 December 2016, a nominal amount of USD 500 million was made, with the Group having acquired 88.2% of the issue. The perpetual debentures are automatically converted into shares when the Regulatory Capital Ratio (CET1) is equal to or less than 5.125% at the conversion price.

Issues by Santander Bank Polska S.A.

At 20 April 2018, Santander Bank Polska S.A. carried out a ten-year subordinated debenture issue with a redemption option on the fifth anniversary of the issue date in the amount of PLN 1 billion. The issue bears floating interest at Wibor (6M) + 160 basis points payable semi-annually.

The accrued interests from the subordinated liabilities during 2020 amounted to EUR 571 million (EUR 645 million and EUR 770 million during 2019 and 2018, respectively).

Interests from the PPCC during 2020 amounted to EUR 552 million (EUR 595 million and EUR 560 million in 2019 and 2018, respectively).

24. Other financial liabilities

The detail of Other financial liabilities in the consolidated balance sheets is as follows:

EUR million

	2020	2019	2018
Trade payables	1,177	1,279	1,323
Clearing houses	599	165	434
Tax collection accounts:			
Public Institutions	4,122	4,122	3,968
Factoring accounts payable	222	409	263
Unsettled financial transactions	5,080	3,693	3,373
Lease liabilities (note 2.l)	3,049	5,108	190
Other financial liabilities	12,719	15,459	15,113
	26,968	**30,235**	**24,664**

Note 50 contains a detail of the residual maturity periods of other financial liabilities at each year-end.

Lease liabilities

The cash outflow of leases in 2020 was EUR 789 million (EUR 946 million in 2019).

The analysis of the maturities of lease liabilities as of 31 December 2020 is shown below:

EUR million

	2020	2019
Maturity Analysis - Discounted payments		
Within 1 year	594	766
Between 1 and 3 years	981	1,254
Between 3 and 5 years	637	875
Later than 5 years	837	2,213
Total discounted payments at the end of the year	**3,049**	**5,108**

During 2020 and 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:

EUR million

	2020	2019	2018
Provision for pensions and other obligations post-employments	3,976	6,358	5,558
Other long term employee benefits	1,751	1,382	1,239
Provisions for taxes and other legal contingencies	2,200	3,057	3,174
Provisions for contingent liabilities and commitments (note 2)	700	739	779
Other provisions	2,225	2,451	2,475
Provisions	**10,852**	**13,987**	**13,225**

b) Changes

The changes in 'Provisions' in the last three years were as follows:

EUR million

	2020				
	Post employment plans	Long term employee benefits	Contingent liabilities and commitments	**Other provisions**	Total
Balances at beginning of year	**6,358**	**1,382**	**739**	**5,508**	**13,987**
Incorporation of Group companies, net	(5)	—	(1)	(2)	(8)
Additions charged to income	(217)	782	50	1,934	2,549
Interest expense (note 39)	84	11	—	—	95
Staff costs (note 47)	69	7	—	—	76
Provisions or reversion of provisions	(370)	764	50	1,934	2,378
Addition	*6*	*787*	*490*	*2,258*	*3,541*
Release	*(376)*	*(23)*	*(440)*	*(324)*	*(1,163)*
Other additions arising from insurance contracts linked to pensions	2	—	—	—	2
Changes in value recognised in equity	547	—	—	—	547
Payments to pensioners and pre-retirees with a charge to internal provisions	(303)	(408)	—	—	(711)
Benefits paid due to settlements	(1,551)	—	—	—	(1,551)
Insurance premiums paid	(1)	—	—	—	(1)
Payments to external funds	(333)	—	—	—	(333)
Amounts used	—	—	—	(2,485)	(2,485)
Transfer, exchange differences and other changes	(521)	(5)	(88)	(530)	(1,144)
Balances at end of year	**3,976**	**1,751**	**700**	**4,425**	**10,852**

EUR million

	2019					2018				
	Post employment plans	Long term employee benefits	Contingent liabilities and commitments	**Other provisions**	Total	Post employment plans	Long term employee benefits	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**
Incorporation of Group companies, net	—	(1)	—	—	(1)	—	—	—	(30)	(30)
Additions charged to income	173	729	(31)	2,836	3,707	38	251	(49)	2,253	2,493
Interest expense (note 39)	128	17	—	—	145	165	21	—	—	186
Staff costs (note 47)	65	7	—	—	72	78	6	—	—	84
Provisions or reversion of provisions	(20)	705	(31)	2,836	3,490	(205)	224	(49)	2,253	2,223
Addition	*10*	*713*	*422*	*4,276*	*5,421*	*7*	*227*	*455*	*4,612*	*5,301*
Release	*(30)*	*(8)*	*(453)*	*(1,440)*	*(1,931)*	*(212)*	*(3)*	*(504)*	*(2,359)*	*(3,078)*
Other additions arising from insurance contracts linked to pensions	4	—	—	—	4	(7)	—	—	—	(7)
Changes in value recognised in equity	1,520	—	—	—	1,520	(482)	—	—	—	(482)
Payments to pensioners and pre-retirees with a charge to internal provisions	(331)	(612)	—	—	(943)	(332)	(625)	—	—	(957)
Benefits paid due to settlements	—	—	—	—	—	—	—	—	—	—
Insurance premiums paid	(1)	—	—	—	(1)	(2)	—	—	—	(2)
Payments to external funds	(455)	—	—	—	(455)	(368)	—	—	—	(368)
Amounts used	—	—	—	(2,907)	(2,907)	—	—	(3)	(2,548)	(2,551)
Transfer, exchange differences and other changes	(110)	27	(9)	(70)	(162)	366	(73)	17	133	443
Balances at end of year	**6,358**	**1,382**	**739**	**5,508**	**13,987**	**5,558**	**1,239**	**779**	**5,649**	**13,225**

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:

EUR million

	2020	2019	2018
Provisions for post-employment plans - Spanish entities	1,881	3,951	3,930
Provisions for other similar obligations - Spanish entities	1,695	1,321	1,189
Of which pre-retirements	*1,676*	*1,303*	*1,172*
Provisions for post-employment plans - United Kingdom	449	329	130
Provisions for post-employment plans - Other subsidiaries	1,646	2,078	1,498
Provisions for other similar obligations - Other subsidiaries	56	61	50
Provision for pensions and other obligations post -employments and Other long term employee benefits	**5,727**	**7,740**	**6,797**
Of which defined benefits	*5,719*	*7,731*	*6,791*

i. Spanish entities - Post-employment plans and other similar obligations

At 31 December 2020, 2019 and 2018, 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 2020, 443 employees benefited from the pre-retirement and incentivised retirement plan, being the provision set up to cover these commitments of EUR 84 million. In 2019 and 2018 the provisions accounted for benefit plans and contribution commitments were EUR 688 million and 209 million respectively. In December 2020, Banco Santander reached an agreement with the workers' representatives to implement an early retirement and voluntary redundancy plan to which 3,572 employees are expected to apply during 2021; additionally, a total of 64 people are expected to apply for early retirement and voluntary redundancy offers in other societies in Spain. The provision set up to cover these commitments amounts to EUR 688 million.

In December 2019 Banco Santander reached an agreement with the workers' representatives to offer during 2020 to part of its passive personnel, the possibility of receiving the pensionable rights derived from the collective bargaining agreement in the form of a single consideration or divided into a maximum of 5 equal annuities. The proposal was also extended to personnel with pensionable rights recognized under individual contracts or agreements. The number of beneficiaries who exercised the voluntary option of accepting the substitution of the life annuity for the payment of a lump sum in the form of a capital sum or in instalments of a maximum of 5 annuities amounted to 15,613 people. The effect of the reduction of the aforementioned commitments is shown in the tables below under the headings 'Benefits paid in settlement' in the amount of EUR 1,551 million and 'Effect of reduction/settlement' in the amount of EUR 362 million.

The expenses incurred by the Spanish companies in 2020, 2019 and 2018 in respect of contributions to defined contribution plans amounted to EUR 89 million, EUR 89 million and EUR 87 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		
	2020	2019	2018	2020	2019	2018
Annual discount rate	0.60%	0.80%	1.55%	0.60%	0.80%	1.55%
Mortality tables	PE2020 M/F Col. Order 1	PERM/F-2000	PERM/F-2000	PE2020 M/F Col. Order 1	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%*	1.25%*	2.00%*	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%	0%	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) matching the durations of the commitments. From the bond portfolio considered, callable, putable and sinkable bonds, which could distort the rates, are excluded.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2020, if the discount rate used had been decreased or increased by 50 basis points (bp), there would have been an increase or decrease in the present value of the post-employment obligations of 5.43% (-50 bp) to -5.10% (+50 bp),respectively, and an increase or decrease in the present value of the long-term obligations of 1.11% (-50 bp) to -1.08% (+50 bp), 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		
	2020	2019	2018	2020	2019	2018
Expected rate of return on plan assets	0.60%	0.80%	1.55%	0.60%	0.80%	1.55%
Expected rate of return on reimbursement rights	0.60%	0.80%	1.55%	N/A	N/A	N/A

The funding status of the defined benefit obligations in 2020 and the two preceding years is as follows:

EUR million

	Post-employment plans			Other similar obligations		
	2020	2019	2018	2020	2019	2018
Present value of the obligations						
To current employees	60	59	60	—	—	—
Vested obligations to retired employees	3,318	5,393	5,332	—	—	—
To pre-retirees employees	—	—	—	1,688	1,317	1,187
Long-service bonuses and other benefits	—	—	—	18	18	17
Other	41	42	35	1	—	—
	3,419	**5,494**	**5,427**	**1,707**	**1,335**	**1,204**
Less - Fair value of plan assets	1,542	1,547	1,500	12	14	15
Provisions - Provisions for pensions	**1,877**	**3,947**	**3,927**	**1,695**	**1,321**	**1,189**
Of which:						
Internal provisions for pensions	*1,707*	*3,759*	*3,720*	*1,695*	*1,321*	*1,189*
Insurance contracts linked to pensions (note 14)	*174*	*192*	*210*	—	—	—
Unrecognised net assets for pensions	*(4)*	*(4)*	*(3)*	—	—	—

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	Post-employment plans			Other similar obligations		
	2020	2019	2018	2020	2019	2018
Current service cost	10	12	18	1	1	1
Interest cost (net)	26	53	73	9	15	18
Expected return on insurance contracts linked to pensions	(1)	(2)	(4)	—	—	—
Provisions or reversion of provisions						
Actuarial (gains)/losses recognised in the year	—	—	—	*(3)*	*7*	*7*
Past service cost	*2*	*3*	*3*	—	*1*	*5*
Pre-retirement cost	—	*1*	*1*	*772*	*687*	*208*
*Other**	*(372)*	*(29)*	*(4)*	*(15)*	*(2)*	—
	(335)	**38**	**87**	**764**	**709**	**239**

*Including reduction/settlement effect

In addition, in 2020 'Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans' has increased by EUR 84 million with respect to defined benefit obligations (increased of EUR 278 million and decreased of EUR 65 million in 2019 and 2018, respectively).

The changes in the present value of the accrued defined benefit obligations were as follows:

EUR million

	Post-employment plans			Other similar obligations		
	2020	2019	2018	2020	2019	2018
Present value of the obligations at beginning of year	5,494	5,427	5,912	1,335	1,204	1,660
Incorporation of Group companies, net	—	—	(36)	—	(1)	—
Current service cost	10	12	18	1	1	1
Interest cost	39	72	99	9	15	18
Pre-retirement cost	—	1	1	772	687	208
Effect of curtailment/settlement	(372)	(29)	(4)	(15)	(2)	—
Benefits paid	(359)	(400)	(423)	(392)	(599)	(617)
Benefits paid due to settlements	(1,551)	—	—	—	—	—
Past service cost	2	3	3	—	1	5
Actuarial (gains)/losses	163	407	(145)	(3)	7	6
Demographic actuarial (gains)/losses	*91*	*15*	*(21)*	*(8)*	*(9)*	*(3)*
Financial actuarial (gains)/losses	*72*	*392*	*(124)*	*5*	*16*	*9*
Exchange differences and other items	(7)	1	2	—	22	(77)
Present value of the obligations at end of year	**3,419**	**5,494**	**5,427**	**1,707**	**1,335**	**1,204**

The changes in the fair value of plan assets and of insurance contracts linked to pensions were as follows:

Plan Assets

EUR million

	Post-employment plans			Other similar obligations		
	2020	2019	2018	2020	2019	2018
Fair value of plan assets at beginning of year	1,547	1,500	1,640	14	15	17
Incorporation of Group companies, net	—	—	—	—	—	—
Expected return on plan assets	13	19	26	—	—	—
Benefits paid	(94)	(108)	(115)	(2)	(2)	(2)
Contributions/(surrenders)	5	8	21	—	—	—
Actuarial gains/(losses)	76	128	(73)	—	—	(1)
Exchange differences and other items	(5)	—	1	—	1	1
Fair value of plan assets at end of year	**1,542**	**1,547**	**1,500**	**12**	**14**	**15**

Insurance Contracts linked to pensions

EUR million

	Post-employment plans			Other similar obligations		
	2020	2019	2018	2020	2019	2018
Fair value of insurance contracts linked to pensions at beginning of year	192	210	238	—	—	1
Incorporation of Group companies, net	—	—	—	—	—	—
Expected return on insurance contracts linked to pensions	1	2	4	—	—	—
Benefits paid	(21)	(24)	(27)	—	—	(1)
Paid premiums	—	—	2	—	—	—
Actuarial gains/(losses)	2	4	(7)	—	—	—
Fair value of insurance contracts linked to pensions at end of year	**174**	**192**	**210**	**—**	**—**	**—**

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 2020 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 2020 for the next ten years:

EUR million	
2021	1,038
2022	771
2023	660
2024	548
2025	464
2026 to 2030	1,619

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 91 million in 2020 (EUR 93 million in 2019 and EUR 93 million in 2018).

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:

	2020	2019	2018
Annual discount rate	1.28%	2.11%	2.90%
Mortality tables	The S3 Middle tables weighted at 84% of the CMI_2018 projection with an initial addition of 0.15%, smoothing parameter 7 and improving 1.25%.	The S3 Middle tables weighted at 84% of the CMI_2018 projection with an initial addition of 0.15%, smoothing parameter 7 and improving 1.25%.	108/86 S2 Light
Cumulative annual CPI growth	2.95%	3.01%	3.22%
Annual salary increase rate	1.00%	1.00%	1.00%
Annual pension increase rate	2.85%	2.91%	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 2020, 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 10.25% (-50 bp) and -9.32% (+50 bp), 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 5.35% (+50 bp) and -6.73% (-50 bp), 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 2020 and the two preceding years is as follows:

EUR million

	2020	2019	2018
Present value of the obligations	15,472	14,297	12,079
Less-			
Fair value of plan assets	15,575	14,755	12,887
Provisions - Provisions for pensions	**(103)**	**(458)**	**(808)**
Of which:			
Internal provisions for pensions	*449*	*329*	*130*
Net assets for pensions	*(552)*	*(787)*	*(938)*

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	2020	2019	2018
Current service cost	30	27	31
Interest cost (net)	(12)	(24)	(6)
Provisions or reversal of provisions, net	(1)	—	—
Cost of services provided	—	—	—
Others	*(1)*	—	—
	17	**3**	**25**

In addition, in 2020 'Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans' increase by EUR 568 million with respect to defined benefit obligations (2019: increased of EUR 601 million; 2018: decreased of EUR 481 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

EUR million

	2020	2019	2018
Present value of the obligations at beginning of year	14,297	12,079	13,056
Current service cost	30	27	31
Interest cost	284	352	320
Benefits paid	(445)	(441)	(489)
Contributions made by employees	17	18	24
Past service cost	—	—	—
Actuarial (gains)/losses	2,060	1,594	(766)
Demographic actuarial (gains)/losses	*34*	*48*	*(21)*
Financial actuarial (gains)/losses	*2,026*	*1,546*	*(745)*
Exchange differences and other items	(771)	668	(97)
Present value of the obligations at end of year	**15,472**	**14,297**	**12,079**

The changes in the fair value of the plan assets were as follows:

EUR million	2020	2019	2018
Fair value of plan assets at beginning of year	14,755	12,887	13,239
Expected return on plan assets	296	376	326
Benefits paid	(443)	(441)	(489)
Contributions	274	244	209
Actuarial gains/(losses)	1,492	993	(285)
Exchange differences and other items	(799)	696	(113)
Fair value of plan assets at end of year	**15,575**	**14,755**	**12,887**

In 2021 the Group expects to make current contributions to fund these obligations for amounts similar to those made in 2020.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2020	2019	2018
Equity instruments	9%	12%	17%
Debt instruments	55%	46%	50%
Properties	10%	11%	10%
Other	26%	31%	23%

The following table shows the estimated benefits payable at 31 December 2020 for the next ten years:

EUR million	
2021	400
2022	343
2023	368
2024	382
2025	405
2026 to 2030	2,320

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2020, 2019 and 2018, 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 103 million in 2020 (EUR 110 million at 31 December 2019 and EUR 107 million at 31 December 2018).

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 6.82% and 7.14%, the CPI 3.25% and the mortality table the AT-2000.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2020, 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 5.59% and -5.10%, 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 2020 and the two preceding years is as follows:

EUR million

	2020	*Of which business in Brazil*	2019	2018
Present value of the obligations	8,434	*5,541*	10,717	9,116
Less-				
Of which: with a charge to the participants	*112*	*112*	*176*	*167*
Fair value of plan assets	7,182	*5,340*	8,826	7,743
Provisions - Provisions for pensions	**1,140**	***89***	**1,715**	**1,206**
Of which:				
Internal provisions for pensions	*1,694*	*617*	*2,129*	*1,541*
Net assets for pensions	*(83)*	*(57)*	*(116)*	*(77)*
Unrecognised net assets for pensions	*(471)*	*(471)*	*(298)*	*(258)*

The amounts recognised in the consolidated income statements in relation to these obligations are as follows:

EUR million

	2020	2019	2018
Current service cost	35	32	34
Interest cost (net)	72	101	101
Provisions or reversion of provisions			
(Actuarial gains)/losses recognised in the year	11	12	5
Past service cost	5	6	3
Pre-retirement cost	—	—	(6)
Other	(5)	(1)	(203)
	118	**150**	**(66)**

In addition, in 2020 'Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans' decreased by EUR 105 million with respect to defined benefit obligations (increased EUR 641 million and increased EUR 64 million in 2019 and 2018, 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:

EUR million

	2020	2019	2018
Present value of the obligations at beginning of year	10,717	9,116	9,534
Incorporation of Group companies, net	(84)	—	36
Current service cost	35	32	34
Interest cost	465	651	646
Pre-retirement cost	—	—	(6)
Effect of curtailment/settlement	(5)	(1)	(199)
Benefits paid	(544)	(666)	(634)
Benefits paid due to settlements	—	—	—
Contributions made by employees	3	5	5
Past service cost	5	6	3
Actuarial (gains)/losses	176	1,652	390
Demographic actuarial (gains)/losses	*23*	*3*	*(59)*
Financial actuarial (gains)/losses	*153*	*1,649*	*449*
Exchange differences and other items	(2,334)	(78)	(693)
Present value of the obligations at end of year	**8,434**	**10,717**	**9,116**

The changes in the fair value of the plan assets were as follows:

EUR million

	2020	2019	2018
Fair value of plan assets at beginning of year	8,826	7,743	7,927
Incorporation of Group companies, net	(86)	—	—
Expected return on plan assets	410	573	573
Benefits paid	(488)	(613)	(602)
Benefits paid due to settlements	—	—	—
Contributions	63	214	199
Actuarial gains/(losses)	536	1,021	308
Exchange differences and other items	(2,079)	(112)	(662)
Fair value of plan assets at end of year	**7,182**	**8,826**	**7,743**

In 2021 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2020.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2020	2019	2018
Equity instruments	11%	8%	7%
Debt instruments	84%	84%	83%
Properties	1%	1%	1%
Other	4%	7%	9%

The following table shows the estimated benefits payable at 31 December 2020 for the next ten years:

EUR million

2021	482
2022	488
2023	494
2024	502
2025	509
2026 to 2030	2,639

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:

EUR million

	2020	2019	2018
Recognised by Spanish companies	1,647	1,381	1,647
Recognised by other EU companies	539	1,100	1,044
Recognised by other companies	2,239	3,027	2,958
Of which:			
Brazil	*1,475*	*2,484*	*2,496*
	4,425	**5,508**	**5,649**

Set forth below is the detail, by type of provision, of the balance at 31 December 2020, 2019 and 2018 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:

EUR million

	2020	2019	2018
Provisions for taxes	600	759	864
Provisions for employment-related proceedings (Brazil)	437	776	859
Provisions for other legal proceedings	1,163	1,522	1,451
Provision for customer remediation	395	725	652
Regulatory framework-related provisions	69	67	105
Provision for restructuring	810	641	492
Other	951	1,018	1,226
	4,425	**5,508**	**5,649**

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.

The group's 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 2020 of the breakdown provisions are shown below:

With respect to provisions for labor and other legal proceedings, in Brazil, provisions of EUR 176 million and EUR 178 million were recorded, making payments of EUR 318 million and EUR 138 million, respectively. The remaining variation is mainly due to currency depreciation.

With respect to provisions for customer compensation, the decline is mainly due to the exchange rate effect and utilizations in the United Kingdom of EUR 147 million. In addition, EUR 21 million was provided in Poland to cover the CHF mortgage portfolio in the year.

On the regulatory framework side, EUR 99 million was provisioned in the United Kingdom and a utilization of EUR 97 million was made in the year (Bank Levy and FSCS). In addition, in Poland, EUR 124 million were provided for under the regulatory framework and paid during the year.

In addition, restructuring provisions amounted to EUR 299 million in Spain, EUR 182 million in the United Kingdom, EUR 41 million in Poland, EUR 66 million in Portugal and EUR 51 million in the Consumer Unit. This increase is partially offset by the use of EUR 158 million in the United Kingdom, EUR 99 million in Spain, EUR 61 million in Consumer and EUR 32 million in Portugal.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2020 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, actually Santander Brasil Tecnología S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000 to 2002. The administrative discussion ended unfavourably for both companies, and on July 3, 2015, filed a lawsuit requesting the cancellation of both tax assessments. The lawsuit was judged unfavorably in first instance. Therefore, both plaintiffs appealed to the court of second instance. On December 2020, the appeal was decided unfavorably and is pending a motion of clarification, which could be appealed to higher courts. There is a provision recognized 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. The administrative discussion ended unfavourably, and the CARF decision has been appealed at the Federal Justice. 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.

- Brazilian tax authorities have issued infringement notices against Getnet Adquirência e Serviços para Meios de Pagamentos S.A and Banco Santander (Brasil) S.A. as jointly liable in relation to corporate income tax (IRPJ and CSLL) for 2014 to 2018 questioning the tax-deductibility of the amortization of the goodwill from the acquisition of Getnet Tecnologia Proces S.A., considering that the company would not have complied with the legal requirements for such amortization. A defense against the tax assessment notices was submitted. The notice related to the fiscal years 2014 and 2015 has already been appealed at the CARF, meanwhile the one related to the fiscal years of 2016 to 2018 is pending on judgment. No provision was recognized as it is considered to be a contingent liability.

The total amount for the aforementioned Brazil lawsuits that are fully provisioned is EUR 821 million, and for lawsuits that qualify as contingent liabilities is EUR 2,972 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 Massachusetts entered a 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, consistent with the September 5, 2019 judgment. The Congressional Joint Committee on Taxation has completed its review of the proposed resolution of the 2006 and 2007 tax years, with no objection. The Company and the IRS are now finalizing that resolution, which will have no impact on net 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 of the financial goodwill 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 Advocate-General has issued his conclusions proposing the dismissal of the appeal. 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 2020 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. At 31 December 2020, the remaining provision for PPI redress and related costs was GBP 76 million – EUR 85 million - (GBP 189 million – EUR 222 million at 31 December 2019). There was no additional provision in 2020.
  Cumulative complaints from the inception of the PPI complaints process to 31 December 2020, regardless of the likelihood of Santander UK incurring in liability, were 4.6 million. At 31 December 2020, there are an estimated 3,500 complaints still requiring assessment and, Santander UK has also entered into a commercial negotiation with the Official Receiver.

  Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of current stock and estimated future claims. There are ongoing factual issues to be resolved regarding such litigation which may have legal consequences including the volume and quality of future litigation claims. As a result, the extent of the potential liability and amount of any compensation to be paid remains uncertain.

In relation to a specific PPI portfolio of complaints, there is a legal dispute regarding allocation of liability for pre-2005 PPI policies underwritten by two affiliates (Axa France) that Axa Group acquired from Genworth Financial International Holdings, Inc. in September 2015. The dispute involves a Santander Cards UK Limited (formerly known as GE Capital Bank Limited which was acquired by Banco Santander, S.A. from GE Capital group in 2008) which was distributor of the refer pre-2005 PPI policies and Santander Insurance Services UK Limited (the Santander Entities).

In July 2017, Santander UK plc notified Axa France that the Santander Entities did not accept liability for losses on PPI policies relating to this period, but entered in a Complaints Handling Agreement –that included a standstill agreement-agreeing to handle complaints on Axa affiliates behalf, paying these latter companies redress assessed to be due to relevant policyholders on a without prejudice basis.

After the termination of the Complaints Handling Agreement, on 30 December 2020 Axa France has provided written notice to the Santander Entities to terminate the standstill agreement, and that the Santander Entities are liable to reimburse AXA France for pre-2005 PPI mis-selling losses currently estimated at GBP 631 million (EUR 706 million). This dispute is at an early stage and there are ongoing factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is not currently practicable to reliably predict the resolution of the matter including timing or the significance of the possible impact. The provision for this dispute includes the best estimate of Santander UK’s liability to the specific portfolio.

- 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 before the Court of Barcelona in charge of the bankruptcy proceedings, a total of EUR 66 million from the liquidation resulting from the early termination of financial transactions due to Delforca's non-payment of the equity swaps. In the same bankruptcy proceedings, Delforca and Mobiliaria Monesa have in turn claim the Bank to repay EUR 56.8 million, which the Bank received for the enforcement of the agreed guarantee, as a result of the aforementioned liquidation. In 2009, Mobiliaria Monesa, S.A. (parent of Delforca) filed a civil procedure with the Courts of Santander against the Bank claiming damages that have not been specified to date. The procedure is suspended.
- 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, the Supreme Federal Court (STF) rejected the extraordinary appeal filed by Banco Santander Brasil. The Bank filed a rescission action to nullify the decisions of the main proceedings and suspend the execution of the judgment, which was deemed inadmissible, and its execution has been suspended until the publication of the decision. At the moment we have the legal opinion of the bank's external advisers, who have classified the risk as probable. The recorded provisions are considered sufficient to cover the risks associated with the legal claims that are being substantiated as of today.

- “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. On 29 May 2020, the Supremo Tribunal Federal approved the extension of the agreement for 5 additional years starting from 3 June 2020. Condition for this extension was to include in the agreement actions related to the “Collor I Plan”. The provisions recorded for the economic plan processes are considered to be sufficient.
- Floor clauses: 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. Grupo Santander 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. At 31 December 2020, after having processed most of the customer requests, the potential residual loss associated with ongoing court proceedings is estimated at EUR 51 million, amount which is fully covered by provisions.

- 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..

At this stage, it is not possible to foresee the total number of claims that could be filed by the former holders of shares and capital instruments (arising from the acquisition by investors of such shares and capital instruments of Banco Popular prior to resolution, including in particular, without limitation, the shares acquired in the context of the capital increase with pre-emptive subscription rights carried out in 2016), and their economic implications (especially considering that the decision to resolve in application of the new regulation has no precedent, and that it may be possible that future claims do not specify a specific amount, put forward new legal interpretations or involve a large number of parties).

In this respect, on 2 September 2020, the Provincial Court of La Coruña has referred a preliminary ruling to the Court of Justice of the European Union ("CJEU") asking for the correct interpretation of Article 60(2) of Directive 2014/59/EU of the European Parliament and of the Councill, dated 15 May 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment firms. This article establishes that, in cases of redemption of capital instruments in a bank resolution, no liability shall remain in relation to the amount of the instrument that has been redeemed. The judgement given by the CJEU in this case is likely to condition the outcome on the judicial proceedings that are currently open.

The estimated cost of any compensation to shareholders and bondholders of Banco Popular recognized in the 2017 accounts amounted to EUR 680 million, of which EUR 535 million were applied to the commercial loyalty program. The provisions recorded are considered sufficient to cover the risks associated with the court claims currently being dealt with. However, if additional amounts have to be paid for claims already raised with an undetermined economic interest or for new claims, this could have a significant adverse effect on the Santander Group's results and financial situation.

Likewise, the Central Court of Instruction 4 is currently conducting preliminary proceedings 42/2017, in which, amongst other things, is being investigated the following: (i) the accuracy of the prospectus for the capital increase with pre-emptive subscription rights carried out by Banco Popular in 2016; and (ii) the alleged manipulation of the share price of Banco Popular until the resolution of the bank, in June 2017. During the course of the proceedings, on 30 April 2019, the Spanish National Court, ruled in favour 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. In this procedure, Banco Santander has the status of possible subsidiary civil liability.

- 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.

  Grupo Santander 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. For this reason, the Bank has not recognized 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 served 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. On 19 May 2020, SC entered into settlements with all the attorneys general resolving this investigation. The agreement had no significant impact for the Group.

- Financial Industry Regulatory Authority (FINRA) Puerto Rico Arbitrations: as of 31 December 2020, Santander Securities LLC (SSLLC) had received 770 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 141 arbitration cases that remained pending as of 31 December 2020.

  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 many 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 was referred to the Court of Justice of the European Union through a preliminary ruling procedure. On 3 March 2020 the CJEU rendered its decision.

The CJEU ruled that, being the IRPH a valid index, national courts are entitled to examine its use on each particular contract in order to verify whether the transparency requirements have been met. When carrying out the transparency control, national courts have to take into account all the circumstances surrounding the conclusion of the particular contract, including whether essential information relating to the calculation of that rate was easily accessible and the provision of data relating to past fluctuations of the index. Finally, with regards to the effects of nullity of an IRPH index clause, the CJUE entitles national courts to substitute it with another statutory index, thus not declaring the nullity of the whole contract.

On 12 November 2020, the Supreme Court has issued four judgments applying the doctrine established by the CJUE that resolve individual appeals in which the validity of the IRPH clauses was questioned. The Court understands that in those cases there is a lack of transparency because the financial institutions had not been able to prove the delivery to the client of the information on the evolution of the index in the two years prior to the contract. However, the Supreme Court reminds that the lack of transparency does not automatically imply the invalidity of the clause, but rather it is necessary to analyze whether this lack of transparency generates abusiveness. The Supreme Court resolves that in the case of the IRPH, that specific lack of transparency does not mean that the clause is abusive to the detriment of the client, so the clause is valid and fully applicable.

Currently, the balance of the relevant mortgage indexed to IRPH loans held by the Group, equals approximately EUR 3.1 billion.

- Banco Santander, S.A. 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. Trial will take place on 10 March 2021.

- 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.

  On March 2021, the Supreme Court is expected to take a position regarding the key issues in disputes concerning loans based on foreign currency, clarifying the discrepancies and unifying the court jurisprudence.

  In December 2020, the Chairman of the Financial Supervision Authority announced a high-level proposal for voluntary settlements between banks and borrowers under which active loans based on Swiss francs would be converted into PLN loans with interest at the WIBOR rate and an appropriate margin. No details of the proposal, or legal or tax considerations, were provided as at the date of publication of these financial statements. This proposal is currently under analysis within the Bank, as well as by representatives of the financial sector in consultation with the competent authorities. Depending on the results of this analysis, the Bank will decide whether to adhere to this proposal and will proceed to include additional scenarios in the models for calculating provisions and reflect the estimated impact on their level. The Group considers that the maximum risk associated to this proposal, assuming that 100% of customers choose to convert their active loans as proposed, would amount to approximately PLN 3.5bn (EUR 768 million).

  While these two events could lead to significant changes in the level of expected provisions, in the opinion of the Management Board, as at the date of these financial statements it is not possible to reliably estimate the value of their impact on the financial position of the Group.

  As of 31 December 2020, Santander Bank Polska and Santander Consumer Bank Poland have a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,853 million (EUR 2,161 million). At the same date, the provision registered is PLN 603 million (EUR 132 million). 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 and the process of analysing and deciding on the proposal described above has not yet been completed. Santander Bank Polska and Santander Consumer Bank Poland will continue to monitor and assess appropriateness of those provisions in the upcoming reporting periods.

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, Grupo Santander considers that, at 31 December 2020, 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:

EUR million

	2020	2019	2018
Transactions in transit	498	663	803
Accrued expenses and deferred income	6,309	6,909	6,621
Other	5,529	5,220	5,664
	12,336	**12,792**	**13,088**

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), 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, as there are sound arguments as proof in the appeals filed against them pending at the National Appellate Court (tax years 2003 to 2007) and the Economic Administrative Court (tax years 2009-2011). 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 2020 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 was 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. On 1 January 2018 those entities that were part of the aforementioned Consolidated Tax Group were integrated in the Consolidate Tax Group which parent company is Banco Santander.

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 rest of years subject to review 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 materialize, 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:

EUR million

	2020	2019	2018
Consolidated profit (loss) before tax:			
From continuing operations	(2,076)	12,543	14,201
From discontinued operations	—	—	—
	(2,076)	12,543	14,201
Income tax at tax rate applicable in Spain (30%)	(623)	3,763	4,260
By the effect of application of the various tax rates applicable in each country*	362	243	509
Of which:			
Brazil	*560*	*502*	*719*
United Kingdom	*(43)*	*(80)*	*(99)*
United States	*(71)*	*(71)*	*(57)*
Chile	*(24)*	*(35)*	*(35)*
Effect of profit or loss of associates and joint ventures	29	(97)	(221)
Effect of reassessment of deferred taxes	2,500	(612)	—
Permanent differences and other **	3,364	1,130	338
Current income tax	**5,632**	**4,427**	**4,886**
Effective tax rate	—	35.29%	34.40%
Of which:			
Continuing operations	*5,632*	*4,427*	*4,886*
Discontinued operations (note 37)	—	—	—
Of which:			
Current taxes	*4,214*	*3,962*	*4,763*
Deferred taxes	*1,418*	*465*	*123*
Income tax (receipts)/payments	2,946	2,593	3,342

* 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.

** In 2020 and 2019 it includes mainly the impairment of goodwill and in 2018 the recognition of tax credits in Portugal.

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 2020, 2019 and 2018:

EUR million

	2020	2019	2018
Other comprehensive income			
Items not reclassified to profit or loss	**(82)**	**500**	**(225)**
Actuarial gains or (-) losses on defined benefit pension plans	(165)	499	(199)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	92	(42)	—
Financial liabilities at fair value with changes in results attributable to changes in credit risk	(9)	43	(26)
Items that may be reclassified to profit or loss	**208**	**(832)**	**124**
Cash flow hedges	5	(17)	(50)
Changes in the fair value of debt instruments through other comprehensive income	195	(811)	167
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	8	(4)	7
Total	**126**	**(332)**	**(101)**

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, that become Ordinary Law 12838/2013, 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 2020, 2019 and 2018 is as follows:

EUR million

	2020		2019		2018	
	Monetizable* **	Other	Monetizable* **	Other	Monetizable* **	Other
Tax assets:	**10,721**	**8,525**	**11,233**	**11,525**	**10,866**	**12,392**
Tax losses and tax credits	—	1,093	—	3,428	—	4,276
Temporary differences	10,721	7,432	11,233	8,097	10,866	8,116
Of which:						
Non-deductible provisions	—	*2,139*	—	*2,751*	—	*2,613*
Valuation of financial instruments	—	*483*	—	*400*	—	*609*
Loan losses	*7,134*	*1,007*	*7,645*	*1,086*	*7,279*	*1,308*
Pensions	*3,587*	*875*	*3,587*	*1,009*	*3,587*	*632*
Valuation of tangible and intangible assets	—	*1,373*	—	*1,317*	—	*1,215*
Tax liabilities:	**—**	**5,933**	**—**	**6,522**	**—**	**5,568**
Temporary differences	—	5,933	—	6,522	—	5,568
Of which:						
Valuation of financial instruments	—	*1,791*	—	*2,073*	—	*1,168*
Valuation of tangible and intangible assets	—	*2,311*	—	*1,962*	—	*1,503*
Investments in Group companies	—	*440*	—	*831*	—	*880*

* Not deductible from regulatory capital.

** Banco Popular Español, S.A.U. considered that part of its monetizable assets were converted into credit against the Tax Administration in 2017 income tax return, as the circumstances of the aforementioned regulations were met at the end of that year (EUR 995 million). The Spanish tax authorities have expressly confirmed the nature of these assets as monetizable, but they consider that conditions for conversion are not met at the end of 2017, without prejudice to the conversion in future years.

Grupo Santander 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.

During 2020, taking into account the uncertainties about the economic impacts derived from the covid-19 health crisis, the Group has reassessed the ability to generate future taxable income in relation to the recoverability of deferred tax assets recorded in the main Group companies. Management considers that the recovery period of these assets would not be affected and that it is not necessary to make adjustments to the deferred tax assets recognised in the Group on the basis of the results of the analyses performed, except in Spain, where the Group considers that the changes in the key assumptions on which the projected results of its tax group are based, arising from the impact of covid-19, have resulted in the recognition of an impairment of EUR 2,500 million of deferred tax assets under 'Income Tax' in the income statement.

Finally, and given the degree of uncertainty of these assumption on the referred variables, 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 estimate that the maximum recovery period of the deferred tax assets recognized as of 31 December 2020 would be 15 years.

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 10,026 million, of which EUR 7,420 million were for monetizable temporary differences with the right to conversion into a credit against the Public Finance, EUR 2,226 million for other temporary differences and EUR 380 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 5,310 million, of which EUR 3,131 million were for monetizable temporary differences, EUR 1,781 million for other temporary differences and EUR 398 million for tax losses and credits.

Grupo Santander 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 1,254 million, of which EUR 966 million were for temporary differences and EUR 288 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:

EUR million

	Balances at 31 December 2019	(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 2020
Deferred tax assets	**22,758**	**(1,016)**	**(2,465)**	**38**	**(69)**	**19,246**
Tax losses and tax credits	3,427	(2,065)	(266)	—	(3)	1,093
Temporary differences	19,331	1,049	(2,199)	38	(66)	18,153
Of which monetizable	*11,233*	*613*	*(1,125)*	—	—	*10,721*
Deferred tax liabilities	**(6,522)**	**(402)**	**851**	**156**	**(16)**	**(5,933)**
Temporary differences	(6,522)	(402)	851	156	(16)	(5,933)
	16,236	**(1,418)**	**(1,614)**	**194**	**(85)**	**13,313**

EUR million

	Balance 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)	Balance 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**

EUR million

	Balances at 31 December 2017	IFRS 9 Adoption impact (Balance at 1 January 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)	Balance 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**

Also, the Group did not recognise deferred tax assets relating to tax losses, tax credits for investments and other incentives amounting to approximately EUR 9,800 million, the use of which EUR 400 million is subject, among other requirements, to time limits.

f) Tax reforms

The following significant tax reforms were approved in 2020 and previous years:

In Spain, Royal Decree-Law 3-2016 was approved in December 2016, which meant the reduction of the limits both for the integration of deferred monetizable tax assets, as well as for the set-off of negative tax and deductions in order to avoid double taxation. 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 the non-deductibility of the losses generated from the transmission of participations performed from 1 January 2017. On the other hand, in 2020 the General State Budget Law for 2021 was approved. This law establishes, among other tax measures, in Corporation Tax the reduction of the exemption on dividends and capital gains to 95% (previously 100%) from January 1st 2021, considering that a 5% as participation management expenses is not exempt, and additionally the elimination of the exemption on dividends and capital gains from investments below 5% equity but whose acquisition value is over EUR 20 million, although in this case, investments previous to January 1st 2021 will benefit from a grandfather ruling until 2026.

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 of 19%, and it was to be 17% from 1 April 2020. However, a change in policy in March 2020 has meant that the 19% rate remains applicable for the foreseeable future. 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, Constitutional Amendment 103/19 modifying the social security system approved in 2019, included, 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 the IOF (Tax on financial operations) on credit operations, and as a measure to prevent impacts of covid-19, the applicable rate is reduced from 0.38% to 0% from 04/03/2020 to 26/11/2020.

In Argentina, the Law n.º 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 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.

In Chile, Law n.º 21,210 on modernization of Chilean tax law was enacted in 2020. It includes several modifications to different tax laws in force in Chile. Among the aspects included, it is worth highlighting the substitute tax that on a temporary basis until 30 April 2022 allows taxing at 30% (instead of the generally applicable 35%) with a credit of the first category tax paid, the tax profits generated up to the 31 December 2016, reducing the fiscal cost of its distribution and other measures about asset depreciation and indirect taxes.

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 2020/21. 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:

EUR million

	2020	2019	2018
Santander Bank Polska S.A.	1,676	1,597	1,538
Grupo PSA	1,622	1,569	1,409
Banco Santander - Chile	1,218	1,101	1,085
Banco Santander (Brasil) S.A.	1,014	1,167	1,114
Santander Consumer USA Holdings Inc.	986	1,565	1,652
Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México	461	333	1,093
Other companies*	1,806	1,655	1,493
	8,783	**8,987**	**9,384**
Profit/(Loss) for the year attributable to non-controlling interests	1,063	1,601	1,505
Of which:			
Grupo PSA	*255*	*266*	*232*
Banco Santander (Brasil) S.A.	*233*	*373*	*292*
Santander Consumer USA Holdings Inc.	*201*	*230*	*218*
Banco Santander - Chile	*198*	*283*	*279*
Santander Bank Polska S.A.	*81*	*162*	*173*
Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México	*61*	*195*	*216*
Other companies	*34*	*92*	*95*
TOTAL	**9,846**	**10,588**	**10,889**

* 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 1,275 million in 2020 (EUR 1,346 million and EUR 1,280 million in 2019 and 2018, respectively).

b) Changes

The changes in Non-controlling interests are summarised as follows:

EUR million

	2020	2019	2018
Balance at the end of the previous year	10,588	10,889	12,344
Effect of changes in accounting policies*	—	—	(1,292)
Balance at beginning of year	10,588	10,889	11,052
Other comprehensive income**	(818)	310	(109)
Other	76	(611)	(54)
Profit attributable to non-controlling interests	*1,063*	*1,601*	*1,505*
Modification of participation rates	*(632)*	*(1,623)*	*(65)*
Change of perimeter	*(54)*	*110*	*(660)*
Dividends paid to minority shareholders	*(465)*	*(895)*	*(687)*
Changes in capital and others concepts	*164*	*196*	*(147)*
Balance at end of year	**9,846**	**10,588**	**10,889**

* 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, SA, 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.

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 2020 is summarised below:

EUR million*

	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**
Total assets	150,573	66,880	80,239	46,890	43,706
Total liabilities	138,026	61,902	73,739	41,816	37,097
Net assets	**12,547**	**4,978**	**6,500**	**5,074**	**6,609**
Total income	10,866	2,263	3,651	1,524	4,575
Total profit	**2,352**	**629**	**823**	**240**	**806**

* Information prepared in accordance with the segment reporting criteria described in note 51 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

EUR million

	2020	2019	2018
Other comprehensive income	**(33,144)**	**(24,168)**	**(24,125)**
Items that will not be reclassified to profit or loss	**(5,328)**	**(4,288)**	**(2,936)**
Actuarial gains and losses on defined benefit pension plans	(5,002)	(4,764)	(3,609)
Non-current assets held for sale	—	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	(2)	1	1
Other valuation adjustments	—	—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	(308)	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)	159	44	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)	(159)	(44)	—
Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	(16)	(39)	75
Items that may be reclassified to profit or loss	**(27,816)**	**(19,880)**	**(21,189)**
Hedges of net investments in foreign operations (Effective portion)	(3,124)	(5,464)	(4,312)
Exchange differences	(26,911)	(16,701)	(17,661)
Hedging derivatives. Cash flow hedges (Effective portion)	295	300	277
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	2,411	2,321	828
Hedging instruments (items not designated)	—	—	—
Non-current assets classified as held for sale	—	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	(487)	(336)	(321)

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 recognised income.

The provisions against equity in 2020 amounted to EUR 25 million - see Consolidated statement of recognised income and Note 25.b -, with the following breakdown:

- Increase of EUR 84 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 0.80% to 0.60%- and the change in the mortality tables.

- Increase of EUR 568 million in the cumulative actuarial losses relating to the Group´s businesses in the UK, mainly due to the evolution experienced by the discount rate– reduction from 2.11% to 1.28%.

- Decreased of EUR 194 million in accumulated actuarial losses corresponding to the Group's business in Brazil, mainly due to the revaluation of the asset portfolio, which offset losses in the value of the obligations as a result of the decrease in the discount rate - from 7.05% to 6.82% in pension benefits and 7.22% to 7.14% in medical benefits-, as well as to inflation and variations in the other hypotheses.

The other modification in accumulated actuarial profit or losses is a decreased of the losses of EUR 433 million as a result of the evolution of exchange rates and other effects, mainly in Brazil and the United Kingdom (depreciation of the brazilian real and the pound sterling).

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

Since the year started on 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.

The following is a breakdown of the composition of the balance as of 31 December 2020 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:

EUR million

	2020			
	Capital gains by valuation	Capital losses by valuation	Net gains/losses by valuation	Fair Value
Equity instruments				
Domestic				
Spain	*28*	*(849)*	*(821)*	*1,032*
International				
Rest of Europe	*65*	*(76)*	*(11)*	*314*
United States	*7*	*(4)*	*3*	*25*
Latin America and rest	*525*	*(4)*	*521*	*1,412*
	625	**(933)**	**(308)**	**2,783**
Of which:				
Publicly listed	*525*	*(31)*	*494*	*1,424*
Non publicly listed	*100*	*(902)*	*(802)*	*1,359*

EUR million

	2019			
	Capital gains by valuation	**Capital losses by valuation**	Net gains/losses by valuation	Fair Value
Equity instruments				
Domestic				
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*

EUR million

	2018			
	Capital gains by valuation	**Capital losses by valuation**	Net gains/losses by valuation	Fair Value
Equity instruments				
Domestic				
Spain	*20*	*(216)*	*(196)*	*417*
International				
Rest of Europe	*160*	*(76)*	*84*	*652*
United States	*9*		*9*	*42*
Latin America and rest	*708*	*(8)*	*700*	*1,560*
	897	**(300)**	**597**	**2,671**
Of which:				
Publicly listed	*818*	*(18)*	*800*	*1943*
Non publicly listed	*79*	*(282)*	*(203)*	*728*

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 change in 2020 reflects the negative effect of the generalized depreciation of the main currencies, especially the brazilian real, the pound sterling and the US dollar, whereas the change in 2019 reflected the positive effect of the appreciation of the pound sterling and the US dollar and the negative effect of the depreciation of the brazilian real. The change in 2018 showed the negative effect of the generalised depreciation of a large part of the currencies, mainly the brazilian real and the pound sterling.

Of the change in the balance in these years, a loss of EUR 2,104 million, a profit of EUR 230 million and a loss of EUR 556 million in 2020, 2019 and 2018, respectively relate to the measurement of goodwill.

The detail, by country is as follows:

	2020	2019	2018
Net balance at end of year*	(30,035)	(22,165)	(21,973)
Of which:			
Brazilian real	*(17,417)*	*(13,579)*	*(12,950)*
Pound sterling	*(4,205)*	*(3,135)*	*(3,924)*
Mexican peso	*(3,091)*	*(2,439)*	*(2,312)*
*Argentine peso**	*(2,288)*	*(2,094)*	*(1,930)*
Chilean peso	*(1,776)*	*(1,560)*	*(1,238)*
US dollar	*387*	*1,654*	*1,330*
Polish zloty	*(788)*	*(501)*	*(491)*
Other	*(857)*	*(511)*	*(458)*

* Grupo Santander has changed its accounting policy in relation to the presentation of exchange differences and the effects of hyperinflation of the operations generated in Argentina, reclassifying at 1 January 2019 and 2018 an amount of EUR -1,984 million and -1,585 million from the heading 'Other reserves' to 'Accumulated other comprehensive income' (see note 2.a and 33.b).

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

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 (see note 7).

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' at 31 December 2020, 2019 and 2018 is as follows:

EUR million

	31 December 2020			
	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)	*693*	*—*	*693*	*19,314*
Rest of Europe	*915*	*(69)*	*846*	*23,116*
Latin America and rest of the world	*785*	*(73)*	*712*	*51,026*
Private-sector debt securities	181	(21)	160	24,714
	2,574	**(163)**	**2,411**	**118,170**

EUR million

	31 December 2019			
	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*
Rest of Europe	*664*	*(38)*	*626*	*19,052*
Latin America and rest of the world	*839*	*(121)*	*718*	*51,284*
Private-sector debt securities	81	(49)	32	20,096
	2,531	**(210)**	**2,321**	**122,845**

EUR million

	31 December 2018			
	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)	*326*	*(3)*	*323*	*38,550*
Rest of Europe	*373*	*(55)*	*318*	*17,494*
Latin America and rest of the world	*448*	*(117)*	*331*	*42,599*
Private-sector debt securities	37	(178)	(141)	19,777
	1,184	**(353)**	**831**	**118,420**

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 2020, 2019 and 2018, 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 a provision of EUR 19 million, EUR 12 million and EUR 1 million in 2020, 2019 and 2018, respectively.

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:

EUR million

	2020	2019	2018
Balance at beginning of year	(335)	(320)	(222)
Revaluation gains/(losses)	(170)	(22)	(118)
Net amounts transferred to profit or loss	16	7	20
Balance at end of year	**(489)**	**(335)**	**(320)**
Of which:			
Zurich Santander Insurance América, S.L.	*(298)*	*(171)*	*(183)*

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 2020 is set forth below.

31. Issued capital

a) Changes

At 31 December 2017, Banco Santander'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, Banco Santander'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., Institución de Banca Múltiple, Grupo Financiero Santander México. (see Note 3.a).

Therefore, Banco Santander's new capital consisted 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.

On 3 December 2020, a capital increase of EUR 361 million was made, with a charge to the share premium, through the issue of 722,526,720 shares (4.35% of the share capital).

Therefore, Banco Santander's share capital at 31 December 2020 was consisted of EUR 8,670 million, represented by 17,340,641,302 shares of EUR 0.50 of nominal value each and all of them of a unique class and series.

Banco Santander'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), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDR), each BDR representing one share. During 2019 and 2018 the number of markets where the Bank is listed was reduced; the Bank's shares was delisted from Buenos Aires, Milan, Lisboa and São Paulo's markets.

At 31 December 2020, no shareholder held more than 3% of Banco Santander's total share capital (which is the threshold generally provided under Spanish regulations for a significant holding in a listed company to be disclosed). Even though at 31 December 2020, certain custodians appeared in our shareholder registry 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 whom exceeded that threshold individually. These custodians were State Street Bank (13.54%),The Bank of New York Mellon Corporation (8.25%), Chase Nominees Limited (7.74%), EC Nominees Limited (3.55%), BNP Paribas (3.07%) and Caceis Bank (3.01%).

On 24 October 2019, BlackRock Inc. reported to the CNMV its significant holding of voting rights in Banco Santander (5.426%). It also specified that it was holding shares on behalf of a number of funds or other investment entities, none of which exceeded 3% individually. No changes have been communicated since then. There may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2020, neither our shareholder registry nor the CNMV's registry showed any shareholder residing in a tax haven with a shareholding equal to, or greater than, 1% of our share capital (which is the other threshold applicable under Spanish regulations).

b) Other considerations

Under Spanish law, only shareholders at the general meeting have the authority to increase share capital. However, they may delegate the authority to approve or execute capital increases to the board of directors. Grupo Santander´s Bylaws are fully aligned with Spanish law and do not establish any different conditions for share capital increases.

At 31 December 2020 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; 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 2020 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 39 million shares, which represented 0.22% of the Bank's share capital (40 and 63 million shares, representing 0.24% and 0.39% of the share capital in 2019 and 2018, respectively). In addition, the number of Bank shares owned by third parties and received as security was 237 million shares (equal to 1.37% of the Bank's share capital).

At 31 December 2020 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 Corporate Enterprises Act 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 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.

The decrease in 2020 is due to the reduction of EUR 361 million to cover the capital increase on 3 December (see note 31).

Also, in 2020, and an amount of EUR 72 million was transferred from the Share premium account to the Legal reserve (EUR 38 million and EUR 10 million in 2019 and 2018, respectively) (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:

EUR million

	2020	2019	2018
Restricted reserves	**2,460**	**2,595**	**2,580**
Legal reserve	1,734	1,662	1,624
Own shares	672	879	902
Revaluation reserve Royal Decree-Law 7/1996	43	43	43
Reserve for retired capital	11	11	11
Unrestricted reserves	**10,422**	**10,664**	**12,099**
Voluntary reserves*	6,128	4,603	5,737
Consolidation reserves attributable to the Bank	4,294	6,061	6,362
Reserves of subsidiaries	**47,601**	**43,449**	**39,522**
Reserves of entities accounted for using the equity method	**1,504**	**1,210**	**972**
	61,987	**57,918**	**55,173**

* In accordance with the commercial regulations in force in Spain.

i. Legal reserve

Under the Consolidated Spanish Corporate Enterprises Act, 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 2020 Banco Santander transferred EUR 72 million from the Share premium account to the Legal reserve (EUR 38 million and EUR 10 million in 2019 and 2018, respectively).

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 2020 the Legal reserve was of the stipulated level.

ii. Reserve for treasury shares

According to the Consolidated Text of the Corporate Enterprises Act, an unavailable reserve equivalent to the amount for which Banco Santander's shares owned by subsidiaries are recorded. This reservation shall be freely available when the circumstances which have obliged its constitution disappear. In addition, this reserve covers the outstanding balance of loans granted by the Group with Banco Santander's share guarantee and the amount equivalent to the credits granted by the Group companies to third parties for the acquisition of own shares.

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:

EUR million

	2020	2019	2018
Banco Santander (Brasil) S.A. (Consolidated Group)	14,067	12,400	10,755
Santander UK Group	8,447	8,079	8,207
Group Santander Holdings USA	4,793	4,528	4,260
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	4,230	3,810	3,436
Santander Consumer Finance Group	4,186	4,012	2,841
Banco Santander - Chile	3,404	3,116	2,963
Banco Santander Totta, S.A. (Consolidated Group)	2,960	2,823	2,729
Banco Santander Río S.A.	2,161	1,895	1,847
Santander Bank Polska S.A.	1,748	1,738	1,387
Santander Investment, S.A.	1,335	146	208
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	695	823	714
Banco Santander Internacional SA (former Banco Santander (Suisse) SA)	247	348	369
Other companies and consolidation adjustments*	(672)	(269)	(194)
	47,601	**43,449**	**39,522**
Of which, restricted	*3,155*	*3,193*	*2,964*

* 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, S.A. issued contingent redeemable perpetual bonds (the fidelity bonds) amounting to EUR 981 million nominal value -EUR 686 million fair value. On 31 December 2020 amounted to EUR 627 million.

Additionally, at 31 December 2020 the Group had other equity instruments amounting to EUR 163 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 0.164% of issued share capital at 31 December 2020 (0.051% and 0.075% at 31 December 2019 and 2018, respectively).

The average purchase price of the Bank's shares in 2020 was EUR 2.51 per share and the average selling price was EUR 2.56 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares is of EUR 1 million profit in 2020 (EUR 6 million loss and EUR 0 million profit in 2019 and 2018, respectively).

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.

a) Guarantees and contingent commitments granted

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:

	2020	2019	2018
Loans commitment granted	**241,230**	**241,179**	**218,083**
Of which doubtful	*274*	*352*	*298*
Financial guarantees granted	**12,377**	**13,650**	**11,723**
Of which doubtful	*124*	*154*	*181*
Financial guarantees	12,358	13,619	11,557
Credit derivatives sold	19	31	166
Other commitments granted	**64,538**	**68,895**	**74,389**
Of which doubtful	*548*	*747*	*983*
Technical guarantees	33,526	33,890	35,154
Other	31,012	35,005	39,235

The breakdown as at 31 December 2020 of the exposures and the provision fund (see note 25) out of balance sheet by impairment stage is EUR 310,435 million and EUR 377 million (EUR 316,116 million and EUR 417 million in 2019 and EUR 297,409 million and EUR 382 million in 2018) in stage 1, EUR 6,764 million and EUR 182 million (EUR 6,355 million and EUR 145 million in 2019 and EUR 5,324 million and EUR 145 million in 2018) in stage 2 and EUR 946 million and EUR 141 million (EUR 1,253 million and EUR 177 million in 2019 and EUR 1,462 million and EUR 265 million in 2018) in stage 3, respectively.

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:

EUR million

	2020	2019	2018
Investment funds	131,965	142,988	127,564
Pension funds	15,577	11,843	11,160
Assets under management	20,712	22,079	19,131
	168,254	**176,910**	**157,855**

ii. Non-managed marketed funds

At 31 December 2020 there are non-managed marketed funds totalling EUR 38,563 million (EUR 49,490 million and EUR 42,211 million at 31 December 2019 and 2018, respectively).

c) Third-party securities held in custody

At 31 December 2020 the Group held in custody debt securities and equity instruments totalling EUR 209,269 million (EUR 229,381 million and EUR 940,650 million at 31 December 2019 and 2018, respectively) 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

Grupo Santander, 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, Grupo Santander 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.

Due to the replacement of the current rates by the alternative rates defined in the note 1 of this report, in the section 'Amendments to IFRS 9, IAS 9 and IFRS 7 on reference interest rates (IBOR Reform Phase I and II)',the nominal amount of hedging instruments corresponding to the hedging relationships directly affected by the uncertainties related to the IBOR reforms is shown below. The percentage of the nominal amount of derivatives affected with a maturity date after the transition date of the reform represents 16.66% of the total hedging derivatives:

EUR million

	2020				
	GBP LIBOR	USD LIBOR	CHF LIBOR	Others*	Total
Total hedging instruments affected					
Fair value hedges	38,304	16,163	1,315	1,899	57,681
Interest rate risk	*37,450*	*14,600*	*464*	*1,899*	*54,413*
Interest rate and foreign exchange risk	*854*	*1,563*	*851*	*—*	*3,268*
Cash flow hedges	18,768	18,508	1,462	395	39,133
Interest rate risk	*1,741*	*12,772*	*—*	*—*	*14,513*
Interest rate and foreign exchange risk	*16,528*	*4,484*	*378*	*395*	*21,785*
Exchange rate risk	*499*	*1,252*	*1,084*	*—*	*2,835*
	57,072	**34,671**	**2,777**	**2,294**	**96,814**
Post-transition date agreement					
Fair value hedges	16,036	14,381	1,267	1,834	33,518
Interest rate risk	*15,608*	*13,563*	*416*	*1,834*	*31,421*
Interest rate and foreign exchange risk	*428*	*818*	*851*	*—*	*2,097*
Cash flow hedges	13,883	10,912	1,371	395	26,561
Interest rate risk	*980*	*8,023*	*—*	*—*	*9,003*
Interest rate and foreign exchange risk	*12,405*	*2,853*	*308*	*395*	*15,961*
Exchange rate risk	*498*	*36*	*1,063*	*—*	*1,597*
	29,919	**25,293**	**2,638**	**2,229**	**60,079**

* Includes mainly JPY Libor and EONIA.

As for the hedged items directly affected by the uncertainties related to the IBOR reforms, their nominal amount is shown below, which represents 11.75% of the total notional amount hedged:

EUR million

	2020				
	GBP LIBOR	USD LIBOR	CHF LIBOR	Others*	Total
Total hedge items directly affected					
Fair value hedges	33,544	411	—	1,717	35,672
Interest rate risk	*33,266*	*384*	*—*	*1,109*	*34,759*
Interest rate and foreign exchange risk	*278*	*—*	*—*	*608*	*886*
Exchange rate risk	*—*	*27*	*—*	*—*	*27*
Cash flow hedges	5,633	12,614	1,347	—	19,594
Interest rate risk	*1,741*	*12,578*	*—*	*—*	*14,319*
Interest rate and foreign exchange risk	*3,892*	*—*	*169*	*—*	*4,061*
Exchange rate risk	*—*	*36*	*1,178*	*—*	*1,214*
	39,177	**13,025**	**1,347**	**1,717**	**55,266**
Post-transition date agreement					
Fair value hedges	27,508	384	—	1,717	29,609
Interest rate risk	*27,508*	*384*	*—*	*1,109*	*29,001*
Interest rate and foreign exchange risk	*—*	*—*	*—*	*608*	*608*
Cash flow hedges	3624	7947	1191	0	12762
Interest rate risk	*980*	*7,911*	*—*	*—*	*8,891*
Interest rate and foreign exchange risk	*2,644*	*—*	*100*	*—*	*2,744*
Exchange rate risk	*—*	*36*	*1,091*	*—*	*1,127*
	31,132	**8,331**	**1,191**	**1,717**	**42,371**

* Includes mainly JPY Libor and EONIA.

The following tables contains details of the hedging instruments used in the Group's hedging strategies as of 31 December 2020, 2019 and 2018:

Million euros

	2020				
		Carrying amount			
	Nominal value	Assets	Liabilities	value used for calculating hedge ineffectiveness	Balance sheet line items
Fair value hedges	**199,260**	**4,199**	**4,671**	**(451)**	
Interest rate risk	**181,582**	**3,528**	**3,850**	**(456)**	
Equity swap	*47*	*—*	*—*	*1*	*Hedging derivatives*
Future interest rate	*9,282*	*—*	*—*	*(48)*	*Hedging derivatives*
Interest rate swap	*94,713*	*2,985*	*2,747*	*(27)*	*Hedging derivatives*
Call money swap	*69,740*	*184*	*886*	*(486)*	*Hedging derivatives*
Currency swap	*7,404*	*338*	*205*	*104*	*Hedging derivatives*
Swaption	*51*	*11*	*11*	*—*	*Hedging derivatives*
Collar	*15*	*1*	*—*	*—*	*Hedging derivatives*
Floor	*330*	*9*	*1*	*—*	*Hedging derivatives*
Exchange rate risk	**9,037**	**293**	**47**	**11**	
Fx forward	*8,422*	*210*	*47*	*11*	*Hedging derivatives*
Interest rate futures	*615*	*83*	*—*	*—*	*Hedging derivatives*
Interest rate and exchange rate risk	**8,434**	**378**	**771**	**(11)**	
Interest rate swap	*426*	*8*	*1*	*1*	*Hedging derivatives*
Call money swap	*304*	*—*	*13*	*(8)*	*Hedging derivatives*
Currency swap	*7,704*	*370*	*757*	*(4)*	*Hedging derivatives*
Credit risk	**207**	**—**	**3**	**5**	
CDS	*207*	*—*	*3*	*5*	*Hedging derivatives*
Cash flow hedges	**139,156**	**3,436**	**1,739**	**232**	
Interest rate risk	**74,731**	**478**	**522**	**75**	
Futures	*7,492*	*—*	*322*	*(208)*	*Hedging derivatives*
Fx forward	*3,640*	*—*	*—*	*(10)*	*Hedging derivatives*
Future interest rate	*46,547*	*237*	*108*	*135*	*Hedging derivatives*
Interest rate swap	*12,123*	*204*	*7*	*145*	*Hedging derivatives*
Currency swap	*2,057*	*15*	*85*	*—*	*Hedging derivatives*
Floor	*2,872*	*22*	*—*	*13*	*Hedging derivatives*
Exchange rate risk	**23,483**	**555**	**802**	**(401)**	
FX forward	*9,151*	*265*	*195*	*(155)*	*Hedging derivatives*
Future interest rate	*499*	*—*	*—*	*(143)*	*Hedging derivatives*
Interest rate swap	*408*	*7*	*7*	*—*	*Hedging derivatives*
Currency swap	*13,425*	*283*	*600*	*(103)*	*Hedging derivatives*
Interest rate and exchange rate risk	**27,021**	**2,362**	**275**	**679**	
Interest rate swap	*5,218*	*262*	*—*	*129*	*Hedging derivatives*
Currency swap	*19,682*	*2,100*	*264*	*550*	*Hedging derivatives*
Call money swap	*2,121*	*—*	*11*	*—*	*Hedging derivatives*
Inflation risk	**13,907**	**36**	**140**	**(129)**	
FX forward	*3,701*	*10*	*4*	*(1)*	*Hedging derivatives*
Currency swap	*10,206*	*26*	*136*	*(132)*	*Hedging derivatives*
Call money swap	*—*	*—*	*—*	*4*	*Hedging derivatives*
Equity risk	**14**	**5**	**—**	**8**	
Option	*14*	*5*	*—*	*8*	*Hedging derivatives*
Hedges of net investments in foreign operations	**22,210**	**690**	**459**	**3**	
Exchange rate risk	**22,210**	**690**	**459**	**3**	
FX forward	*22,210*	*690*	*459*	*—*	*Hedging derivatives*
Deposits taken	*—*	*—*	*—*	*3*	*Deposits*
	360,626	**8,325**	**6,869**	**(216)**	

EUR million

	2019				
		Carrying amount			
	Nominal value	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness	**Balance sheet line items**
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*
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)**	

EUR million

	2018				
		Carrying amount			
	Nominal value	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line items
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 within the Group the main entities or groups by the weight of their hedges, the following are the main types of hedges being carried out in Santander UK Group Holdings plc group, Banco Santander, S.A., Grupo Consumer, Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México and Banco Santander (Brasil) S.A.

Santander UK Group Holdings plc group enters into fair value and cash flow hedging derivatives depending on the exposure of the underlying. Only designated risks are hedged and therefore other risks, such as credit risk, are managed but not hedged.

Within fair value hedges, Santander UK Group Holdings plc 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 Holdings plc 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 e 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 o loss cross currency swaps.

Within the cash flow hedges, Santander UK Group Holdings plc 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 Holdings plc group obtains financing in the international markets, it assumes a significant exposure to currency risk mainly USD and EUR. In addition, it also holds debt securities for liquidity purposes which assume exposure mainly in JPY. To manage this exchange rate risk, spot, forward y 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 Holdings plc 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. At 31 December 2020, outgoing cash flow is no longer expected to occur due to changes in Banco Santander's share 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 Banco Santander's income statement. To mitigate these risks, Banco Santander contracts derivatives, mainly interest rate Swaps, Cross Currency Swaps, Cap&Floors, Forex Forward y 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, cap&floors, forex forward y credit default swaps.

In addition, Banco Santander 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 methodology used by Banco Santander, S.A. to measure the effectiveness of fair value hedges is based on comparing the market values 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 and minimizing volatility in the income statement. 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.

There is a macro hedge of structured loans in which the interest rate risk of fixed-rate loans (mortgage, personal or with other guarantees) granted to legal entities in commercial or corporate banking and Wealth clients in the medium-long term is hedged. This hedge is instrumented as a macro hedge of fair value, the main hedging instruments being Interest Rate Swap and Cap&Floors. In case of total or partial cancellation or early repayment, the customer is obliged to pay/receive the cost/receipt of the cancellation of the interest rate risk hedge managed by the Bank.

Regarding cash flow hedges, the objective is to hedge the cash flow exposure to changes in interest rates and exchange rates.

For retrospective purposes, the 'Hypothetical Derivative' methodology is used to measure effectiveness. By means of this methodology, the hedged risk is modeled as a derivative instrument -not real-, created exclusively for the purpose of measuring the effectiveness of the hedge, and which must comply with the fact that its main characteristics coincide with the critical terms of the hedged item throughout the period for which the hedging relationship is designated. This hypothetical derivative does not incorporate characteristics that are exclusive to the hedging instrument. Additionally, it is worth mentioning that any risk component not associated with the hedged objective risk and effectively documented at the beginning of the hedge is excluded for the purpose of calculating the effectiveness. The market value of the hypothetical derivative that replicates the hedged item is compared with the market value of the hedging instrument, verifying that the hedged risk is effectively mitigated and that the impact on the income statement due to potential ineffectiveness is residual.

Prospectively, the variations in the market values of the hedging instrument and the hedged item (represented by the hypothetical derivative) are measured in the event of parallel shifts of a positive basis point in the affected market curves.

There is another macro-hedge, this time of cash flows, the purpose of which is to actively manage the risk-free interest rate risk (excluding credit risk) of a portion of the floating rate assets of Banco Santander, S.A., through the arrangement of interest rate derivatives whereby the bank exchanges floating rate interest flows for others at a fixed rate agreed at the time the transactions are arranged. The items affected by the Macro-hedging have been designated as those in which their cash flows are exposed to interest rate risk, specifically the floating rate mortgages of the Banco Santander, S.A. network referenced to Euribor 12 Months or Euribor Mortgage, with annual renewal of rates, classified as sound risk and which do not have a contractual floor (or, if not, this floor is not activated). The hedged position affecting the Macro Cash Flow Hedge at the present time is EUR 30,000 million.

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 México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México 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. Only the interest rate and exchange rate risk is hedged, if applicable, and therefore other risks, such as credit risk, are managed but not hedged by the entity.

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 México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México 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. 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 (Brasil) S.A. 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 (Brasil) S.A. 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.

Regarding net foreign investments hedges, basically, they are allocated in Banco Santander, S.A. and Santander Consumer Finance Group. Grupo Santander assumes as a priority risk management objective to minimize -to the limit determined by the Group's Financial Management- the impact on the calculation of the capital ratio of its permanent investments included within the Group's consolidable perimeter, and whose shares or equity interests are legally denominated in a currency other than that of the Group's parent company. For this purpose, financial instruments (generally derivatives) are contracted to hedge the impact on the capital ratio of changes in forward exchange rates. Grupo Santander mainly hedges the risk for the following currencies: BRL, CLP, MXN, CAD, COP, CNY, GBP, CHF, NOK, USD, and PLN. The instruments used to hedge the risk of these investments are forex swaps, forex forward and spot currency purchases/sales.

In the case of this type of hedges, ineffectiveness scenarios are considered to be of low probability, given that the hedging instrument is designated considering the position determined and the spot rate at which the position is located.

The following table sets out the maturity profile of the hedging instruments used in Grupo Santander non-dynamic hedging strategies:

EUR million

	31 December 2020					
	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	**7,132**	**14,221**	**44,897**	**95,343**	**37,667**	**199,260**
Interest rate risk	**5,616**	**9,667**	**39,921**	**90,913**	**35,465**	**181,582**
Equity swap	—	11	20	16	—	47
Future interest rate	430	—	3,128	4,255	1,469	9,282
Interest rate swap	3,943	4,804	24,807	33,333	27,826	94,713
Call money swap	1,021	4,662	11,241	49,624	3,192	69,740
Currency swap	157	190	674	3,619	2,764	7,404
Swaption	—	—	51	—	—	51
Collar	—	—	—	15	—	15
Floor	65	—	—	51	214	330
Exchange rate risk	**1,516**	**4,264**	**3,257**	**—**	**—**	**9,037**
Fx forward	901	4,264	3,257	—	—	8,422
Future interest rate	615	—	—	—	—	615
Interest rate and exchange rate risk	**—**	**282**	**1,711**	**4,239**	**2,202**	**8,434**
Interest rate swap	—	—	—	370	56	426
Call money swap	—	—	—	262	42	304
Currency swap	—	282	1,711	3,607	2,104	7,704
Credit risk	**—**	**8**	**8**	**191**	**—**	**207**
CDS	—	8	8	191	—	207
Cash flow hedges	**10,489**	**11,629**	**44,127**	**61,186**	**11,725**	**139,156**
Interest rate risk	**6,019**	**6,707**	**33,070**	**26,959**	**1,976**	**74,731**
Futuros FX y c/v plazo FX	5,213	—	—	2,279	—	7,492
Future interest rate	—	—	—	3,640	—	3,640
Interest rate swap	806	4,626	29,511	11,219	385	46,547
Call money swap	—	1,502	1,550	7,890	1,181	12,123
Currency swap	—	253	338	1,056	410	2,057
Floor	—	326	1,671	875	—	2,872
Exchange rate risk	**1,746**	**2,336**	**4,616**	**13,071**	**1,714**	**23,483**
FX forward	1,532	2,243	3,040	2,336	—	9,151
Future interest rate	—	—	—	499	—	499
Interest rate swap	—	—	—	408	—	408
Currency swap	214	93	1,576	9,828	1,714	13,425
Interest rate and exchange rate risk	**1,691**	**972**	**5,634**	**15,687**	**3,037**	**27,021**
Interest rate swap	816	—	981	2,402	1,019	5,218
Currency swap	875	972	4,653	11,164	2,018	19,682
Call money swap	—	—	—	2,121	—	2,121
Inflation risk	**1,033**	**1,614**	**807**	**5,456**	**4,997**	**13,907**
FX forward	1,000	1,433	578	690	—	3,701
Currency swap	33	181	229	4,766	4,997	10,206
Equity risk	**—**	**—**	**—**	**13**	**1**	**14**
Option	—	—	—	13	1	14
Hedges of net investments in foreign operations:	**2,435**	**5,086**	**12,831**	**1,858**	**—**	**22,210**
Exchange rate risk	**2,435**	**5,086**	**12,831**	**1,858**	**—**	**22,210**
FX forward	2,435	5,086	12,831	1,858	—	22,210
	20,056	**30,936**	**101,855**	**158,387**	**49,392**	**360,626**

EUR million

	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
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**

EUR million

	31 December 2018					
	Up to one month	One to three months	Three months to one year	One year to five years	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
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 Holdings plc group

	31 December 2020					
	EUR million					
	Up to one month	One to three months	s to one year	One year to five years	five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*2,704*	*8,481*	*30,946*	*53,170*	*9,050*	*104,351*
Average fixed interest rate (%) GBP	*0.690*	*0.650*	*0.820*	*0.730*	*3.720*	
Average fixed interest rate (%) EUR	*1.180*	*0.230*	*3.020*	*0.980*	*2.340*	
Average fixed interest rate (%) USD	*1.870*	*1.720*	*2.890*	*2.490*	*4.160*	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal			*147*	*776*	*260*	*1,183*
Average GBP/EUR exchange rate	—	—	*1.141*	*1.170*	*1.167*	
Average fixed interest rate (%) EUR	—	—	*4.640*	*1.780*	*3.560*	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	*999*	*2,815*	*8,869*	*1,180*	*13,863*
Average fixed interest rate (%) GBP	—	*0.460*	*0.570*	*1.450*	*1.330*	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*1,602*	*2,244*	*4,317*	*8,328*	*1,246*	*17,737*
Average GBP/JPY exchange rate	—	*137.977*	*135.607*	*132.271*	—	
Average GBP/EUR exchange rate	—	—	—	*1.163*	*1.179*	
Average GBP/USD exchange rate	*1.293*	*1.316*	*1.323*	*1.304*	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	*1,630*	—	*3,858*	*11,816*	*2,792*	*20,096*
Average GBP/EUR exchange rate	—	—	*1.354*	*1.253*	*1.197*	
Average GBP/USD exchange rate	*1.465*	—	—	*1.609*	*1.381*	
Average fixed interest rate (%) GBP	*2.010*	—	*3.180*	*2.480*	*3.390*	

	31 December 2019 EUR million					
	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*	
EUR	*(0.410)*	*0.290*	*2.210*	*1.360*	*2.360*	
USD	*—*	*1.540*	*1.990*	*2.690*	*4.560*	
Interest rate and foreign exchange rate risk						
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						
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						
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					
	EUR million					
	Up to one month	One to three months	hs to one year	One year to five years	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 and interest 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 (%) USD	—	—	—	*3.888*	*3.923*	
Average fixed interest rate (%) EUR	*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 and interest 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 2020					
	EUR million					
	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	*2,073*	*409*	*2,165*	*17,430*	*14,294*	*36,371*
Average fixed interest rate (%) GBP	—	—	—	*1.375*	*4.072*	
Average fixed interest rate (%) EUR	*0.647*	*0.551*	*0.388*	*0.820*	*1.927*	
Average fixed interest rate (%) CHF	—	—	—	*0.800*	*0.403*	
Average fixed interest rate (%) JPY	—	—	—	*0.465*	—	
Average fixed interest rate (%) USD	*0.698*	*0.570*	*2.031*	*3.004*	*3.562*	
Average fixed interest rate (%) RON	—	—	—	*3.610*	—	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*833*	*4,149*	*3,008*	—	—	*7,990*
Average fixed interest rate (%) GBP/EUR	—	*0.901*	*0.916*	—	—	
Average fixed interest rate (%) USD/EUR	*1.165*	*1.171*	*1.178*	—	—	
Average COP/USD exchange rate	*3,628.140*	*3,603.595*	—	—	—	
Average CNY/EUR exchange rate	*8.108*	*8.102*	*7.997*	—	—	
Average SAR/EUR exchange rate	*4.484*	*4.514*	—	—	—	
Average PEN/USD exchange rate	—	3.609	—	—	—	
Average AUD/EUR exchange rate	—	1.609	—	—	—	
Average JPY/EUR exchange rate	—	124.612	—	—	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	*282*	*818*	*2,621*	*1,083*	*4,804*
Average fixed interest rate (%) AUD/EUR	—	—	—	*4.000*	*4.660*	
Average fixed interest rate (%) CZK/EUR	—	—	—	*0.860*	—	
Average fixed interest rate (%) EUR/COP	—	—	*4.380*	—	—	
Average fixed interest rate (%) RON/EUR	—	—	—	*4.849*	—	
Average fixed interest rate (%) HKD/EUR	—	—	—	*2.580*	—	
Average fixed interest rate (%) JPY/EUR	—	—	*2.195*	*0.568*	*1.281*	
Average fixed interest rate (%) NOK/EUR	—	—	—	—	*3.605*	
Average fixed interest rate (%) CHF/EUR	—	—	—	—	*1.243*	
Average fixed interest rate (%) USD/COP	—	—	*8.030*	*6.659*	*7.231*	
Average fixed interest rate (%) COP/USD	—	—	*6.000*	—	—	
Average fixed interest rate (%) USD/CLP	—	—	*0.930*	—	—	
Average AUD/EUR exchange rate	—	—	—	*1.499*	*1.508*	
Average COP/USD exchange rate	—	—	*3,437.200*	—	—	
Average CZK/EUR exchange rate	—	—	—	*25.539*	—	
Average EUR/GBP exchange rate	—	*1.113*	—	—	—	
Average EUR/COP exchange rate	—	—	*0.0002*	—	—	
Average EUR/USD exchange rate	—	—	—	*0.891*	—	
Average HKD/EUR exchange rate	—	—	—	*8.782*	—	
Average JPY/EUR exchange rate	—	—	*113.370*	*133.840*	*125.883*	
Average MXN/EUR exchange rate	—	—	—	*14.696*	—	
Average NOK/EUR exchange rate	—	—	—	—	*9.606*	
Average RON/EUR exchange rate	—	—	—	*4.727*	—	
Average CHF/EUR exchange rate	—	—	—	*1.092*	*1.105*	
Average USD/COP exchange rate	—	—	*0.0003*	*0.0003*	*0.0003*	
Average USD/CLP exchange rate	—	—	*0.001*	—	—	
Average USD/MXN exchange rate	—	—	*0.050*	—	—	

	31 December 2020					
	EUR million					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Credit risk						
Credit risk instruments						
Nominal	*—*	*8*	*8*	*191*	*—*	*207*
Cash flow hedges						
Interest rate and foreign exchange rate risk						
Interest rate and foreign exchange rate instruments						
Nominal	*—*	*—*	*1,247*	*3,242*	*208*	*4,697*
Average EUR/GBP exchange rate	*—*	*—*	*1.080*	*1.102*	*—*	
Average EUR/USD exchange rate	*—*	*—*	*—*	*0.882*	*—*	
Average AUD/EUR exchange rate	*—*	*—*	*—*	*1.625*	*—*	
Average RON/EUR exchange rate	*—*	*—*	*—*	*4.810*	*—*	
Average JPY/EUR exchange rate	*—*	*—*	*—*	*120.568*	*—*	
Average CHF/EUR exchange rate	*—*	*—*	*—*	*—*	*1.102*	
Interest rate risk						
Bond Forward instruments						
Nominal	*3,164*	*5,000*	*23,000*	*4,279*	*—*	*35,443*
Average fixed interest rate (%) EUR	*—*	*(0.2580)*	*(0.2498)*	*(0.2359)*	*—*	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange and interest rate instruments						
Nominal	*2,229*	*4,554*	*11,570*	*1,858*	*—*	*20,211*
Average BRL/EUR exchange rate	*5.270*	*5.308*	*6.332*	*—*	*—*	
Average CLP/EUR exchange rate	*869.633*	*861.546*	*864.339*	*932.215*	*—*	
Average COP/EUR exchange rate	*—*	*—*	*4,471.305*	*—*	*—*	
Average GBP/EUR exchange rate	*0.909*	*0.916*	*0.907*	*—*	*—*	
Average MXN/EUR exchange rate	*23.121*	*25.456*	*26.788*	*—*	*—*	
Average PLN/EUR exchange rate	*4.427*	*4.420*	*4.516*	*—*	*—*	

	31 December 2019					
	EUR million					
	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 and interest 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 (%) USD/CLP	*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 and interest rate instruments						
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*	
Average AUD/EUR exchange rate	—	—	—	*1.4989*	*1.508*	
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*	*8.7820*	—	
Average JPY/EUR exchange rate	—	—	*130.4700*	*132.4608*	*125.8830*	
Average MXN/EUR exchange rate	—	—	—	*14.6960*	—	
Average NOK/EUR exchange rate	—	—	—	—	*9.6060*	
Average RON/EUR exchange rate	—	—	—	*4.7271*	—	
Average CHF/EUR exchange rate	—	—	—	*1.0924*		
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*

	31 December 2019					
	EUR million					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange and interest 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 EUR million					
	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 and interest rate instruments						
Nominal	—	*1,825*	*771*	—	—	*2,596*
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	*41*	*461*	*120*	*2,083*	*951*	*3,656*
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	—	—	—	*25.407*	*26.030*	
Average EUR/GBP exchange rate	—	*1.15*	—	—	—	
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/BRL exchange rate	—	—	*0.269*	—	—	
Average USD/COP 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	—	—	—	*0.0051*	*0.0055*	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange and interest 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	—	*3728.01*	*3685.8*	—	—	
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*	—	

Santander Consumer Finance Group

	31 December 2020					
	EUR million					
	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	*241*	*501*	*2,052*	*4,744*	*519*	*8,057*
Average fixed interest rate (%) EUR	—	*0.004*	*(0.009)*	*(0.045)*	*(0.005)*	
Average fixed interest rate (%) CHF	*(0.590)*	*(0.547)*	*(0.570)*	*(0.553)*	—	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*68*	*88*	*249*	—	—	*405*
Average DKK/EUR exchange rate	—	—	*10.075*	—	—	
Average PLN/EUR exchange rate	—	—	*1.582*	—	—	
Average CHF/EUR exchange rate	*1.075*	*1.072*	*1.075*	—	—	
Average SEK/EUR exchange rate	*10.341*	*10.426*	—	—	—	
Interest rate and foreign exchange rate risk						
Interest rate and exchange rate instruments						
Nominal	—	—	—	*652*	—	*652*
Average fixed interest rate (%) DKK	—	—	—	*7.454*	—	
Average DKK/EUR exchange rate	—	—	—	0.006	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*71*	*125*	*612*	*1,481*	—	*2,289*
Average fixed interest rate (%) EUR	*0.135*	*0.172*	*0.175*	*0.181*	—	
Foreign exchange risk						
Nominal exchange rate instruments						
Nominal	*11*	*92*	*112*	*815*	*48*	*1,078*
Average NOK/EUR exchange rate	—	—	—	—	*10.590*	
Average CHF/EUR exchange rate	—	*1.084*	*1.116*	*1.123*	—	
Average CAD/EUR exchange rate	*151.400*	—	*1.501*	*1.525*	—	
Average JPY/EUR exchange rate	—	—	*116.990*	*125.071*	—	
Interest rate and foreign exchange rate risk						
Interest rate and exchange rate instruments						
Nominal	*60*	*510*	*700*	*426*	—	*1,696*
Average SEK/EUR exchange rate	*10.302*	*10.556*	*10.381*	*10.446*	—	
Average NOK/EUR exchange rate	—	—	—	*9.281*	—	
Average CHF/EUR exchange rate	—	*1.088*	—	*1.089*	—	
Average CAD/EUR exchange rate	—		—	—	—	
Average DKK/EUR exchange rate	—	*7.456*	*7.473*	—	—	
Average JPY/EUR exchange rate	—	—	—	*4.287*	—	
Average fixed interest rate (%) EUR	—	—	—	*0.890*	—	
Average fixed interest rate (%) CHF	—	—	—	*0.150*	—	
Hedges of net investments in foreign operations						
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*206*	*501*	*1,260*	—	—	*1,967*
Average NOK/EUR exchange rate	*10.141*	*10.962*	*10.861*	—	—	
Average CNY/EUR exchange rate	—	*7.639*	—	—	—	

	31 December 2019 EUR million					
	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 and interest 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	10.448	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 and interest rate instruments						
Nominal	143	352	597	—	—	1,092
Average NOK/EUR exchange rate	9.920	9.878	10.186	—	—	
Average CNY/EUR exchange rate	—	7.968	—	—	—	

	31 December 2018					
	EUR million					
	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 and interest 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 and interest 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 and interest 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 México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

	31 December 2020					
	EUR million					
	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	*9*	*2*	*49*	*48*	*1,954*	*2,062*
Average fixed interest rate (%) MXN	—	—	—	—	—	
Interest rate and foreign exchange rate						
Exchange and interest rate instruments						
Nominal	—	—	*11*	*559*	*859*	*1,429*
Average EUR/MXN exchange rate	—	—	—	—	—	
Average GBP/MXN exchange rate	—	—	—	—	—	
Average USD/MXN exchange rate	—	—	—	—	—	
Average MXV/MXN exchange rate	—	—	—	—	—	
Average fixed interest rate (%) USD	—	—	—	—	—	
Average fixed interest rate (%) EUR	—	—	—	—	—	
Average fixed interest rate (%) GBP	—	—	—	—	—	
Average fixed interest rate (%) MXN	—	—	—	—	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	*164*	*299*	—	*463*
Average fixed interest rate (%) MXN	—	—	*0.073*	*0.072*	—	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*132*	—	*100*	*2,513*	—	*2,745*
Average BRL/USD exchange rate	—	—	*0.117*	*0.126*	—	
Average EUR/MXN exchange rate	*0.250*	—	—	*0.167*	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	—	*104*	*37*	*141*
Average EUR/MXN exchange rate	—	—	—	*0.192*	—	
Average GBP/MXN exchange rate	—	—	—	*0.260*	—	
Average USD/MXN exchange rate	—	—	—	—	*0.182*	
Average fixed interest rate (%) USD	—	—	—	—	*0.041*	
Average fixed interest rate (%) EUR	—	—	—	*0.026*	—	
Average fixed interest rate (%) GBP	—	—	—	*0.068*	—	

	31 December 2019					
	EUR million					
	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						
Exchange and interest 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 and interest rate instruments						
Nominal	*890*	—	*103*	*2,793*	—	*3,786*
Average BRL/MXN exchange rate	*3.550*	—	*4.320*	*5.210*	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	*2*	*133*	*163*	*208*	*43*	*549*
Average EUR/MXN exchange rate	—	—	—	—	—	
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					
	EUR million					
	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						
Exchange and interest 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 and interest 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 (Brasil) S.A.

	31 December 2020 EUR million					
	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	*430*	—	*3,129*	*4,254*	*1,469*	*9,282*
Average fixed interest rate (%) BRL	*2.000*	—	*2.000*	*2.000*	*2.000*	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	*614*	—	—	—	—	*614*
Average USD/BRL exchange rate	6.260	—	—	—	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	—	*367*	—	*367*
Average USD/BRL exchange rate	—	—	—	6.260	—	
Average fixed interest rate (%) BRL	—	—	—	—	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	*3,640*	—	*3,640*
Average fixed interest rate (%) BRL	—	—	—	*2.000*	—	
Foreign exchange risk and others						
Exchange rate instruments						
Nominal	—	—	—	*499*	—	*499*
Average USD/BRL exchange rate	—	—	—	*6.260*	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	*231*	—	—	*231*
Average USD/BRL exchange rate	—	—	6.260	—	—	
Average fixed interest rate (%) BRL	—	—	—	—	—	

	31 December 2019					
	EUR million					
	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	*7.920*	—	*9.250*	*6.880*	*0.040*	
Foreign exchange risk						
Exchange and interest rate instruments						
Nominal	—	1	90	193	—	284
Average USD/BRL exchange rate	—	3.730	3.750	3.830	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	7	—	—	7
Average EUR/MXN exchange rate	—	—	—	—	—	
Average fixed interest rate (%) BRL	—	—	*4.570*	—	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	772	—	772
Average fixed interest rate (%) BRL	—	—	—	*4.500*	—	
Foreign exchange risk and others						
Exchange rate instruments						
Nominal	—	—	9,290	—	—	9,290
Average USD/BRL exchange rate	—	—	*4.570*	—	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	—	389	—	389
Average EUR/MXN exchange rate	—	—	—	4.570	—	
Average fixed interest rate (%) BRL	—	—	—	—	—	

	31 December 2018					
	EUR million					
	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 and interest 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 and interest 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 at 31 December 2020, 2019 and 2018:

	EUR million							
	31 December 2020							
	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	**141,608**	**52,055**	**3,369**	**2,914**		**553**	**—**	**—**
Interest rate risk	**128,279**	**48,137**	**3,183**	**2,727**		**469**	**—**	**—**
Deposits	*19,000*	*4,406*	*656*	*15*	*Loans and advances/ Deposits*	*132*	—	—
Bond	*25,430*	*24,317*	*975*	*1,638*	*Debt instruments/ Debt instruments issued*	*(20)*	—	—
Securities loans	*61,898*	*62*	*1,153*	—	*Loans and advances*	*372*	—	—
Repo	*15,723*	*574*	*19*	*16*	*Loans and advances/ Deposits*	*(1)*	—	—
Liquidity facilities	*6,228*	*4,450*	*380*	*(16)*	*Loans and advances/ Deposits*	*174*	—	—
Issuances assurance	—	*3,190*	—	*25*	*Debt instruments/ Debt instruments issued*	*(21)*	—	—
Securitization	—	*11,138*	—	*1,049*	*Debt instruments/ Debt instruments issued*	*(167)*	—	—
Exchange rate risk	**8,718**	**—**	**40**	**—**		**(13)**	**—**	**—**
Liquidity facilities	*118*	—	*5*	—	*Loans and advances/ Deposits*	*1*	—	—
Deposits	1,889	—	22	—	*Loans and advances/ Deposits*	(13)	—	—
Bonds	6,711	—	*13*	—	*Loans and advances/ Deposits*	*(1)*	—	—
Interest and Exchange rate risk	**4,391**	**3,918**	**143**	**187**		**100**	**—**	**—**
Borrowed deposits	1,229	—	13	—	*Loans and advances/ Deposits*	86	—	—
Bonds	*2,333*	*3,130*	*130*	*84*	*Debt instruments*	*57*	—	—
Securitization	—	*689*	—	*101*	*Debt instruments*	*(40)*	—	—
Repos	*829*	*99*	—	*2*	*Loans and advances/ Deposits*	*(3)*	—	—
Credit risk	**220**	**—**	**3**	**—**		**(3)**	**—**	**—**
Bonds	220	—	3	—	*Debt instruments*	(3)	—	—

	EUR million							
	31 December 2020							
	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 reserves or conversion reserves	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item		Continuing hedges	Discontinued hedges
Cash flow hedges						**532**	**420**	**(43)**
Interest rate risk						**314**	**(87)**	**(11)**
Firm commitment					*Other assets/liabilities*	*6*	*139*	*—*
Deposits					*Deposits and loans and advances*	*(28)*	*21*	*4*
Government bonds					*Debt instruments*	*382*	*(377)*	*(4)*
Liquidity facilities					*Loans and advances*	*(47)*	*126*	*(11)*
Secondary market loans					*Loans and advances*	*(1)*	*—*	*—*
Equity portfolio					*Equity portfolio*	*2*	*—*	*—*
Highly likely scheduled transactions					*Other assets/liabilities*	*—*	*4*	*—*
Exchange rate risk						**204**	**(68)**	**0**
Deposits					*Deposits and loans and advances*	72	(57)	—
Bonds					*Debt instruments*	(228)	46	—
Issuances assurance						14	(3)	—
Secondary market loans					*Loans and advances*	298	(4)	—
Senior securitization					*Debt instruments*	*48*	*(50)*	*—*
Highly likely scheduled transactions					*Other assets/liabilities*	*—*	*—*	*—*
Interest and Exchange rate risk						**(87)**	**680**	**—**
Deposits					*Deposits and loans and advances*	*52*	*(4)*	*—*
Bonds					*Debt instruments*	*30*	*108*	*—*
Securitization					*Debt instruments*	*(169)*	*576*	*—*
Inflation risk						**105**	**(111)**	**(32)**
Deposits					*Deposits and loans and advances*	*64*	*(86)*	*(32)*
Bonds					*Debt instruments*	*41*	*(25)*	*—*
Equity risk						**(4)**	**6**	**0**
Highly likely scheduled transactions					*Highly likely scheduled transactions*	*(4)*	*6*	*—*
Net foreign investments hedges	**22,150**	**—**	**—**	**—**		**—**	**(11)**	**14**
Exchange rate risk	**22,150**	**—**	**—**	**—**		*—*	*(11)*	*14*
Equity instruments	*22,150*	*—*	*—*	*—*	*Equity instruments*	**—**	**(11)**	**14**
	163,758	**52,055**	**3,369**	**2,914**		**1,085**	**409**	**(29)**

	EUR million							
	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)*	—	—
Securitization	—	*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	—	—
Securitization	—	*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	—	—

	EUR million							
	31 December 2019							
	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 reserves or conversion reserves	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item		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 securitization					*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)*	*—*
Securitization					*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)**

	EUR million								
	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 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*	*—*	*—*
Securitization	*—*	*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)*	*—*	*—*
Securitization	*—*	*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 securitization					*Debt instruments*	*(11)*	*21*	*—*
CLO					*Other assets/liabilities*	*—*	*1*	*—*
Interest and Exchange rate risk						**4**	**341**	**—**
Deposits					*Deposits and loans and advances*	*7*	*2*	*—*
Bonds					*Debt instruments*	*(13)*	*(9)*	*—*
Securitization					*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 at 31 December 2020 is EUR 729 million (EUR 340 million in 2019 and EUR 71 million in 2018).

The net impact of the coverages are shown in the following table:

	EUR million				
	31 December 2020				
	Earnings/ (losses) recognised in another cumulative overall result	Ineffective 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	Reclassified amount of reserves to the income statement due to: Line of the income statement that includes reclassified items
Fair value hedges		**104**			
Interest rate risk		**9**			
Deposits		(7)	*Gains or losses of financial assets/liabilities*		
Bonds		(27)	*Gains or losses of financial assets/liabilities*		
Repo		(3)	*Gains or losses of financial assets/liabilities*		
Fixed-income securities loans		24	*Gains or losses of financial assets/liabilities*		
Liquidity lines		5	*Gains or losses of financial assets/liabilities*		
Securitizations		16	*Gains or losses of financial assets/liabilities*		
Equity instruments		1	*Gains or losses of financial assets/liabilities*		
Exchange rate risk		**1**			
Fixed-income securities loans		1	*Gains or losses of financial assets/liabilities*		
Interest rate and exchange rate risk		**92**			
Deposits		72	*Gains or losses of financial assets/liabilities*		
Bonds		(25)	*Gains or losses of financial assets/liabilities*		
Securitizations		41	*Gains or losses of financial assets/liabilities*		
Repo		4	*Gains or losses of financial assets/liabilities*		
Credit risk		**2**			
Bonds		2	*Gains or losses of financial assets/liabilities*		
Cash flow hedges	**(67)**	**(53)**		**851**	
Interest rate risk	**69**	**7**		**118**	
Firm Commitment	149	—	*Gains or losses of financial assets/liabilities*	*81*	*Interest income/ (charges)*
Deposits	15	—	*Gains or losses of financial assets/liabilities*	—	
Bonds	(197)	—	*Gains or losses of financial assets/liabilities*	*(15)*	*Interest income/ (charges)*
Liquidity lines	111	7	*Gains or losses of financial assets/liabilities*	*51*	*Interest income/ (charges)*
Loans secondary markets	—	—	*Gains or losses of financial assets/liabilities*	*1*	*Interest income/ (charges)*
Highly likely scheduled transactions	(9)	—	*Gains or losses of financial assets/liabilities*	—	

	EUR million				
	31 December 2020				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (losses) recognised in another cumulative overall result	Ineffective 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
Exchange rate risk	**(194)**	**9**		**(132)**	
Deposits	*(197)*	*11*		*7*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Bonds	*47*	*—*	*Gains or losses of financial assets/liabilities*	*(39)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Repo	*—*	*—*	*Gains or losses of financial assets/liabilities*	*17*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Loans secondary markets	*4*	*3*	*Gains or losses of financial assets/liabilities*	*(129)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Securitizations	*(48)*	*—*	*Gains or losses of financial assets/liabilities*	*48*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
CLO	*—*	*—*	*Gains or losses of financial assets/liabilities*	*14*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Highly likely scheduled transactions	*—*	*(5)*	*Gains or losses of financial assets/liabilities*	*(50)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Interest rate and exchange rate risk	**170**	**(62)**		**844**	
Deposits	*3*	*—*	*Gains or losses of financial assets/liabilities*	*(39)*	*Interest income/ (charges)*
Bonds	*133*	*(8)*		*125*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Securitizations	*34*	*(54)*	*Gains or losses of financial assets/liabilities*	*758*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Inflation risk	**(121)**	**(7)**		**21**	
Deposits	*(94)*	*(6)*	*Gains or losses of financial assets/liabilities*	*23*	*Interest income/ (charges)*
Asset bonds	*(27)*	*(1)*	*Gains or losses of financial assets/liabilities*	*(2)*	*Interest income/ (charges)*
Equity risk	**9**	**—**		**—**	
Highly probable planned transactions	*9*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
Net foreign investments hedges	**3**	**—**		**—**	
Exchange rate risk	**3**	**—**		**—**	
Equity instruments	*3*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
	(64)	**51**		**851**	

	EUR million				
	31 December 2019				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (losses) 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*		
Securitizationss		(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*		
Securitizations		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)**	
Interest rate risk	**(263)**	**1**		**8**	
Firm Commitment	*65*	—	*Gains or losses of financial assets/liabilities*	*(37)*	*Interest income/ (charges)*
Deposits	*(37)*	—	*Gains or losses of financial assets/liabilities*	*7*	*Interest income/ (charges)*
Bonds	*(254)*	—	*Gains or losses of financial assets/liabilities*	*(26)*	*Interest income/ (charges)*
Liquidity lines	*(48)*	1	*Gains or losses of financial assets/liabilities*	*61*	*Interest income/ (charges)*
Loans secondary markets	*(1)*	—	*Gains or losses of financial assets/liabilities*	*3*	*Interest income/ (charges)*
Highly likely scheduled transactions	*12*	—	*Gains or losses of financial assets/liabilities*	—	*Interest income/ (charges)*

	EUR million				
	31 December 2019				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (losses) 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
Exchange rate risk	**145**	**(34)**		**(364)**	
Deposits	*148*	*(31)*	*Gains or losses of financial assets/liabilities*	*(39)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Bonds	*11*	*—*	*Gains or losses of financial assets/liabilities*	*154*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Repo	*—*	*—*	*Gains or losses of financial assets/liabilities*	*(4)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Loans secondary markets	*12*	*2*	*Gains or losses of financial assets/liabilities*	*8*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Securitizations	*(27)*	*(4)*	*Gains or losses of financial assets/liabilities*	*(166)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
CLO	*(1)*	*—*	*Gains or losses of financial assets/liabilities*	*(13)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Highly likely scheduled transactions	*2*	*(1)*	*Gains or losses of financial assets/liabilities*	*(304)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Interest rate and exchange rate risk	**168**	**(53)**		**(769)**	
Deposits	*(8)*	*—*	*Gains or losses of financial assets/liabilities*	*(10)*	*Interest income/ (charges)*
Bonds	*(16)*	*(4)*	*Gains or losses of financial assets/liabilities*	*57*	*Interest income/ (charges)*
Securitizations	*192*	*(49)*	*Gains or losses of financial assets/liabilities*	*(816)*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Inflation risk	**(44)**	**—**		**13**	
Deposits	*(49)*	*—*	*Gains or losses of financial assets/liabilities*	*9*	*Interest income/ (charges)*
Asset bonds	*5*	*—*	*Gains or losses of financial assets/liabilities*	*4*	*Interest income/ (charges)*
Equity risk	**2**	**—**		**—**	
Highly probable planned transactions	*2*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
Other risks	**—**	**—**		**—**	
Bonds	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
Net foreign investments hedges	**—**	**—**		**—**	
Exchange rate risk	**—**	**—**		**—**	
Equity instruments	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
	8	**(28)**		**(1,112)**	

	EUR million				
	31 December 2018				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (losses) 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		**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*		
Securitizations		*8*	*Gains or losses of financial assets/liabilities*		
Interest rate and exchange rate risk		**95**			
Deposits		*39*	*Gains or losses of financial assets/liabilities*		
Bonds		*8*	*Gains or losses of financial assets/liabilities*		
Securitizations		*49*	*Gains or losses of financial assets/liabilities*		
CLO		*(1)*	*Gains or losses of financial assets/liabilities*		
Other risks		**(2)**			
Securitizations		*(2)*	*Gains or losses of financial assets/liabilities*		
Cash flow hedges	**200**	**8**		**317**	
Interest rate risk	**193**	**(4)**		**57**	
Firm Commitment	*(2)*	*—*	*Gains or losses of financial assets/liabilities*	*(24)*	*Interest income/ (charges)*
Deposits	*50*	*(21)*	*Gains or losses of financial assets/liabilities*	*16*	*Interest income/ (charges)*
Bonds	*104*	*2*	*Gains or losses of financial assets/liabilities*	*15*	*Interest income/ (charges)/ Gains or losses of financial assets/liabilities*
Loans secondary markets	*85*	*16*	*Gains or losses of financial assets/liabilities*	*47*	*Interest income/ (charges)/ Gains or losses of financial assets/liabilities*
Liquidity lines	*2*	*—*	*Gains or losses of financial assets/liabilities*	*3*	*Interest income/ (charges)*
Repo	*(46)*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*Interest income/ (charges)*
Securitizations	*—*	*(1)*	*Gains or losses of financial assets/liabilities*	*—*	

	EUR million				
	31 December 2018				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (losses) 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
Exchange rate risk	**(20)**	**(688)**		**(631)**	
Deposits	*(25)*	*(698)*	*Gains or losses of financial assets/liabilities*	*(563)*	*Interest income/ (charges)/ Gains or losses of financial assets/liabilities*
Asset bonds	*(25)*	*43*	*Gains or losses of financial assets/liabilities*	*(168)*	*Interest income/ (charges)/ 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 income/ (charges)/ Gains or losses of financial assets/liabilities*
Securitizations	*24*	*(37)*	*Gains or losses of financial assets/liabilities*	*150*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
CLO	*1*	*—*	*Gains or losses of financial assets/liabilities*	*25*	*Interest income/ (charges) / Gains or losses of financial assets/liabilities*
Interest rate and exchange rate risk	**45**	**700**		**887**	
Deposits	*1*	*743*	*Gains or losses of financial assets/liabilities*	*35*	*Interest income/ (charges)*
Bonds	*(4)*	*447*	*Gains or losses of financial assets/liabilities*	*581*	*Interest income/ (charges)/ Gains or losses of financial assets/liabilities*
Securitizations	*48*	*(490)*	*Gains or losses of financial assets/liabilities*	*271*	*Interest income/ (charges)/ Gains or losses of financial assets/liabilities*
Inflation risk	**11**	**—**		**4**	
Deposits	*14*	*—*	*Gains or losses of financial assets/liabilities*	*3*	*Interest income/ (charges)*
Asset bonds	*(3)*	*—*	*Gains or losses of financial assets/liabilities*	*1*	*Interest income/ (charges)*
Equity risk	**(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*	*—*	
Net foreign investments hedges	**—**	**—**		**—**	
Exchange rate risk	**—**	**—**		**—**	
Equity instruments	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	
	200	**83**		**317**	

The following table shows the movement in the impact of equity for the year:

EUR million

	2020	2019	2018
Balance at beginning of year	**300**	**277**	**152**
Cash flow hedges			
Interest rate risk	**67**	**(264)**	**172**
Amounts transferred to income statements	*(118)*	*(8)*	*(57)*
Gain or loss in value CFE - recognized in equity	*185*	*(256)*	*229*
Exchange rate risk	**(194)**	**146**	**(20)**
Amounts transferred to income statements	*132*	*364*	*631*
Gain or loss in value CFE - recognized in equity	*(326)*	*(218)*	*(651)*
Interest rate and exchange rate risk	**170**	**168**	**45**
Amounts transferred to income statements	*(844)*	*769*	*(887)*
Gain or loss in value CFE - recognized in equity	*1,014*	*(601)*	*932*
Inflation risk	**(121)**	**(44)**	**11**
Amounts transferred to income statements	*(21)*	*(13)*	*(4)*
Gain or loss in value CFE - recognized in equity	*(100)*	*(31)*	*15*
Equity risk	**9**	**2**	**(8)**
Amounts transferred to income statements	*—*	*—*	*—*
Gain or loss in value CFE - recognized in equity	*9*	*2*	*(8)*
Net foreign investments hedges			
Exchange rate risk	**3**	**—**	**—**
Amounts transferred to income statements	*—*	*—*	*—*
Gain or loss in value CFE - recognized in equity	*3*	*—*	*—*
Non-controlling interest	56	32	(25)
Taxes	5	(17)	(50)
Balance at end of year	**295**	**300**	**277**

37. Discontinued operations

No operations were discontinued in 2020, 2019 or 2018.

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 2020, 2019 and 2018 is as follows:

EUR million

	2020	2019	2018
Loans and advances, central banks	431	1,314	1,320
Loans and advances, credit institutions	894	1,785	1,555
Debt instruments	5,022	6,378	6,429
Loans and advances, customers	38,788	46,180	43,489
Other interest	606	1,128	1,532
	45,741	**56,785**	**54,325**

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 2020, 2019 and 2018 is as follows:

EUR million

	2020	2019	2018
Central banks deposits	366	468	421
Credit institution deposits	1,652	2,576	2,588
Customer deposits	5,599	10,137	9,062
Debt securities issued and subordinated liabilities	5,119	6,679	6,073
Marketable debt securities	*4,548*	*6,034*	*5,303*
(note 23)	*571*	*645*	*770*
(note 25)	95	145	186
Lease Liabilities	186	273	9
Other interest expense	730	1,224	1,645
	13,747	**21,502**	**19,984**

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:

EUR million

	2020	2019	2018
Dividend income classified as			
Financial assets held for trading	272	388	241
Non-trading financial assets mandatorily at fair value through profit or loss	31	34	23
Financial assets at fair value through other comprehensive income	88	111	106
	391	**533**	**370**

41. 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:

EUR million

	2020	2019	2018
Coming from collection and payment services			
Bills	265	328	334
Demand accounts	1,284	1,382	1,371
Cards	2,986	3,858	3,514
Orders	484	478	475
Cheques and other	110	155	138
	5,129	**6,201**	**5,832**
Coming from non-banking financial products			
Investment funds	888	943	1,024
Pension funds	170	180	124
Insurance	2,289	2,631	2,433
	3,347	**3,754**	**3,581**
services			
Securities underwriting and placement	394	364	283
Securities trading	316	281	251
Administration and custody	336	485	458
Asset management	316	293	305
	1,362	**1,423**	**1,297**
Other			
Foreign exchange	500	612	546
Financial guarantees	409	521	549
Commitment fees	366	293	291
Other fees and commissions	1,911	2,545	2,568
	3,186	**3,971**	**3,954**
	13,024	**15,349**	**14,664**

42. 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:

EUR million

	2020	2019	2018
Commissions assigned to third parties	**1,856**	**2,350**	**1,972**
Cards	1,249	1,616	1,358
By collection and return of effects	12	12	11
Other fees assigned	595	722	603
Other commissions paid	**1,153**	**1,220**	**1,207**
Brokerage fees on lending and deposit transactions	26	27	42
Sales of insurance and pension funds	248	232	232
Other fees and commissions	879	961	933
	3,009	**3,570**	**3,179**

43. 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 liabilities:

EUR million

	2020	2019	2018
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	1,107	1,136	604
Financial assets at amortized cost	(31)	308	39
Other financial assets and liabilities	1,138	828	565
Of which debt instruments	*1,179*	*804*	*563*
Gains or losses on financial assets and liabilities held for trading, net*	3,211	1,349	1,515
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	82	292	331
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net*	(171)	(286)	(57)
Gains or losses from hedge accounting, net	51	(28)	83
	4,280	**2,463**	**2,476**

* 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 44, the above breakdown should be analysed in conjunction with the 'Exchange differences, net':

EUR million

	2020	2019	2018
Exchange differences, net	(2,093)	(932)	(679)

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

EUR million

	2020	2019	2018
Loans and receivables:	46,589	59,624	56,323
Central banks	9,481	6,473	9,226
Credit institutions	12,139	21,649	23,099
Customers	24,969	31,502	23,998
Debt instruments	41,573	36,402	36,609
Equity instruments	12,849	15,787	12,198
Derivatives	67,137	63,397	55,939
	168,148	**175,210**	**161,069**

Grupo Santander 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 2020 the exposure to credit risk of the derivatives presented in the balance sheet is not significant because they are subject to netting and collateral agreements (see note 2.f).

- Loans and advances to credit institutions and Loans and advances to customers included reverse repos amounting to EUR 25,856 million at 31 December 2020.

  Also, mortgage-backed assets totalled EUR 1,656 million.

- Debt instruments include EUR 35,789 million of Spanish and foreign government securities.

At 31 December 2020 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:

EUR million

	2020	2019	2018
Deposits	43,598	57,111	65,304
Central banks	2,490	12,854	14,816
Credit institutions	6,765	9,340	10,891
Customer	34,343	34,917	39,597
Marketable debt securities	4,440	3,758	2,305
Short positions	16,698	14,123	15,002
Derivatives	64,469	63,016	55,341
Other financial liabilities	—	126	449
	129,205	**138,134**	**138,401**

At 31 December 2020, 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 2020 is EUR 119 million lower than their carrying amount (EUR 26 million at 31 December 2019 and EUR 32 million at 31 December 2018).

44. 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.

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 43).

45. Other operating income and expenses

Other operating income and Other operating expenses in the consolidated income statements include:

EUR million

	2020	2019	2018
Insurance activity	**210**	**120**	**51**
Income from insurance and reinsurance contracts issued	1,452	2,534	3,175
Of which:			
Insurance and reinsurance premium income	*1,349*	*2,404*	*3,011*
Reinsurance income (note 15)	*103*	*130*	*164*
Expenses of insurance and reinsurance contracts	(1,242)	(2,414)	(3,124)
Of which:			
Claims paid, other insurance-related expenses and net provisions for insurance contract liabilities	*(1,063)*	*(2,183)*	*(2,883)*
Reinsurance premiums paid	*(179)*	*(231)*	*(241)*
Other operating income	**1,920**	**1,797**	**1,643**
Non- financial services	362	379	367
Other operating income	1,558	1,418	1,276
Other operating expense	**(2,342)**	**(2,138)**	**(2,000)**
Non-financial services	(350)	(351)	(270)
Other operating expense:	(1,992)	(1,787)	(1,730)
Of which, credit institutions deposit guarantee fund and single resolution fund	*(1,005)*	*(911)*	*(895)*
	(212)	**(221)**	**(306)**

Most of Banco Santander'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.

46. Staff costs

a) Breakdown

The detail of Staff costs is as follows:

EUR million

	2020	2019	2018
Wages and salaries	8,095	9,020	8,824
Social Security costs	1,277	1,426	1,412
defined benefit pension plans (note 25)	76	72	84
Contributions to defined contribution pension funds	283	292	287
Other Staff costs	1,052	1,331	1,258
	10,783	**12,141**	**11,865**

b) Headcount

The average number of employees in the Group and Banco Santander, S.A., by professional category, was as follows:

Average number of employees

	2020	2019	2018
Banco Santander, S.A.:			
Senior management	21	20	22
Other line personnel	26,527	29,147	30,399
	26,548	**29,167**	**30,421**
Rest of Spain	8,878	8,269	7,944
Santander UK plc	16,790	17,961	18,757
Santander Brasil	44,554	47,253	46,645
Other companies*	97,121	98,464	98,062
	193,891	**201,114**	**201,829**

* Does not include staff affected by discontinued operations.

The number of employees, at the end of 2020, 2019 and 2018, was 191,189, 196,419 and 202,713, respectively.

The functional breakdown (final employment), by gender, at 31 December, 2020 is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Europe	1,115	365	7,350	4,290	32,937	41,998
North America	228	50	956	453	15,816	20,875
South America	320	101	3,246	2,257	26,614	32,218
	1,663	**516**	**11,552**	**7,000**	**75,367**	**95,091**

The same information, expressed in percentage terms at 31 December, 2020 is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Europe	75%	25%	63%	37%	44%	56%
North America	82%	18%	68%	32%	43%	57%
South America	76%	24%	59%	41%	45%	55%
	76%	**24%**	**62%**	**38%**	**44%**	**56%**

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 2020, is as follows:

Number of employees*

	2020
Senior management	7
Management	110
Collaborators	3,460
	3,577

* 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 Mexico.

The number of Group employees with disabilities at 2019 and 2018, was 3,584 and 3,436, respectively, (not including Mexico in 2019 and the United States in 2018).

Likewise, the average number of employees of Banco Santander, S.A. with disabilities, equal to or greater than 33%, during 2020 was 319 (318 and 241 employees during 2019 and 2018). At the end of fiscal year 2020, there were 317 employees (295 and 304 employees at 31 December, 2019 and 2018, respectively).

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December, 2020, 2019 and 2018 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 (2015, 2016, 2017, 2018, 2019 and 2020)</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 sixth cycles, and over three or five years for the fifth, seventh, eighth, ninth and tenth 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 (fifth cycle)
• In the case of the sixth, seventh, eighth, ninth and tenth 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 fifth and sixth cycles (2015 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.
iv. Significant changes in the Group's economic capital or risk profile
In the case of the seventh, eight, ninth and tenth cycles (2017 to 2020), 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:
v. significant failures in risk management committed by the entity , or by a business unit or risk control unit.
vi. 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.
vii. 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.
viii. 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>Fifth cycles (2015):
• 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, ninth and tenth cycle (2017, 2018, 2019 and 2020):
• 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</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.
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>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 op 3 top 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, 2019 and 2020)	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. iv. Significant changes in the Group's economic capital or risk profile. In 2017, 2018, 2019 and 2020 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: v. Significant failures in risk management committed by the entity, or by a business unit or risk control unit. vi. 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. vii. 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. viii. 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 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, 2021 and 2022 (over 2016, 2017, 2018 and 2019, 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 and fifth cycle) for the 2019-2021 and 2020-2022 period. • Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial years 2019, 2020, 2021 and 2022, respectively.

<table>
<tr><th>Deferred variable remuneration systems</th><th>Description and plan beneficiaries</th><th>Conditions</th><th>Calculation Base</th></tr>
<tr><td>(iv) Digital Transformation Award (2019 y 2020)</td><td>The 2019 and 2020 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.</td><td>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.

The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries.

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</td><td>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 and eight years from granting for the 2019 and 2020 incentive, respectively.</td></tr>
</table>

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 01/01/2018	**27.201**						
Options granted (sharesave)	6,210	3.46	2018	Employees	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 31/12/2018	**26,838**						
Options granted (sharesave)	9,594	2.83	2019	Employees	5,606	01/11/19	01/11/22
						01/11/19	01/11/24
Options exercised	(7,978)	2.83					
Options cancelled (net) or not exercised	(5,081)	3.42					
Plans outstanding at 31/12/2019	**23,373**						
Options granted (sharesave)	11,642	1.65	2020	Employees	5,012	11/01/20	11/01/23
						11/01/20	11/01/25
Options exercised	(860)	2.75					
Options cancelled (net) or not exercised	(12,993)	2.96					
Plans outstanding at 31/12/2020	**21,162**						

* At 31 December, 2020, 2019 and 2018, the euro/pound sterling exchange rate was EUR 1.1168 GBP 1, EUR 1.1754 GBP 1; EUR 1.1179 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 see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. At the end of the chosen period, the employee may choose between collecting the amount contributed, the interest accrued and a bonus (tax-exempt in the United Kingdom) or exercising options on shares of the Bank in an amount equal to the sum of such three amounts at a fixed price. The exercise price will be the result of 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 21to 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, April 12, 2019, and April 3, 2020 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 2018, 2019 and 2020:

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 2018, 2019 and 2020 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 GBP 0.21 (GBP 0.49 and GBP 0.53 in 2019 and 2018, respectively).

47. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses is as follows:

EUR million

	2020	2019	2018
Property, fixtures and supplies (note 2.k)	827	975	1,968
Technology and systems	2,119	2,161	1,550
Technical reports	672	677	707
Advertising	523	685	646
Taxes other than income tax	537	522	557
Communications	473	518	527
Surveillance and cash courier services	325	416	405
Per diems and travel expenses	73	226	225
Insurance premiums	88	86	76
Other administrative expenses	1,900	1,872	1,828
	7,537	**8,138**	**8,489**

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:

EUR million

	2020	2019	2018
Audit fees	95.8	102.4	93.9
Audit-related fees	6.0	7.8	6.8
Tax fees	0.8	0.7	0.9
All other fees	1.2	2.3	3.4
Total	**103.8**	**113.2**	**105.0**

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 Grupo Santander.

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 172.4 million in 2020 (EUR 227.6 million and EUR 173.9 million in 2019 and 2018, respectively).

The Audit fees and Audit-related 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 2020, 2019 and 2018 is as follows:

Number of branches

	Group		
	2020	2019	2018
Spain	2,989	3,286	4,427
Group	8,247	8,666	8,790
	11,236	**11,952**	**13,217**

48. 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:

EUR million

	2020	2019	2018
Gains:			
Tangible and intangible assets	89	131	124
Investments	60	1,219	2
Of which:			
Custody Business (note 3)	*—*	*989*	*—*
Prisma	*—*	*194*	*—*
	149	1,350	126
Losses:			
Tangible and intangible assets	(34)	(55)	(92)
Investments	(1)	(4)	(6)
	(35)	(59)	(98)
	114	**1,291**	**28**

49. 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:

EUR million

Net balance	2020	2019	2018
Tangible assets	(171)	(232)	(123)
Impairment	*(215)*	*(146)*	*(259)*
Gain (loss) on sale	*44*	*(86)*	*136*
Other gains and other losses	—	—	—
	(171)	**(232)**	**(123)**

50. Other disclosures

a) Residual maturity periods and interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheet and the interest rate of the outstanding balances at year-end is presented below:

	31 December 2020								
	EUR million								
	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	Interest rate
Assets									
Cash, cash balances at Central Banks and other deposits on demand	153,839	—	—	—	—	—	—	153,839	(0.06)%
Financial assets at fair value through other comprehensive income	—	6,664	4,420	7,738	19,923	21,302	58,123	118,170	
Debt instruments	—	6,664	4,244	7,019	18,365	19,969	52,642	108,903	2.96 %
Loans and advances	—	—	176	719	1,558	1,333	5,481	9,267	
Customers	—	—	176	719	1,558	1,333	5,481	9,267	2.05 %
Financial assets at amortized cost	51,513	57,047	60,288	109,561	150,399	120,376	409,194	958,378	
Debt instruments	—	2,857	1,327	5,760	3,059	5,257	7,818	26,078	2.53 %
Loans and advances	51,513	54,190	58,961	103,801	147,340	115,119	401,376	932,300	
Central banks	—	10,762	—	—	673	—	1,064	12,499	2.32 %
Credits institutions	21,337	4,405	4,545	3,910	3,207	34	400	37,838	2.14 %
Customers	30,176	39,023	54,416	99,891	143,460	115,085	399,912	881,963	3.67 %
	205,352	**63,711**	**64,708**	**117,299**	**170,322**	**141,678**	**467,317**	**1,230,387**	**3.04 %**
Liabilities									
Financial liabilities at amortized cost	640,613	84,875	90,394	93,296	175,238	80,041	83,731	1,248,188	
Deposits	632,305	64,630	67,707	61,142	109,856	32,464	22,287	990,391	
Central banks	150	5,204	5,295	3,216	83,112	15,827	—	112,804	(0.44)%
Credit institutions	14,370	7,158	15,227	9,940	5,618	5,934	4,373	62,620	1.62 %
Customer deposits	617,785	52,268	47,185	47,986	21,126	10,703	17,914	814,967	0.64 %
Marketable debt securities* **	—	14,981	18,276	30,994	59,526	47,143	59,909	230,829	1.94 %
Other financial liabilities	8,308	5,264	4,411	1,160	5,856	434	1,535	26,968	
	640,613	**84,875**	**90,394**	**93,296**	**175,238**	**80,041**	**83,731**	**1,248,188**	**0.82 %**
Difference (assets less liabilities)	**(435,261)**	**(21,164)**	**(25,686)**	**24,003**	**(4,916)**	**61,637**	**383,586**	**(17,801)**	

* 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).

Grupo Santander's net borrowing position with the European Central Bank (ECB) was EUR 13,494 million at 31 December 2020, mainly because in last period the Group borrowed funds under the ECB's targeted longer-term refinancing operations (LTRO, TLTRO) programme. (see note 20).

Grupo Santander has accounted as "On demand", those financial liabilities assumed, in which the counterparty may require the payments.

In addition, when Grupo Santander 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 2019								
	EUR million								
	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	Interest rate
Assets									
Cash, cash balances at Central Banks and other deposits on demand	101,067	—	—	—	—	—	—	101,067	0.37 %
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 amortized 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**	**4.12 %**
Liabilities									
Financial liabilities at amortized 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	(0.12)%
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**	**1.29 %**
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.

	31 December 2018								
	EUR million								
	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	0.11 %
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 amortized 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**	**4.17 %**
Liabilities									
Financial liabilities at amortized 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	(0.22)%
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**	**1.27 %**
Difference (assets less liabilities)	**(383,488)**	**(24,941)**	**(18,337)**	**(12,613)**	**(28,541)**	**61,699**	**412,773**	**6,552**	

* 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 2020, 2019 and 2018 is as follows:

	31 December 2020							
	EUR million							
	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 amortized cost								
Deposits	629,043	62,872	67,567	60,465	108,326	32,260	22,228	982,761
Central banks	150	5,204	5,293	3,217	82,803	15,827	—	112,494
Credit institutions	14,334	7,158	15,209	9,606	5,031	5,903	4,333	61,574
Customer	614,559	50,510	47,065	47,642	20,492	10,530	17,895	808,693
Marketable debt securities	—	15,298	19,009	31,103	58,645	46,118	56,730	226,903
Other financial liabilities	8,308	5,264	4,411	1,160	5,856	434	1,535	26,968
	637,351	**83,434**	**90,987**	**92,728**	**172,827**	**78,812**	**80,493**	**1,236,632**

	31 December 2019							
	EUR million							
	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 amortized 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**

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	31 December 2018							
	EUR million							
	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 amortized 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**

Below is a breakdown of contractual maturities for the rest of financial assets and liabilities as of 31 December 2020, 2019 and 2018:

	31 December 2020						
	EUR million						
	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	**5,760**	**6,734**	**27,753**	**22,473**	**18,014**	**34,211**	**114,945**
Derivatives	4,288	5,268	10,044	15,526	13,681	18,330	67,137
Equity instruments	—	—	—	—	—	9,615	9,615
Debt instruments	1,472	1,466	17,709	6,947	4,310	5,990	37,894
Loans and advances	—	—	—	—	23	276	299
Credits institutions	—	—	—	—	3	—	3
Customers	—	—	—	—	20	276	296
Financial assets designated at fair value through profit or loss	**12,500**	**14,834**	**7,205**	**3,680**	**3,933**	**6,565**	**48,717**
Debt instruments	181	78	162	407	719	1,432	2,979
Loans and advances	12,319	14,756	7,043	3,273	3,214	5,133	45,738
Central banks	343	9,138	—	—	—	—	9,481
Credit institutions	6,935	1,514	2,728	590	12	357	12,136
Customers	5,041	4,104	4,315	2,683	3,202	4,776	24,121
Non-trading financial assets mandatorily at fair value through profit or loss	**275**	**—**	**—**	**—**	**69**	**4,142**	**4,486**
Equity instruments	—	—	—	—	—	3,234	3,234
Debt instruments	85	—	—	—	—	615	700
Loans and advances	190	—	—	—	69	293	552
Central banks	—	—	—	—	—	—	—
Credits institutions	—	—	—	—	—	—	—
Customers	190	—	—	—	69	293	552
Financial assets at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**2,783**	**2,783**
Equity instruments	—	—	—	—	—	2,783	2,783
Hedging derivatives	**1,534**	**469**	**1,293**	**1,107**	**1,083**	**2,839**	**8,325**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**173**	**8**	**132**	**205**	**381**	**1,081**	**1,980**
TOTAL FINANCIAL ASSETS	**20,242**	**22,045**	**36,383**	**27,465**	**23,480**	**51,621**	**181,236**

	31 December 2020						
	EUR million						
	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	**16,754**	**3,727**	**6,286**	**17,635**	**16,036**	**20,729**	**81,167**
Derivatives	1,132	3,206	5,800	17,566	16,036	20,729	64,469
Shorts positions	15,622	521	486	69	—	—	16,698
Deposits	—	—	—	—	—	—	—
Central banks	—	—	—	—	—	—	—
Credits institutions	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—
Marketable debt securities	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	**13,468**	**1,732**	**2,228**	**2,893**	**1,121**	**26,596**	**48,038**
Deposits	13,459	1,709	1,954	2,497	518	23,461	43,598
Central banks	841	866	783	—	—	—	2,490
Credits institutions	3,673	112	935	1,493	171	381	6,765
Customers	8,945	731	236	1,004	347	23,080	34,343
Marketable debt securities*	9	23	274	396	603	3,135	4,440
Other financial liabilities	—	—	—	—	—	—	—
Hedging derivatives	**2,619**	**200**	**588**	**748**	**641**	**2,073**	**6,869**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	3	6	40	74	64	99	286
TOTAL FINANCIAL LIABILITIES	**32,844**	**5,665**	**9,142**	**21,350**	**17,862**	**49,497**	**136,360**

* Includes promissory notes, certificates of deposit and other short-term debt issues (see note 22).

	31 December 2020						
	EUR million						
	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	104,725	9,496	28,207	47,876	40,458	10,468	241,230
Financial guarantees granted	1,809	852	3,732	4,134	1,169	681	12,377
Other commitments granted	39,205	4,529	10,497	5,101	3,207	1,999	64,538
MEMORANDUM ITEMS	**145,739**	**14,877**	**42,436**	**57,111**	**44,834**	**13,148**	**318,145**

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 2019						
	EUR million						
	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 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						
	EUR million						
	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							
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**

	31 December 2019						
	EUR million						
	Within 1 month	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**

	31 December 2018						
	EUR million						
	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 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**

	31 December 2018						
	EUR million						
	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							
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**

	31 December 2018						
	EUR million						
	Within 1 month	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**

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 EUR million

	2020		2019		2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and other deposits on demand	76,882	—	65,205	—	61,372	—
Financial assets/liabilities held for trading	66,448	50,494	60,526	45,262	56,217	40,989
Non-trading financial assets mandatorily at fair value through profit or loss	2,248	—	2,611	—	8,231	—
Other financial assets/liabilities at fair value through profit or loss	24,015	18,347	25,938	29,593	32,244	35,997
Financial assets at fair value through other comprehensive income	79,688	—	76,402	—	67,926	—
Financial assets at amortized cost	610,152	—	656,564	—	598,629	—
Investments	1,671	—	1,355	—	1,189	—
Tangible assets	21,617	—	24,662	—	19,903	—
Intangible assets	9,609	—	21,942	—	23,016	—
Financial liabilities at amortized cost	—	726,516	—	752,188	—	694,362
Liabilities under insurance contracts	—	13	—	13	—	29
Other	26,433	22,801	25,410	23,428	24,506	20,567
	918,763	**818,171**	**960,615**	**850,484**	**893,233**	**791,944**

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.

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

EUR million

	2020					2019					2018				
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	932,300	940,258	—	65,755	874,503	965,693	975,523	—	82,045	893,478	908,403	914,013	—	88,091	825,922
Debt instruments	26,078	26,532	6,753	11,899	7,880	29,789	30,031	10,907	9,971	9,153	37,696	38,095	20,898	11,246	5,951
	958,378	**966,790**	**6,753**	**77,654**	**882,383**	**995,482**	**1,005,554**	**10,907**	**92,016**	**902,631**	**946,099**	**952,108**	**20,898**	**99,337**	**831,873**

ii) Financial liabilities measured at other than fair value

EUR million

	2020					2019					2018				
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	990,391	990,807	—	263,517	727,290	942,417	942,397	—	245,143	697,254	903,101	902,680	—	302,414	600,266
Debt instruments	230,829	241,174	91,771	125,031	24,372	258,219	266,784	84,793	149,516	32,475	244,314	247,029	72,945	143,153	30,931
	1,221,220	**1,231,981**	**91,771**	**388,548**	**751,662**	**1,200,636**	**1,209,181**	**84,793**	**394,659**	**729,729**	**1,147,415**	**1,149,709**	**72,945**	**445,567**	**631,197**

* At 31 December 2020, the Group had other financial liabilities that amounted to EUR 26,968 million, EUR 30,109 million in 2019 and EUR 24,215 million in 2018.

The main valuation methods and inputs used in the estimates at 31 December 2020 of the fair values of the financial assets and liabilities in the foregoing table were as follows:

- Financial assets at amortised cost: 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-.
- 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.

d) Exposure of the Group to Europe's peripheral countries

The detail at 31 December 2020, 2019 and 2018, 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 2020*

	EUR million								
	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 amortized cost**	Loans and advances to customers**	Total net direct exposure	Direct risk	Indirect risk (CDS)s
Spain	9,765	(5,665)	7,048	—	993	12,104	24,245	546	—
Portugal	202	(582)	4,148	—	631	4,331	8,730	—	—
Italy	556	(307)	2,468	—	1,277	21	4,015	1	(1)
Ireland	—	—	—	—	—	—	—	—	—

* Information prepared under EBA standards. Also, there are government debt instruments on insurance companies balance sheets amounting to EUR 14,241 million (of which EUR 12,571 million, EUR 1,281 million, EUR 387 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 6,134 million (of which EUR 5,509 million, EUR 345 million and EUR 280 million to Spain, Portugal and Italy, respectively).

** Presented without taking into account the valuation adjustments recognised (EUR 23 million).

*** Other than CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. CDS refers to the exposure to CDS based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2019*

	EUR million								
	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 amortized cost**	Loans and advances to customers**	Total net direct exposure	Direct risk	**Indirect risk (CDS)**
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 securities 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 CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. CDS refers to the exposure to CDS based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2018*

	EUR million								
	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 amortized cost**	Loans and advances to customers**	Total net direct exposure	Direct risk	**Indirect risk (CDS)**
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	—

* 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 and 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 (EUR 4,870 million, EUR 366 million and EUR 386 million to Spain, Portugal and Italy, respectively).

** Presented without taking into account the Other comprehensive income recognised (EUR 34 million).

** Other than CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. CDS refers to the exposure to CDS based on the location of the underlying.

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 2020, 2019 and 2018 is as follows:

Exposure to other counterparties by country of issuer/borrower at 31 December 2020***

	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 amortized cost	Loans and advances to customers*	Total net direct exposure	Other than CDS	**CDS**
Spain	62,023	3,837	619	943	2	24	203,226	270,674	2,581	(4)
Portugal	3,937	—	140	22	—	2,933	34,935	41,967	685	—
Italy	10	7,098	425	493	—	129	13,437	21,592	1,001	(4)
Greece	—	—	—	—	—	—	14	14	—	—
Ireland	—	—	22	2,337	556	9	10,523	13,447	153	—

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 76,377 million, EUR 8,591 million, EUR 4,173 million, EUR 200 million and EUR 797 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

** Presented without taking into account valuation adjustments or impairment corrections (EUR 8,129 million).

*** Other than CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. 'CDS' refers to the exposure to CDS based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2019***

	EUR million									
			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 amortized cost	Loans and advances to customers*	Total net direct exposure	Other than CDS	**CDS**
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 CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. 'CDS' refers to the exposure to CDS based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2018*

	EUR million									
			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 at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortized cost	Loans and advances to customers	Total net direct exposure ****	Other than CDS	**CDS**
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	—

* 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 excluding Other comprehensive income and impairment losses recognised (EUR 9,385 million).

*** Other than CDS refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. 'CDS' refers to the exposure to CDS based on the location of the underlying.

Following is certain information on the notional amount of the CDS at 31 December 2020, 2019 and 2018 detailed in the foregoing tables:

2020

EUR million

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	546	273	273	(13)	9	(4)
Portugal	Sovereign	—	—	—	—	—	—
	Other	52	—	52	—	—	—
Italy	Sovereign	326	206	120	(3)	2	(1)
	Other	220	11	209	(4)	—	(4)

2019

EUR million

		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	—

2018

EUR million

		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	—

51. Main and secondary segments reporting

We base segment reporting on financial information presented to the chief operating decision maker, which excludes certain statutory results items that distort year-on-year comparisons and are not considered for management reporting. 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.

Grupo Santander has aligned the information in this note with the underlying information used internally for management reporting and with that presented in Grupo Santander's other public documents.

Grupo Santander executive committee has been determined to be its chief operating decision maker. Grupo Santander's operating segments reflect its organizational and managerial structures. Grupo Santander 's executive committee reviews internal reporting based on these segments to assess performance and allocate resources.

The segments are split by geographic area in which profits are earned and type of business. We prepare the information by aggregating the figures for Grupo Santander's various geographic areas and business units, relating it to both the accounting data of the units integrated in each segment and that provided by management information systems.The same general principles as those used in Grupo Santander are applied.

In 2020, we maintain the general criteria applied in 2019, as well as the business segments with the following exceptions, which only affect the secondary segments:

1. Following the creation of the reporting segment Santander Global Platform in 2019, which comprises our global digital services under a single unit, and its incorporation in both primary and secondary segments, in 2020 for better monitoring of its evolution and contribution to the Group's results, at the secondary segment level in addition to the results generated by the platforms, 50% of the results generated by countries in products linked to these platforms are considered. These results were previously included in Retail Banking.

2. Annual adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Santander Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.

These changes in the secondary segments have no impact on the primary segments and do not affect the Group's figures.

To allow better comparability of the secondary segments, 2019 data has been provided on a new basis.

After these changes, the operating business areas are structured in two levels:

a) Main segments

This main 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: which comprises all the business activities carried out in the region, mainly in Spain, Santander Consumer Finance, the United Kingdom, Portugal and Poland

- 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 Santander Bank, Santander Consumer USA, the specialized unit Banco Santander International, Santander Investment Securities (SIS) and the New York branch. The sale of Banco Santander Puerto Rico was completed in September 2020, which was previously included in the US.

- South America: includes all the financial activities carried out by Grupo Santander through its banks and subsidiary banks in the region, mainly in Brazil, Chile and Argentina.

- Santander Global Platform: which comprises our global digital services under a single unit, includes Global Payments Services (*global trade services, global merchant services, superdigital, pagoFX*), our fully digital bank Openbank, S.A. 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, Grupo Santander continues to maintain the area of Corporate Centre, that includes the centralized activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of Grupo Santander's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances.

As Grupo Santander's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the rest of businesses. It also incorporates amortization 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.

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 main segments are as follows:

EUR million

	2020						
Balance sheet (condensed)	Europe	North America	South America	Santander Global Platform	Corporate Centre	Intra-Group eliminations	Total
Total assets	**1,077,537**	**223,313**	**238,263**	**12,901**	**182,587**	**(226,351)**	**1,508,250**
Loans and advances to customers	675,894	120,557	113,731	973	5,044	—	916,199
Cash, balances at central banks and credit institutions and other deposits on demand	224,793	28,469	42,957	10,917	61,173	(142,513)	225,796
Debt instruments	86,925	38,398	49,300	13	1,918	—	176,554
Other financial assets	48,266	15,363	17,266	230	1,644	—	82,769
Other asset accounts	41,659	20,526	15,009	768	112,808	(83,838)	106,932
Total liabilities	**1,022,954**	**199,611**	**218,797**	**11,521**	**106,558**	**(142,513)**	**1,416,928**
Customer deposits	622,826	102,906	111,791	10,961	826	—	849,310
Central banks and credit institutions	208,408	37,966	41,989	274	38,555	(142,513)	184,679
Marketable debt securities	120,166	36,583	21,280	—	57,240	—	235,269
Other financial liabilities***	55,919	16,159	35,434	130	493	—	108,135
Other liabilities accounts****	15,635	5,997	8,303	156	9,444	—	39,535
Total equity	**54,583**	**23,702**	**19,466**	**1,380**	**76,029**	**(83,838)**	**91,322**
Other customer funds under management	**86,899**	**16,505**	**49,851**	**—**	**12**	**—**	**153,267**
Investment funds	71,238	10,864	49,851	—	12	—	131,965
Pension funds	15,487	90	—	—	—	—	15,577
Assets under management	174	5,551	—	—	—	—	5,725
Other non-managed marketed customer funds	**34,789**	**11,915**	**6,187**	**658**	**—**	**—**	**53,549**

* 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.

EUR million

Balance sheet (condensed)	2019 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.

EUR million

Balance sheet (condensed)	Europe	North America	South America	Santander Global Platform	Corporate Centre	Intra-Group eliminations	Total
	2018						
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.

The condensed income statements for the main segments are as follows:

EUR million

	2020					
Underlying income statement (condensed)	Europe	North America	South America	Santander Global Platform	Corporate centre	Total
Net interest income	**14,047**	**8,469**	**10,723**	**129**	**(1,374)**	**31,994**
Net fee income	4,736	1,661	3,566	81	(29)	10,015
Gains (losses) on financial transactions*	885	251	765	(1)	287	2,187
Other operating income**	25	630	(209)	(17)	(25)	404
Total income	**19,693**	**11,011**	**14,845**	**192**	**(1,141)**	**44,600**
Administrative expenses, depreciation and amortisation	(10,314)	(4,631)	(5,312)	(381)	(329)	(20,967)
Net operating income* **	**9,379**	**6,380**	**9,533**	**(189)**	**(1,470)**	**23,633**
Net loan-loss provisions****	(4,300)	(3,917)	(3,923)	(3)	(31)	(12,174)
Other gains (losses) and provisions*****	(913)	(130)	(319)	(11)	(412)	(1,785)
Operating profit/(loss) before tax	**4,166**	**2,333**	**5,291**	**(203)**	**(1,913)**	**9,674**
Tax on profit	(1,131)	(579)	(1,927)	52	69	(3,516)
Profit from continuing operations	**3,035**	**1,754**	**3,364**	**(151)**	**(1,844)**	**6,158**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**3,035**	**1,754**	**3,364**	**(151)**	**(1,844)**	**6,158**
Non-controlling interests	379	262	437	(1)	—	1,077
Attributable profit to the parent	**2,656**	**1,492**	**2,927**	**(150)**	**(1,844)**	**5,081**

* 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 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 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.

EUR million

	2019					
Underlying income statement (condesed)	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.

**** '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 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 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.

EUR million

Underlying income statement (condensed)	Europe	North America	South America	Santander Global Platform	Corporate Centre	Total
	2018					
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. 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.

b) Secondary segments

At this secondary level, Grupo Santander is structured into Retail Banking, Santander Corporate & Investment Banking, Wealth Management & Insurance and Santander Global Platform.

- Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking which are managed through Santander Corporate & Investment Banking, asset management, private banking and insurance, which are managed by Wealth Management & Insurance and 50% of the countries' results generated by digital services, which are included in Santander Global Platform. 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 the asset management business (Santander Asset Management), the corporate unit of Private Banking and International Private Banking in Miami and Switzerland and the insurance business (Santander Insurance).

- Santander Global Platform: which comprises our global digital services under a single unit (breakdown in the primary segment definition), as well as 50% of the results generated by these services in the commercial network.

Although Santander Global Platform and Wealth Management & Insurance do not meet the quantitative thresholds defined in IFRS 8, these segments are considered reportable by Grupo Santander and are disclosed separately because Grupo Santander's management believes that information about these segments is useful to users of the financial statements.

There are no customers located in a place different from the location of the Group's assets that generate revenues in excess of 10% of ordinary revenues.

The condensed income statements are as follows:

EUR million

Underlying income statement (condensed)	Retail Banking	Santander Corporate & Investment Banking	Wealth Management & Insurance	Santander Global Platform	Corporate centre	Total
	2020					
Net interest income	**29,544**	**2,953**	**455**	**416**	**(1,374)**	**31,994**
Net fee income	6,850	1,551	1,194	449	(29)	10,015
Gains (losses) on financial transactions*	962	690	103	145	287	2,187
Other operating income**	(141)	204	383	(17)	(25)	404
Total income	**37,215**	**5,398**	**2,135**	**993**	**(1,141)**	**44,600**
Administrative expenses, depreciation and amortisation	(16,846)	(2,069)	(907)	(816)	(329)	(20,967)
Net operating income* **	**20,369**	**3,329**	**1,228**	**177**	**(1,470)**	**23,633**
Net loan-loss provisions****	(11,609)	(467)	(28)	(39)	(31)	(12,174)
Other gains (losses) and provisions*****	(1,228)	(135)	(1)	(9)	(412)	(1,785)
Operating profit/(loss) before tax	**7,532**	**2,727**	**1,199**	**129**	**(1,913)**	**9,674**
Tax on profit	(2,453)	(783)	(291)	(58)	69	(3,516)
Profit/(loss) from continuing operations	**5,079**	**1,944**	**908**	**71**	**(1,844)**	**6,158**
Net profit/(loss) from discontinued operations	—	—	—	—	—	—
Consolidated profit/(loss)	**5,079**	**1,944**	**908**	**71**	**(1,844)**	**6,158**
Non-controlling interests	883	121	41	32	—	1,077
Attributable profit/(loss) to the parent	**4,196**	**1,823**	**867**	**39**	**(1,844)**	**5,081**

* 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 an addition 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 an addition 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.

EUR million

	2019					
Underlying income statement (condensed)	Retail Banking	Santander Corporate & Investment Banking (SCIB)	Wealth Management & Insurance	Santander Global Platform	Corporate Centre	Total
Net interest income	**32,862**	**2,728**	**570**	**375**	**(1,252)**	**35,283**
Net fee income	8,561	1,520	1,199	549	(50)	11,779
Gains (losses) on financial transactions*	872	689	117	149	(296)	1,531
Other operating income**	303	289	340	(13)	(18)	901
Total income	**42,598**	**5,226**	**2,226**	**1,060**	**(1,616)**	**49,494**
Administrative expenses, depreciation and amortisation	(18,926)	(2,281)	(955)	(745)	(373)	(23,280)
Net operating income* **	**23,672**	**2,945**	**1,271**	**315**	**(1,989)**	**26,214**
Net loan-loss provisions****	(9,101)	(155)	23	(52)	(36)	(9,321)
Other gains (losses) and provisions*****	(1,619)	(91)	(12)	(5)	(237)	(1,964)
Operating profit/(loss) before tax	**12,952**	**2,699**	**1,282**	**258**	**(2,262)**	**14,929**
Tax on profit	(4,047)	(815)	(302)	(95)	156	(5,103)
Profit/(loss) from continuing operations	**8,905**	**1,884**	**980**	**163**	**(2,106)**	**9,826**
Net profit/(loss) from discontinued operations	—	—	—	—	—	—
Consolidated profit/(loss)	**8,905**	**1,884**	**980**	**163**	**(2,106)**	**9,826**
Non-controlling interests	1,325	171	51	36	(9)	1,574
Attributable profit/(loss) to the parent	**7,580**	**1,713**	**929**	**127**	**(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.

EUR million

	2018					
Underlying income statement (condensed)	Retail Banking	Santander Corporate & Investment Banking (SCIB)	Wealth Management & Insurance	Santander Global Platform	Corporate Centre	Total
Net interest income	**31,976**	**2,461**	**527**	**364**	**(987)**	**34,341**
Net fee income	8,331	1,534	1,142	546	(68)	11,485
Gains (losses) on financial transactions*	609	898	131	147	12	1,797
Other operating income**	343	184	299	(11)	(14)	801
Total income	**41,259**	**5,077**	**2,099**	**1,046**	**(1,057)**	**48,424**
Administrative expenses, depreciation and amortisation	(18,756)	(2,101)	(873)	(623)	(426)	(22,779)
Net operating income* **	**22,503**	**2,976**	**1,226**	**423**	**(1,483)**	**25,645**
Net loan-loss provisions****	(8,528)	(199)	(10)	(21)	(115)	(8,873)
Other gains (losses) and provisions*****	(1,789)	(97)	(4)	(4)	(101)	(1,995)
Operating profit/(loss) before tax	**12,186**	**2,680**	**1,212**	**398**	**(1,699)**	**14,777**
Tax on profit	(4,002)	(832)	(285)	(125)	14	(5,230)
Profit/(loss) from continuing operations	**8,184**	**1,848**	**927**	**273**	**(1,685)**	**9,547**
Net profit/(loss) from discontinued operations	—	—	—	—	—	—
Consolidated profit/(loss)	**8,184**	**1,848**	**927**	**273**	**(1,685)**	**9,547**
Non-controlling interests	1,230	157	52	43	1	1,483
Attributable profit/(loss) to the parent	**6,954**	**1,691**	**875**	**230**	**(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.

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.

Grupo Santander assets and liabilities for management reporting purposes do not differ from the statutory reported figures and therefore are not reconciled.

EUR million

2020			
Reconciliation of underlying results to statutory results	Underlying results	Adjustments	Statutory results
Net interest income	**31,994**	**—**	**31,994**
Net fee income	10,015	—	10,015
Gains (losses) on financial transactions*	2,187	—	2,187
Other operating income**	404	(321)	83
Total income	**44,600**	**(321)**	**44,279**
Administrative expenses, depreciation and amortisation	(20,967)	(163)	(21,130)
Net operating income* **	**23,633**	**(484)**	**23,149**
Net loan-loss provisions****	(12,174)	(258)	(12,432)
Other gains (losses) and provisions*****	(1,785)	(11,008)	(12,793)
Operating profit/(loss) before tax	**9,674**	**(11,750)**	**(2,076)**
Tax on profit	(3,516)	(2,116)	(5,632)
Adjusted profit for the year from continuing operations	**6,158**	**(13,866)**	**(7,708)**
Profit from discontinued operations (net)	—	—	—
Consolidated profit/(loss)	**6,158**	**(13,866)**	**(7,708)**
Non-controlling interests	1,077	(14)	1,063
Attributable profit/(loss) to the parent	**5,081**	**(13,852)**	**(8,771)**

* 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 an addition 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 for an addition 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:

- Adjustment to the valuation of goodwill arising from the Group's acquisitions in the amount of EUR -10,100 million, which is included in the line 'Other gains (losses) and provisions'.
- Adjustment to the valuation of the deferred tax assets of the consolidated tax group in Spain in the amount of EUR -2,500 million, which is included in the 'Tax on profit' line.
- Restructuring costs with a net impact of EUR -1,114 million, which are included for their gross amount mainly in the line 'Other gains (losses) and provisions'.
- Other charges of EUR -138 million (related to sales of non-performing loans in Spain, cancellation of pension commitment costs and other expenses), which are recorded gross in 'Other gains (losses) and provisions', 'Net loan-loss provision' and 'Administrative expenses and depreciation and amortization'.

EUR million

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/(loss)	**9,826**	**(1,710)**	**8,116**
Non-controlling interests	1,574	27	1,601
Attributable profit/(loss) 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. 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 EUR 31 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:

- Impairment of the 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 the line 'Other gains (losses) and provisions'.
- Restructuring costs with a net impact of EUR -864 million, which are included in the line 'Other gains (losses) and provisions'.
- Losses related to real estate assets and holdings in Spain with a net impact of EUR -405 million, which are included in the 'Other operating income' and 'Other gains (losses) and provisions' lines.
- Provisions related to intangible assets and others, amounting to EUR -174 million, 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 at their gross amount in the line 'Other gains (losses) and provisions'.
- Positive impact due to changes in tax regulations in Brazil for a net amount of EUR 551 million, which is included in the line "Tax on profit'.

EUR million

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/(loss)	**9,547**	**(232)**	**9,315**
Non-controlling interests	1,483	22	1,505
Attributable profit/(loss) 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. 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 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.

52. 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 recognized.

EUR million

	2020			
	Associates and joint ventures	Members of the board of directors	Executive vicepresident	Other related parties
Assets	**8,473**	**—**	**24**	**95**
Cash, cash balances at central banks and other deposits on demand	151	—	—	—
Loans and advances: credit institutions	562	—	—	—
Loans and advances: customers	6,934	—	24	95
Debt instruments	423	—	—	—
Others	403	—	—	—
Liabilities	**3,593**	**4**	**16**	**159**
Financial liabilities: credit institutions	944	—	—	—
Financial liabilities: customers	2,557	4	16	159
Marketable debt securities	12	—	—	—
Others	80	—	—	—
Income statement	**1,269**	**—**	**—**	**3**
Interest income	106	—	—	2
Interest expense	(8)	—	—	—
Gains/losses on financial assets and liabilities and others	49	—	—	—
Commission income	1,154	—	—	1
Commission expense	(32)	—	—	—
Other	**4,097**	**1**	**1**	**52**
Financial guarantees granted and Others	14	—	—	3
Loan commitments and Other commitments granted	253	1	1	13
Derivative financial instruments	3,830	—	—	36

EUR million

	2019			
	Associates and joint ventures	Members of the board of directors	Executive vicepresident	Other related parties
Assets	**9,659**	**—**	**26**	**104**
Cash, cash balances at central banks and other deposits on demand	740	—	—	—
Loans and advances: credit institutions	961	—	—	—
Loans and advances: customers	6,950	—	26	104
Debt instruments	848	—	—	—
Others	160	—	—	—
Liabilities	**2,689**	**41**	**12**	**57**
Financial liabilities: credit institutions	563	—	—	—
Financial liabilities: customers	2,064	41	12	57
Marketable debt securities	—	—	—	—
Others	62	—	—	—
Income statement	**1,386**	**—**	**—**	**2**
Interest income	111	—	—	1
Interest expense	(15)	—	—	—
Gains/losses on financial assets and liabilities and others	47	—	—	—
Commission income	1,269	—	—	1
Commission expense	(26)	—	—	—
Other	**4,219**	**7**	**3**	**49**
Financial guarantees granted and Others	17	5	2	38
Loan commitments and Other commitments granted	197	1	1	6
Derivative financial instruments	4,005	1	—	5

EUR million

	2018			
	Associates and joint ventures	Members of the board of directors	Executive vicepresident	Other related parties
Assets	**7,202**	**—**	**30**	**256**
Cash, cash balances at central banks and other deposits on demand	—	—	—	—
Loans and advances: credit institutions	704	—	—	—
Loans and advances: customers	6,142	—	30	256
Debt instruments	295	—	—	—
Others	61	—	—	—
Liabilities	**1,650**	**19**	**12**	**363**
Financial liabilities: credit institutions	8	—	—	—
Financial liabilities: customers	1,596	19	12	363
Marketable debt securities	8	—	—	—
Others	38	—	—	—
Income statement	**993**	**—**	**—**	**31**
Interest income	73	—	—	14
Interest expense	(3)	—	—	(1)
Gains/losses on financial assets and liabilities and others	82	—	—	—
Commission income	853	—	—	18
Commission expense	(12)	—	—	—
Other	**4,707**	**9**	**3**	**782**
Financial guarantees granted and Others	21	7	1	508
Loan commitments and Other commitments granted	393	1	2	64
Derivative financial instruments	4,293	1	—	210

The remaining required information is detailed in notes 5, 14 and 46.c.

53. Risk management

a) Cornerstones of the risk function

Grupo Santander´s risk principles below are compulsory. They comply with regulatory requirements and are inspired by best market practices:

1. **All employees are risk managers**. Employees must understand the risks inherent in their jobs, avoiding them wherever the impact is unknown or exceeds our risk appetite.
2. **Engagement of top management,** who must act and communicate to manage risks consistently, supervise our risk culture and make sure we keep our risk profile within our risk appetite.
3. **Independent risk management and control functions**, consistent with our model of three lines of defence.
4. **A forward-looking, comprehensive approach to risk management and control** for all businesses and risk types.
5. **Detailed, timely information** to detect, assess, manage and report risks to the appropriate level of management.

Grupo Santander's holistic control structure stands on these principles, plus a series of strategic tools and procedures embedded in group´s risk appetite statement, such as the risk profile assessment, scenario analysis, the risk reporting structure and the annual planning and budget process.

1. Main risks of the group's financial instruments

Grupo Santander's classification of risks ensures effective risk management, control and reporting. Our risk framework distinguishes these key risk types:

- **Credit risk** relates to financial loss arising from the default or credit quality deterioration of a customer or counterparty, to which Santander has directly provided credit or assumed a contractual obligation.
- **Market risk** results from changes in interest rates, exchange rates, equities, commodities and other market factors, and from their effect on profit or capital.
- **Liquidity risk** occurs if liquid financial resources are not enough to meet due obligations or can only be obtained at a high cost.
- **Structural risk** relates to the changing value or margin of assets or liabilities in the banking book owing to changes in market factors and balance sheet behaviour. It includes risks from insurance, pension activities or an inadequate quantity or quality of capital to fulfil internal business objectives, regulatory requirements or market expectations.
- **Operational risk** is the possibility of losses from inadequate or failed internal processes, people and systems or from external events. It includes legal risk and conduct risk.
- **Regulatory compliance risk** is the risk of not fulfilling legal and regulatory requirements and supervisors´expectations, and may lead to fines, financial penalties or other sanctions.
- **Model risk** involves potential losses resulting from inaccurate predictions that lead to sub-optimal decision-making, or from a misuse or inadequate implementation of a model.
- **Reputational risk** consists of potential losses from damage to its reputation amongst employees, customers, shareholders/investors and the wider community.
- **Strategic risk** relates to losses or damage to the medium- and long-term interests of key stakeholders owing to strategic decision-making, poor execution of strategy or failure to adapt to external developments.

Grupo Santander also considers environmental and climate-related risk drivers (whether physical or transition-led) as factors that could impact the exiting risks in the medium and long-term.

2. Risk governance

Grupo Santander 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.

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 led by the 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 functions that originate risks make up the first line of defence, which identifies, measures, controls, monitors and reports risks. It adheres to all risk management policies and procedures, making sure risks fit within risk appetite and other limits.
- Second line: The Risk and Compliance & Conduct functions form the second line of defence to provide independent oversight and challenge to risk management decisions from the first line. The second line of defence ensures risks are managed according to risk appetite, strenghtening our risk culture across Grupo Santander.
- Third line: The Internal Audit function is independent to assure senior management about the quality and effectiveness of internal controls, risk management. governance and systems, helping to safeguard our value, solvency and reputation.

The Risk, Compliance & Conduct and Internal Audit functions are separate and independent. Each has its own direct access to the board of directors and its committees.

2.2 Risk and Compliance committee structure

The **board of directors'** duties include risk and compliance management and control. It regularly revises and approves risk appetite and frameworks, strengthening and promoting our risk culture. In its duties, the board is supported by the risk supervision, regulation and compliance committee and the Grupo Santander executive committee.

The **Group chief risk officer (Group CRO)** is responsible for devising risk strategy, overseeing all risks, and challenging and advising business lines on their risk management.

The **Group chief compliance officer (Group CCO)** promotes the adherence to rules, supervisory requirements, principles of good conduct and values. This role determines the compliance and conduct strategy, and independently oversees and challenges the compliance and conduct risk management of the first line of defence.

Both the Group CRO and CCO have direct access, and report to, the risk supervision, regulation and compliance committee and the board of directors.

The executive risk, risk control and general compliance committees are also at the top of Grupo Santander's risk and compliance governance, with authority delegated by the board of directors. Further detail is provided in the table below:

	Executive risk committee (ERC)	Risk control committee (RCC)	General compliance committee
Duties:	This committee is responsible for risk management duties delegated by the board, being authorized to accept, modify or scale those actions or transactions that may expose the entity to a relevant risk as well as the most significant models. It takes the highest-level risk-related decisions within the group's risk appetite.	This committee is responsible for risk control and for providing a holistic view of all risks. It determines if the risks business lines are being managed according to risk appetite. It also identifies, monitors and evaluates the impact of current and emerging risks on the group's risk profile.	The committee is responsible for reviewing significant compliance and conduct risk events, and evaluating related measures. It devises and assesses corrective actions for compliance risks owing to shortcomings in management and control or new risks.
Chair:	CEO	Group CRO	Group CCO
Composition:	Nominated executive directors and other senior managers from the Risk, Finance and Compliance & Conduct functions (the Group CRO has veto power over committee resolutions).	Senior managers from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions (CRO from subsidiaries regularly report on their own risk profiles).	Senior managers from the Compliance & Conduct, Risk, Accounting and Management functions. The committee chair has a casting vote over committee resolutions.

Risk functions have forums and regular meetings to manage and control the risks under their scope. Their responsibilities include:

- Reporting to the Group CRO, Group CCO, the risk control committee and general compliance committee on risk management according to risk appetite.
- Monitoring each risk factor regularly.
- Overseeing measures to meet supervisor and auditor expectations.

Grupo Santander may set up additional governance for special cases.

- Amid the covid-19 pandemic, coordination and communication with our subsidiaries is essential to making sure our actions were effective, underpinned by written communication, meetings, reporting and enhanced governance. In early March, we implemented specific weekly reporting mechanisms so all units could provide detailed, standardized information.

  Grupo Santander monitored the pandemic intensively through special situation forums such as the credit risk war room, in addition to our regular governance framework. Close coordination between our subsidiaries and Group-wide and local contingency plans (including scenario analysis) strengthened resources and governance. As the crisis developed, it became a multidisciplinary task force composed of members from relevant functions to steer units in managing credit risk with these special work streams in place: i) monitoring and reporting; ii) sectorial intelligence; iii) portfolio management; iv) credit strategy; v) regulatory assurance; vi) credit forecasting and vii) collections and recoveries.

- Furthermore, in view of Brexit, Grupo Santander and Santander UK set up steering committees and separate working groups to monitor the transition; develop contingency plans; and escalate and make decisions to minimise impact on our business and customers.

2.3 The Group's relationship with subsidiaries regarding risk management

In all Grupo Santander's subsidiaries, the risk and compliance management and control models are 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.

As part of the aggregate supervision function for all risks, Grupo Santander challenges and validates subsidiaries' policies and transactions. This creates a common risk management and control model across the group.

In 2020, a new approach was taken in the relationship with the Group´s subsidiaries with the creation of three regions (Europe, North America and South America) and the appointment of three risk regional leaders. The aim is to enhance the identification of synergies under a common operating model and common platforms, leveraging the Group's global and regional scale, as well as simplifying processes and strengthening control mechanisms to support business growth while optimizing capital allocation and better serving Group´s customers.

In this sense, each local CRO must regularly interact with, and report to, the risk regional leaders, the Group CRO and the Group CCO. Additionally, periodic follow-up meetings are held between the different risk areas and the local counterparts.

Furthermore, the Group CRO, the Group CCO, and Risk Regional Leaders take part in appointments, target setting and local CRO evaluations and remuneration to make sure risks are appropriately controlled.

Grupo Santander undertook various initiatives to enhance the relationship between the Group and its subsidiaries and apply an advanced risk management mode:

- It is worth highlighting, the close collaboration in relation to covid-19 to share best practices, experiences, provide support in scenario analysis, additional provision estimations, etc.
- Development of organizational structures, subsidiary benchmarks and a strategic vision of the Risk and Compliance function to promote the most advanced and efficient risk management infrastructures and practices.
- Cooperation to share best practices, strengthen processes and drive innovation for a quantitative impact.
- Identification of talent in the Risk and Compliance teams, encouraging international mobility through the global risk talent programme.
- Risk Subject Matter Experts to bring together a community of specialists.

3. Management processes and tools

Grupo Santander has these effective risk management processes and tools:

3.1 Risk appetite and structure of limits

Risk appetite is the volume and type of risks deemed prudent to assume for the business strategy of the Group, even under unexpected circumstances. It considers adverse scenarios that could have a negative impact on capital and liquidity, profitability and/or the share price.

The board sets the group's risk appetite statement (RAS) every year. The boards of Grupo Santander's subsidiaries also set their own risk appetites annually, in line with the consolidated Group-wide RAS. Each of those risk appetites cascades down into specific, detailed limits and policies based on risk type, portfolio and segment.

Business model and risk appetite fundamentals

Grupo Santander's risk appetite is consistent with the risk culture and its unique business model built on customer focus, scale and diversification. At the core of our risk appetite are:

- A medium-low target risk profile that is predictable, centred on retail and commercial banking, internationally diversified operations and strong market share;
- stable, recurrent earnings and shareholder remuneration, sustained by sound capital, liquidity and sources of funding;
- self-run subsidiaries with their own sources of capital and liquidity and risk profiles that do not compromise Grupo Santander's solvency;
- an independent risk function with active senior management that embeds a strong risk culture and drives a sustainable return on capital;
- a global, holistic view through extensive control and monitoring of risks, businesses and markets;
- a focus on products the Group knows well;
- A conduct model that protects Grupo Santander's customers;
- A remuneration policy that reconciles employees and executives' interests to risk appetite and long-term results.

Santander risk appetite principles

The principles informing our risk appetite are:

- **The board and senior management's responsibility** for risk appetite.
- **An enterprise-wide view, risk profile back-testing and challenge,** using quantitative metrics and qualitative indicators.
- **A forward-looking approach** based on plausible assumptions and adverse/stress scenarios to reflect our desired risk profile in the short and medium term.
- **Strategic and business plans** embedded in daily management by policies and limits.

- **Common standards** aligning each subsidiary with Grupo Santander.
- **Regular reviews, regulatory requirements and best practices** with mechanisms in place to keep the risk profile stable and mitigate non-compliance.

Limits structure, monitoring and control

Grupo Santander risk appetite is expressed in qualitative terms and limits structured on these five core elements.

1 **Earnings volatility**
The maximum loss Grupo Santander can tolerate in an acute stress scenario.

2 **Solvency**
- The minimum capital position Grupo Santander can tolerate in an acute stress scenario.
- The maximum leverage we can accept in an acute scenario.

3 **Liquidity**
- Minimum structural liquidity position.
- Minimum liquidity horizon Grupo Santander is willing to accept in 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**
- Maximum operational risk losses.
- Maximum risk profile.
- Qualitative non-financial risk indicators:
  - Fraud
  - Technological
  - Security and cyberrisk
  - Reputational
  - Others

While risk appetite limits are regularly monitored, specialized control functions report on risk profile and compliance with limits to the board and its committees every month.

Risk appetite limits cascade down to business units, risk types and portfolios. This makes risk appetite an effective tool for managing risks. Management policies and limits are directly based on the principles and limits in the risk appetite statement.

Key 2020 developments

Grupo Santander thoroughly reviewed the impact of covid-19 and the adequacy of our risk appetite to cope with the new environment. Risk appetite limits remained broadly unchanged despite extraordinarily challenging conditions. Management focused on enhancing control over market volatility, better representation and visibility of emerging risks such as cyber security and other non-financial risks.

Grupo Santander´s risk appetite statement also strengthened its commitment to corporate social responsibility (CSR), the environment and the Paris Agreement's transition to a low-carbon and climate-resilient economy.

3.2. Risk profile assessment (RPA)

Grupo Santander routinely identifies risk types to systematically and objectively evaluate its risk profile. This helps address major threats to is business plan and strategic objectives.

Risk identification results inform Group´s risk profile assessment (RPA), which involves all lines of defence. It reinforces Group´s risk culture in analysing how risks evolve and identifying improvement areas. Grupo Santander´s RPA methodology covers these areas:

- **Risk performance**, to understand residual risks by type with international standard and indicators.
- **Control environment**, to measure the target-operating model of Grupo Santander's advanced risk management according to regulatory requirements and best market practices.
- **Forward-looking**, based on stress metrics and top risks to the strategic plan.

In 2020, Grupo Santander upgraded its control environment standards and reviewed risk performance metrics, focusing on strategic, compliance and conduct metrics. The inclusion of the 'control score' in the non-financial risks control environment enabled the Group to better capture its risk profile.

Covid-19 had a negative impact on Grupo Santander's risk performance. In triggering all scenarios the Group consider (including those most severe), it led to a higher risk profile, driven by higher provisions and budgetary deviations with respect to profits. Non-financial risk profile remained stable, with operational losses below 2019 figures, and better liquidity performance.

The impact of covid-19 as a catalyst for relevant and emerging risks was also key in the deterioration of our risk profile in 2020. This deterioration has been contained by a solid control environment, especially in credit risk, driven by ATOMiC and collections and recovery preparation plans. All of this has allowed us to maintain our risk profile at a 'medium-low' level.

3.3. Scenario analysis

The scenarios that Grupo Santander analyse include macroeconomic and other variables that can affect the risk profile in those markets in which Grupo Santander operate. Scenario analysis is a useful tool for managing risks at all levels, so Grupo Santander can gauge our resilience under stressed conditions and formulate mitigating actions on income, capital and liquidity if needed. For this, the Research and Public Policy team is key in defining scenarios, as well as our governance and control, including the review of our top management and the three lines of defence.

Grupo Santander's scenario analyses are consistent and robust because the Group:

- Creates and runs models that estimate how metrics such as credit losses will perform in the future.
- Back-tests and regularly challenges model results.

- Relies on expert opinions and a vast understanding of our portfolios.
- Exerts robust control over models, scenarios, assumptions, results and mitigating management actions.

Grupo Santander has recurrently achieved excellent quantitative and qualitative results in the European Banking Authority (EBA) stress tests.

The global economic uncertainty caused by the covid-19 crisis made it exceptionally difficult for businesses to plan ahead. Our scenario analyses were key in identifying new action points, developing business responses, adjusting our risk strategy and preserving our strength and solvency.

Applications of scenario analysis

Grupo Santander run scenario analysis at all levels under a forward-looking approach that helps Grupo Santander anticipate potential impacts on its solvency or liquidity. Grupo Santander run a systematic review of our risk exposure under a baseline scenario and various adverse and favourable scenarios.

Scenario analysis forms an integral part of several key Group processes:

- **Regulatory exercises** under the guidelines of the EU supervisor and national supervisors.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP), for which Grupo Santander follows its own methodology to assess capital and liquidity under stress scenarios and support planning and management.
- **Risk appetite**, which includes stressed metrics to set the maximum risk we can assume. The risk appetite and capital and liquidity scenario exercises are closely interrelated but have different frequencies and granularity.
- **Climate change analyses** to identify scenarios of risks and opportunities. Pilot analyses are covering the wholesale portfolio.
- **Recurrent risk management:**
  - **Budget and strategic planning:** when implementing a new risk approval policy, in Grupo Santander's risk profile assessment by senior management or when monitoring specific portfolios or lines of business
  - The systematic process of identifying and analysing our **top risks,** each of which is associated with a macroeconomic or idiosyncratic scenario to assess their potential impact.
  - The **recovery plan**, which is drawn up every year to determine Grupo Santander's tools to overcome an extremely severe financial crisis. The plan provides financial and macroeconomic stress scenarios with degrees of severity as well as idiosyncratic and systemic events.
  - **IFRS 9.** Since 1 January 2018, regulatory provision requirements have included scenario analyses in related processes, models and methodologies.
  - **Credit and market risk stress test exercises** not only as a response to regulatory exercises but also as a key tool integrated in Grupo Santander's risk management.

Amid the **covid-19 pandemic** and following supervisory guidelines, the Research department created a set of additional macroeconomic scenarios under a long-term stable outlook approach to account for the observed worsening in most indicators and assess expected losses. Grupo Santander developed the scenarios through a robust process with great effort from the teams involved, ensuring their consistency.

3.4. Risk Reporting Structure (RRS)

Grupo Santander´s reporting continues to streamline processes, controls and reports to senior management. The Enterprise Wide Risk Management team updates and compiles the risk profile overview under a forward-looking approach so senior management can assess actual and future risks and take appropriate actions.

There are three main types of risk reports: the weekly and monthly risk reports distributed to senior management; subsidiaries' risk reports; and reports on each risk factor identified in the risk framework.

Grupo Santander's strong risk reporting structure is characterized by:

- Balancing data, analysis and qualitative comments, including forward-looking measures, risk appetite alerts, limits and emerging risks.
- Covering all risk factors in the risk framework.
- Combining a holistic and reliable view with deeper analysis of each risk factor, our subsidiaries and markets.
- Following the same structure and criteria and provides a consolidated view to analyse all risks.
- Following risk data aggregation (RDA) criteria to report on metrics, ensuring data quality and consistency.

To respond to the covid-19 crisis, the reporting function, as acknowledged by the ECB's Single Supervisory Mechanism (SSM), increased the frequency, customized reports and produced new ones for the board and senior committees. It focused on critical topics such as macroeconomic conditions, health indicators, customer support measures and risk areas to enable close monitoring and easier decision-making.

b) Credit risk

1. Introduction to the credit risk treatment

Credit risk refers to a potential financial loss from the default or credit quality deterioration of a customer or other third party with whom Grupo Santander has a contractual obligation. It is our most important risk, both in terms of exposure and capital consumption. It also includes counterparty risk, country risk and sovereign risk.

Credit risk management

Grupo Santander identifies, analyses, controls and decides on credit risk based on holistic view of the credit risk cycle, which includes the transaction, the customer and the portfolio. Business and risk areas and top managers are part of this process.

Credit risk identification is key to managing and controlling Grupo Santander's portfolios effectively. Grupo Santander classify external and internal risks in each business and adopt corrective and mitigating measures when needed through these processes:

1.1. Planning

Grupo Santander´s planning helps to set business targets and define specific action plans within our risk appetite framework.

Strategic commercial plans (SCP) are a management and control tool the business and risk areas prepare for Grupo Santander's credit portfolios. They determine commercial strategies, risk policies, resources and infrastructure, ensuring a holistic view of the portfolios. They provide managers with an updated view of credit portfolio quality to measure credit risk, run internal controls over the defined strategy coupled with regular monitoring, detect significant deviations in risk and potential impacts, and take corrective actions when necessary. They also align with Grupo Santander's risk appetite and its subsidiaries' capital targets, and are approved and monitored by senior managers at each subsidiary before being reviewed and validated by Grupo Santander.

1.2. Risk assessment and credit rating

To analyse customers' ability to meet contractual obligations, Grupo Santander uses valuation and parameter estimation models in each of the segments. Grupo Santander's credit quality valuation models are based on credit rating drivers, which Grupo Santander monitors to calibrate and adjust the decisions and ratings they assign. Depending on each segment, drivers can be:

- Rating: from mathematical algorithms that have a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. It is used for SCIB, corporate, institutional and SME segments (with individualised treatment).

- Scoring: an automatic system to evaluate credit applications that assigns an individual score to customers for subsequent decision-making, generally in the retail and smaller SME segments.

Grupo Santander's parameter estimation models follow econometric models built on Grupo Santander's portfolios' historical defaults and losses. Grupo Santander uses them to calculate economic and regulatory capital as well as IFRS 9 provisions for each portfolio.

Grupo Santander regularly monitoring and evaluate models' appropriateness, predictive capacity, performance, granularity, compliance with policies and other related factors. Grupo Santander reviews ratings with the latest available financial and economic information. Grupo Santander has also increased the reviews for customers who are under closer observation or have automatic warnings in the risk management systems.

1.3. Credit risk mitigation techniques

We approve risks generally on the basis of borrowers' ability to pay in fulfilment of financial obligations, notwithstanding any additional collateral or personal guarantees we can require from them. To determine this, we analyse funds or net cash flows from their businesses or income with no guarantors or the assets pledged as collateral. We always consider guarantors and collateral when deciding to approve a loan as a secondary means of recourse if the first channel fails.

In general, a guarantee is as a reinforcement measure added to a credit transaction to mitigate a loss due to a failure to meet a payment obligation.

Grupo Santander has credit risk mitigation techniques for various types of customer and products. Some are for specific transactions (e.g., property) while others apply to a series of transactions (e.g., derivatives netting and collateral). Grupo Santander can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

1.4. Definition of limits, pre-classifications and pre-approvals

Grupo Santander uses SCPs to manage credit portfolios, defining limits for each of them and for new originations, in line with the Group´s credit risk appetite and its target risk profile. Transposing the risk appetite to portfolio management strengthens controls over our credit portfolios.

Grupo Santander´s limits, pre-classifications and pre-approvals processes determine the risk we can assume with each customer. The business and risk areas set risk limits that are approved by the executive risk committee (or delegated committees) and should reflect a transaction's expected risk-return

Grupo Santander applies various limits models to each segment:

- Large corporate groups: are subject to a pre-classification model based on a system for measuring and monitoring economic capital. Pre-classification models express the level of risk Grupo Santander is willing to assume in transactions with customers/groups in terms of capital at risk, nominal cap and maximum tenors. To manage limits with financial entities, Grupo Santander uses Credit Equivalent Risk (CER), which includes actual and expected risks with customers according to risk appetite and credit policies.

- Corporates and institutions: that meet certain requirements (strong relationships, rating, etc.): Grupo Santander uses simpler pre-classification model with an internal limit. It establishes a reference point in a customer's level of risk based on repayment capacity, overall indebtedness and a pool of banks.

  Transactions with large corporates, corporates and institutions above certain limits or with special characteristics could require approval from a senior credit analyst or a committee.

- For **individual customers and SMEs** with low turnover, Grupo Santander manages large volumes of credit transactions with automatic decision models to classify customers and transactions.

1.5. Scenario analysis

Grupo Santander´s scenario analyses determine the potential risks in its credit portfolios and provide a better understanding of our portfolios' performance under various macroeconomic conditions. They allow us to anticipate management strategies that will avoid future deviations from defined plans and targets. They simulate the impact of alternative scenarios in portfolios' credit parameters (PD, LGD) and expected credit losses. We compare findings with portfolios' credit profile indicators to find the right measures for managers to take. Credit risk management of portfolios and SCPs incorporate scenario analyses.

1.6. Monitoring

Regularly monitoring business performance and comparing it to pre-defined plans is key to our management of risk. Grupo Santander's holistic monitoring of customers helps detect impacts on risk performance and credit quality early. Grupo Santander assigns customers a classification with a pre-defined course of action and ad hoc measures to correct any deviations. Monitoring, which considers transaction forecasts and characteristics, in addition to changes in classification, is performed by local and global risk teams supported by the Internal Audit unit and is based on customer segmentation:

- For SCIB, monitoring is initially a function of business managers and risk analysts who maintain direct relationships with customers, manage portfolios and provide Grupo Santander with an up-to-date view of customers' credit quality to anticipate concerning situations.

- For commercial banking, institutions and SMEs assigned a credit analyst, Grupo Santander tracks customers requiring closer monitoring and review their ratings based on relevant indicators.

- Monitoring of individual customers, businesses and smaller SMEs follows a system of automatic alerts to detect shifts in portfolios' performance.

Monitoring uses the Santander Customer Assessment Note (SCAN) tool. Grupo Santander fully rolled it out in our subsidiaries in 2019. It helps set individual monitoring levels and frequencies, policies, and actions for customers based on credit quality and particular circumstances.

In addition to monitoring customer credit quality, Grupo Santander defines control procedures to analyse portfolios and performance, as well as any deviations from planning or approved alert levels.

1.7. Recovery and collections management

The Collections & Recoveries area carries out recoveries, which are important to risk management. It defines a global, enterprise-wide management strategy with guidelines and general lines of action for Grupo Santander's subsidiaries based on the economic environment. business model and other local recovery conditions. Recovery management follows regulatory requirements set out in the EBA Guidelines on the management of non-performing and forborne exposures. In addition, Grupo Santander applies specific policies on recovery management that include the principles of the different strategies.

The Collections & Recoveries areas directly manage customers. As sustained value creation is based on effective and efficient collections, digital channels that develop new customer relations are gaining importance. Grupo Santander diverse customer base requires segmentation to manage recoveries appropriately. The highly technological and digital processes Grupo Santander follows help us attend to large groups of customers with similar profiles and products. Grupo Santander's personalized management, however, focuses on customer profiles that require a special manager and approach.

Grupo Santander splits recovery management into four phases: arrears, non-performing loans, write-offs and foreclosed assets. Grupo Santander may uses mechanisms to rapidly reduce assets like sales of foreclosed assets or non-performing loans pool sales. Grupo Santander constantly seeks alternatives to legal action in order to collect debt.

Grupo Santander includes debt instruments as written-off loans (even if they are not past-due) if an individual analysis of the solvency of a transaction and the borrower leads us to believe recovery is remote due to a notorious and unrecoverable impairment. Though this may lead to full or partial cancellation and de-recognition of the gross carrying amount of debt, it does not mean we interrupt negotiations and legal proceedings to recover debt. In countries with high exposure to real estate risk, we have efficient sales management instruments that help maximize recovery and optimize balance sheet stocks.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk from our activities with customers:

Main credit risk performance metrics from activity with customers

December 2020 data

	Credit risk with customers * (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Europe	**722,429**	**722,661**	**688,810**	**22,792**	**23,519**	**25,287**	**3.15**	**3.25**	**3.67**
Spain	221,341	213,668	227,401	13,796	14,824	16,651	6.23	6.94	7.32
SCF	104,032	105,048	97,922	2,455	2,416	2,244	2.36	2.30	2.29
UK	263,671	275,941	252,919	3,202	2,786	2,739	1.21	1.01	1.08
Portugal	40,693	37,978	38,340	1,584	1,834	2,279	3.89	4.83	5.94
Poland	31,578	33,566	30,783	1,496	1,447	1,317	4.74	4.31	4.28
North America	**131,611**	**143,839**	**125,916**	**2,938**	**3,165**	**3,510**	**2.23**	**2.20**	**2.79**
US	99,135	105,792	92,152	2,025	2,331	2,688	2.04	2.20	2.92
SBNA	49,862	56,640	51,049	405	389	450	0.81	0.69	0.88
SC USA	29,050	29,021	26,424	1,529	1,787	2,043	5.26	6.16	7.73
Mexico	32,476	38,047	33,764	913	834	822	2.81	2.19	2.43
South America	**129,575**	**143,428**	**138,134**	**5,688**	**6,972**	**6,639**	**4.39**	**4.86**	**4.81**
Brazil	74,712	88,893	84,212	3,429	4,727	4,418	4.59	5.32	5.25
Chile	42,826	42,000	41,268	2,051	1,947	1,925	4.79	4.64	4.66
Argentina	4,418	5,044	5,631	93	171	179	2.11	3.39	3.17
Santander Global Platform	**979**	**706**	**340**	**5**	**4**	**4**	**0.51**	**0.63**	**1.21**
Corporte Centre	**4,862**	**5,872**	**4,953**	**344**	**138**	**252**	**7.08**	**2.34**	**5.09**
Total Group	**989,456**	**1,016,507**	**958,153**	**31,767**	**33,799**	**35,692**	**3.21**	**3.32**	**3.73**

* Includes gross lending to customers, guarantees and documentary credits.

Key figures by geographic region are described below:

- **Europe:** the NPL ratio fell 10 bps to 3.15% from 2019 due to a significant reduction in non-performing loans in Spain and Portugal, offsetting the increase observed in the UK.
- **North America:** the NPL ratio slightly increased 3 bps to 2.23% from 2019, due to the decline in total lending both in Mexico and SBNA, although the ratio declined in Santander US by 16 bps due to good performance in SC USA. In terms of NPL stock, a decrease of 7.2% was observed in the year.
- **South America:** the NPL ratio decreased by 47 bps to 4.39%. In Brazil and Argentina, they dropped 73 bps and 128 bps respectively from 2019. However, they slightly increased in Chile (+15 bps vs 2019).

Information on the estimation of impairment losses

Estimation of expected credit losses:

The covid-19 health crisis has been unexpected, unpredictable and severe, but it is estimated to be of a temporary nature. Grupo Santander priority in these circumstances has been to look after the health of its employees, customers and shareholders, but also to help reduce the economic impact of the pandemic. This includes trying to offer the best solutions to help customers.

Conceptually, the phases in managing the effects of covid-19 have been:

- Identification of customers or groups affected or potentially affected by the pandemic.
- Early relief of temporary financial difficulties caused by covid-19 through measures promoted by governments, central banks, and financial institutions.
- Monitoring the evolution of customers, to ensure that they continue to be provided with the best solution for their situation, and also to guarantee that their potential impairment is correctly reflected in the risk management and accounting. This point is particularly relevant at the expiry of any moratorium or liquidity support measures to which customers may have availed themselves.
- Monitoring is accompanied by recovery management activities when necessary.

These conceptual phases do not occur sequentially but overlap in time. Additionally, the continuous interaction and coordination between the different subsidiaries is proving to be a fundamental asset in the management of this crisis. The experience obtained in the fight against the health crisis and its financial consequences in our different geographies, and the different speeds at which it has been developing in each of them, allow us to share the best practices identified and to implement in an agile and efficient manner those strategies and concrete actions that have been most successful, always adapted to the local reality of each market.

Measures to support the economy

In accordance with the comments made earlier regarding the relief of our clients' temporary financial difficulties caused by the pandemic, Grupo Santander has adopted measures to foster the economic resilience of our clients during the crisis in all regions. The most outstanding of these include the following:

- Providing liquidity and credit facilities to companies facing difficulties.
- Facilitate grace periods or moratoriums in many of their markets.
- Optional, temporary increase of the limit on credit cards and overdrafts.
- Support customers with potential difficulties (elderly, SMEs, etc.) by being proactive and trying to cover their needs.
- Temporary reduction or suspension of commissions (when withdrawing money from ATMs, on interest-free online purchases, on bank transfers...).
- Guaranteeing covid-19 coverage in health insurance.
- Advising clients in financial difficulties through specialised teams.

Regarding the covid-19 pandemic, Grupo Santander has implemented measures in all its subsidiaries to provide liquidity and credit facilities, as well as to facilitate payment deferrals for people and businesses facing hardship.

In relation to the specific liquidity measures, shortages or moratoriums, a series of support programmes have been implemented in accordance with the guidelines set by regulatory and supervisory authorities, as well as by governments, central banks and supranational entities. The main objective is to mitigate the temporary impact on the activity of customers. The absence of appropriate measures and their adequate prudential and accounting treatment could worsen the economic consequences of the crisis, generating procyclical effects that would lengthen its duration and impact.

The different measures offered can be grouped into the following categories:

- Government liquidity measures: Generally speaking, these are lending facilities provided by the bank to legal entities, which have government guarantees on a specific percentage of the exposure generated in the event of default. Examples of this type of measure include ICO (*Instituto de Crédito Oficial*) loans in Spain or the Paycheck Protection Program (PPP) in the United States.
- Government moratorium measures: In this case, the government authorities define a series of requirements, which, in the event that they are met by the beneficiary, involve the granting of moratoriums by the bank on the payment of capital and/or interest on the various credit operations that customers may have contracted. The general expiration of the moratorium measures is short term. Some governments and institutions have re-extended the terms of the initial moratoriums, especially those that were launched in the very short term in the initial phase, with less visibility of the potential duration of the crisis, but re-extensions are also being short term.

  The specific characteristics of these programs vary depending on how they are defined by the national governments of the countries in which Grupo Santander operates. The criteria used to grant these loans also depend on the requirements established by the authorities of each country in accordance with the legislation in force in each case.
- Internal/sectoral moratorium measures: This is, broadly speaking, the granting of moratoriums by the bank on the payment of capital and/or interest on the various credit operations that customers may have contracted. In this case, the specific characteristics of these measures, in terms of terms, amounts, etc., vary

according to each geography, product or customer segment in order to adapt them as best as possible to the reality of the local market and its regulation, as well as to the needs of the customer and the product contracted. In many cases, the general conditions of application have been agreed on a sectoral basis, for example through the national banking associations.

– Other internal measures: This category includes all those measures not included in the previous sections.

As regards the moratorium measures granted, it should be noted, as detailed below, that the amount amounted to EUR 112,000 million. Of these, around 63% corresponded to residential mortgages, mainly in the UK where the portfolio has a low average loan to value (<50%). The moratoriums granted on consumer loans (EUR 20bn; 18% of total) are mainly car loans . The granting of new moratoriums has slowed down in the second half of the year.

The 79% of total moratoriums (EUR 89,000 million) have already expired by the end of December 2020, showing a good performance, with only 3% of them classified as stage 3 in accordance with IFRS 9.

Estimation of expected loss

In the context described in the previous sections, many regulators and supervisors have highlighted the uncertainties surrounding the economic impacts of the health crisis. This is also evident in the frequent updates of macroeconomic forecasts, with different perspectives and views on the depth and duration of the crisis. Thus, the guidance (including IASB, ESMA, EBA and ECB) does not set a mechanistic approach to estimating expected credit losses under IFRS 9, in order to prevent this variability in economic conditions from translating into volatility in results, with its potential pro-cyclical effects on the economy.

Thus, Grupo Santander analyses losses under IFRS 9 on the basis of three types of elements:

1. Continuous monitoring of customers

Monitoring the credit quality of customers may be more complex in the current circumstances, in the absence of certain contractual payments on transactions subject to a moratorium, however, the total amount of loans still subject to these measures has been significantly reduced during the year. This amount was around EUR 23,000 million at the end of December 2020, of which approximately 78% is secured. For such monitoring, and in addition to the application of internal customer monitoring policies, all available information should be used. The availability of information and its relevance is different in the various portfolios of the different countries in which Grupo Santander operates, but it may include, but is not limited to the following:

– The payment of interest in the case of principal-only shortfalls.

– The payment of other operations of the same client in the institution (not subject to moratorium).

– Information on payment of loans in other entities (through credit bureaus).

– Customer financial information: average balances in current accounts, availability/use of limits, etc.

– Available behavioural elements (variables that feed the behavioural scores, etc.).

– Information gathered from customer contacts (surveys, calls, questionnaires, etc.). This may include: customers who have taken up furlough programs, direct government aid, etc.

2. Forward-looking vision

As reflected by the IASB, macroeconomic uncertainty makes the usual application of IFRS 9 expected loss calculation models difficult but does not exempt the incorporation of the prospective feature of the standard. To this end, the European Central Bank has recommended the use of a stable, long-term view (long-run) of the macroeconomic forecasts, which takes into account in the assessment the multiple support measures explained above.

3. Additional elements

Additional elements will be required when necessary because they have not been captured under the two previous elements. This includes, among others, the analysis of sectors most affected by the pandemic if their impacts are not sufficiently captured by the macroeconomic scenarios. Also collective analysis techniques, when the potential impairment in a group of clients cannot be identified individually.

With the elements indicated above, Grupo Santander evaluates in each of the geographical areas the evolution of the credit quality of its customers, for the purposes of their classification in Grupo Santander financial statements.

In terms of classification, Grupo Santander has generally maintained the criteria and thresholds for classification during the pandemic, incorporating the regulatory interpretations of the effect of moratoria on classification (in particular, the European Banking Authority's 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in covid-19 crisis'). In this way, moratoriums that meet the specifications of these guidelines are not considered as automatic indicators for identifying these contractual changes as forbearances or classifying them in stage 2. However, this does not exempt the rigorous application of IFRS 9 in the monitoring of customer credit quality and, using individual or collective analysis techniques, the timely detection of significant increases in risk in certain transactions or groups of transactions.

Sound and accurate assessment of SICR has been one of the key areas of focus of the Group to identify and record any material increase in credit risk at an early stage. With that purpose, the SICR framework has not been relaxed due to covid-19 crisis. Not relying solely on conventional qualitative and quantitative triggers (e.g. days past due as a trigger), the determination of SICR has also been strengthened through collective assessments. This was done with the aim to responsibly anticipate the expected additional deterioration inherent to specific sector and client clusters, whose credit risk deemed to have increased, without the need to identify which individual client has suffered a SICR, avoiding “wait and see” approaches and ensuring that risks are adequately assessed, classified and measured in the balance sheet. Different assessments have been carried out for this purpose: (i) Top-down Unlikeliness to Pay analysis; (ii) Identification of high risk segments or vulnerable sectors; (iii) Stress on payment holidays; (iv) Surveys on payment capacity and (v) Stress of roll rates based on past delinquency indicators.

Regarding moratoria measures, a rigorous identification and regular monitoring of customer credit quality and payment behavior have been performed and through specific individual or collective assessment, the timely detection of SICR have been assured.

Grupo Santander, within its governance processes, deployed guidelines across all our subsidiaries to assure a coherent and homogeneous criteria and governance to manage the new treatment and specific impacts on provisions derived from the pandemic. Directions were provided regarding the calculation of the macroeconomic impact of the crisis through an overlay and potential collective assessments, considering incurred deterioration, as result of the covid-19 contingency. These documents also include monitoring guide in order to ensure the adequacy of the overlay and to anticipate any update if required.

Details of the exposure by stage can be found in Notes 6, 7, 10, as well as in this note of these consolidated annual accounts. These Notes shows the levels of provisions for the year, which amount to EUR 12,173 million, including the provisions to cover the impact to date on expected losses resulting from the pandemic.

Grupo Santander 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 (United Kingdom, Spain, United States, Brazil, also Chile, Mexico, Portugal, Poland, Argentina and Santander Consumer Finance), which represent approximately 96% of the total Group's provisions. The table below shows the impairment losses associated with each stage as of 31 December 2020, 2019 and 2018.

In addition, depending on the transactions credit quality, the exposure is divided into three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	489,518	9,124	—	498,642
From BB- to CCC	276,516	55,838	—	332,354
Default	—	—	30,436	30,436
Total exposure **	**766,034**	**64,962**	**30,436**	**861,432**
Impairment losses***	**4,458**	**5,461**	**13,503**	**23,422**

* 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

	2019			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	552,763	5,532	—	558,295
From BB- to CCC	306,880	47,365	—	354,245
Default	—	—	31,363	31,363
Total exposure **	**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).+ loan commitments granted.
*** 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
From AAA to BB	685,507	7,176	—	692,683
From BB- to CCC	222,495	47,439	—	269,935
Default	—	—	30,795	30,795
Total exposure **	**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 98,121 million in stage 1, EUR 3,613 million in stage 2, and EUR 1,322 in stage 3 (In 2019 EUR 38,174 million in stage 1, EUR 442 million in stage 2, and EUR 1,056 million in stage 3 and 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 180 million in stage 1, EUR 393 million for stage 2, and EUR 277 million in stage 3 (In 2019 EUR 264 million, EUR 306 million and EUR 91 and 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 478,093 (EUR 507,479 million in 2019), 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 was 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.

As of 31 December 2020, the Group had EUR 497 million net of provisions (EUR 706 million and EUR 757 million at 31 December 2019 and 2018, respectively) 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.

Covid-19 credit risk management and customer support programmes

In the context of the general response of Santander to the covid-19 pandemic, and specifically with the purpose to help the customers from the credit perspective and foster their economic resilience during the crisis, Grupo Santander implemented several actions in addition to those listed above, the following:

- The severity of the pandemic's effects was significantly different depending on the economic sector. Consequently, Santander launched a process to identify those that could be more affected in order to focus credit risk management on them.
- Due to the covid-19 crisis, great focus was placed on collections & recoveries readiness across Grupo Santander to deal with the impact expected on its portfolios once the support measures granted have expired.

At 31 December 2020, Grupo Santander had granted payment moratoria to 4.8 million customers for an overall amount of EUR 112,000 million, which represents 12% of the lending portfolio.

The payment moratoria distribution by business line can be observed in the following table:

	Clients (Million)	Total amount (EUR million)	
	Of which government programmes	Of which government programmes	% Lending portfolio
Mortgages	0.7	69,938	22 %
	0.5	*56,936*	
Consumer	3.9	19,951	9%
	1.0	*4,060*	
SME & Corporates	0.2	21,948	7%
	0.1	*9,182*	
Total	**4.8**	**111,837**	**12 %**
	1.6	**70,178**	

At the end of 2020, 79% of total moratoria granted by the Group had expired and only 3% of the total was classified in stage 3.

The following table shows the distribution by business line:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	89,889	543,321	72,662
Mortgages	69,938	312,949	55,020
Consumer	19,951	230,372	17,642
SME & corporates	21,948	336,489	15,847
Total*	**111,837**	**879,810**	**88,509**

* Total portfolio includes segmented exposure and excludes off-balance

Over 60% of the outstanding loans under moratoria are mortgages.

Total loans granted under government liquidity programmes amounted to EUR 38,314 million, with an average government guarantee coverage of 81%.

Covid-19 overlay quantification

Numerous international organizations and supervisors have underlined the importance of responsibly adapting and applying the accounting and prudential policies to the containment measures put in place to combat the effects of the covid-19 health crisis, which are of a temporary and exceptional nature.

Some policies disclosed by supervisors include the *Bank of England measures to respond to the economic shock from Covid-19*; EBA's *Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures*; and the Federal Reserve's *SR 20-4 / CA 20-3 - Supervisory Practices Regarding Financial Institutions Affected by Coronavirus*.

In light of these statements, we accounted for deviations in local books based on stable long-term macroeconomic forecasts with a post model adjustment and a collective and/ or individual assessment to reflect reality and recognize expected credit losses on assets deemed subject to a significant increase in credit risk, without the need to identify individual financial instruments.

The overlay was considered as the best option to recognize the increase in expected loss, as a mechanistic application of the Expected Credit Loss (ECL) methodology, which in the current context may have led to unpredictable results. The additional provisions associated to different macroeconomic scenarios were calculated using internal models; however an overlay over the monthly IFRS 9 calculation was considered, in order to enhance the oversight and control of the ECL estimation accuracy.

In addition, the aforementioned scenarios considered to support the overlay calculation were based on a long-run approach, following the indications of numerous international organizations and supervisors.

Amid maximum uncertainty, this long-term approach is to avoid volatility in provisions as a result of the sharp economic downturn, on account of the exceptional nature of the overlay and the battery of support economic measures taken by central banks and governments.

In this regard, at the end of 2020, the Group has recorded an additional provision for impairment of financial assets at amortized cost the allowance for credit losses of EUR 3,105 million due to the effect of the covid-19 pandemic (EUR 622 million in stage 1, EUR 1,663 million in stage 2 and EUR 820 million in stage 3).

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) decreased by 4.4% (+0.9% in local currency) year-on-year to EUR 263,671 million. Mortgage lending and loans to SME, supported by government-backed covid-19 measures were the key drivers of this YoY increase. UK portfolio accounts for 27% of Santander's loan portfolio.

More than 320,000 customers (not including SCF UK) benefited from payment holidays, in line with the guidance issued by the Financial Conduct Authority (FCA). Customers applied for this facility generally for a three-month period, with the option of extending it for a further three months, if needed.

The NPL ratio increased in 2020, to 1.21% (+20 bps vs year-end 2019), driven by adjustments made in the corporate and commercial banking segment to account for covid-19.

Mortgage portfolio

Because of its size, we closely monitor Santander UK's mortgage portfolio for the entity itself and Grupo Santander. As of December 2020, it amounted to EUR 189,076 million, growing by +2.7% in local currency. It consists of first lien residential mortgages (no mortgages involve second or successive liens on properties).

Mortgage lending growth was resilient after the market reopened in May. In the third quarter, the mortgage market was particularly active, due to pent up demand from the covid-19 lockdown and the temporary reduced stamp duty rates, which have led to improved new mortgage pricing.

In accordance with Grupo Santander's risk management principles, all properties are appraised independently before new mortgages are approved. Property values used as collateral for granted mortgages are updated quarterly by an independent agency with an automatic appraisal system in line with market practices and legislation.

Geographically, credit exposures are predominantly in the South East 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, 2020, 2019 and 2018, is shown below.

In addition, depending on the current operations credit quality, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	184,065	2,227	—	186,292
CCC	34,965	16,814	—	51,779
Default	—	—	3,229	3,229
Total exposure **	**219,030**	**19,041**	**3,229**	**241,300**
Impairment losses***	**223**	**557**	**668**	**1,448**

* 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).

Exposure and impairment losses by stage

EUR million

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	238,985	2,032	—	241,017
CCC	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 and undrawn exposure) + loan commitments granted.
*** 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
From AAA to BB	225,929	1,900	—	227,829
CCC	34,655	11,514	—	46,169
Default	—	—	2,795	2,795
**	**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.

The Government support measures taken in the United Kingdom in response to the covid-19 pandemic are detailed below:

- The moratoriums granted initially had a term of 3 months.
- In June the majority of the moratoriums started to expire and between June and July there were extensions of another 3 months worth some 11 billion euros so that from August onwards almost all that remained in force were extensions.
- The government approved in October that moratoriums could continue to be applied for until March 31, 2021, as long as a client had not already exceeded 6 months of moratoriums in total.
- The moratoriums granted entailed a deferral of principal and interest.

At 31 December 2020, moratoriums had been granted to 323,265 customers, for a total amount of EUR 43,944 million, equivalent to 19.05% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	41,626	194,783	38,850
Mortgages	41,274	188,255	38,544
Consumer	352	6,528	306
SME & corporates	2,318	28,918	2,253
Total*	**43,944**	**223,701**	**41,103**

* Total portfolio includes segmented exposure and excludes off-balance

Of the total moratoriums expired at December 31, 2020, EUR 34,365 million were classified in stage 1, EUR 6,052 million in stage 2 and EUR 686 million in stage 3.

At the end of 2020, 93.54% of total moratoria granted by the Group had expired and only 1.67% of those was classified in stage 3.

Total loans granted under government liquidity programmes amounted to EUR 5,515 million, at 31 December 2020. The UK represents 13% of the total exposure in Bounce Back Loans (BBLS) that are 100% covered by the government's guarantee scheme.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, mainly EUR 505 million corresponds to the overlay calculated as of December 31, 2020 (EUR 17 million in stage 1, EUR 275 million in stage 2 and EUR 213 million in stage 3).

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander UK considers five macroeconomic scenarios, which are updated periodically. The evolution forecasted in 2020 for the next five years of the main macroeconomic indicators used by Santander UK to estimate expected losses is presented below:

	2021 - 2025				
Variables	**Pessimistic scenario 3**	**Pessimistic scenario 2**	**Pessimistic scenario 1**	**Base scenario**	Optimistic scenario 1
Interest rate	-0.10 %	2.10 %	0.26%	0.26%	1.20%
Unemployment rate	8.42 %	7.20 %	5.98%	6.04%	4.79%
Housing price change	0.86 %	0.89 %	1.00%	1.14%	1.08%
GDP growth	0.28 %	1.79 %	1.71%	3.62%	3.07%

The five-year projected development generated in 2019 to estimate the expected loss is shown below:

	2020 - 2024				
Variables	Pessimistic scenario 2	Pessimistic scenario 1	Base scenario	Optimistic scenario 1	Optimistic scenario 2
Interest rate	2.60%	1.80%	0.85%	1.75%	1.90%
Unemployment rate	7.29%	5.08%	4.03%	3.14%	2.57%
Housing price change	-0.07%	-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 2020, 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:

	2020	2019	2018
Pessimistic scenario 3	10 %	0 %	0 %
Pessimistic scenario 2	25 %	15 %	10 %
Pessimistic scenario 1	15 %	30 %	30 %
Base scenario	45 %	40 %	40 %
Optimistic scenario 1	5 %	10 %	15 %
Optimistic scenario 2	— %	5 %	5 %

In the case of Santander UK, the additional provisions for covid-19 were calculated using the own model.

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision	
	Mortgages	Corporates
GDP Growth		
-100 bp	15.31%	7.48%
100 bp	-2.06%	-9.59%
Housing price change		
-100 bp	15.84%	10.16%
100 bp	-2.72%	-9.88%
Unemployment rate		
-100 bp	-5.79%	-9.64%
100 bp	28.93%	10.02%

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 PD 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 360 bp and 30 bp.

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

Santander España's credit risk totalled EUR 221,341 million (22% of Grupo Santander's total). It is appropriately diversified in terms of products and customer segments.

In a backdrop of lower economic and credit growth, with a significant deterioration in macroeconomic figures after the covid-19 lockdown from March to May, new lending to consumers, SMEs and corporates increased, helped by *Instituto de Crédito Oficial* (ICO) financing lines and other liquidity programmes. Total credit risk increased by +3.6% compared to December 2019, including ICO loans by EUR 25.510 million.

The total portfolio's NPL ratio was 6.23%, 71 bp less than in December 2019, Fewer defaults reduced the ratio by 48 bp, due to overall better performance driven by customer support programmes, the cure of several restructured debts and portfolio sales. Additionally, this positive effect was helped by the aforementioned growth in the loan portfolio, which decreased the ratio by 21 bps.

Additional provisions related to covid-19 increased the coverage rate to 47% (+6 p.p. vs. December 2019). Moreover, NPL reduction was mostly with loans with higher expected loss.

Cost of credit reflects the higher provisions due to the pandemic.

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, 2020, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses per stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	**Total**
From AAA to BB	146,992	1,517	—	148,509
From BB- to CCC	40,630	11,541	—	52,171
Default	—	—	13,762	13,762
**	**187,622**	**13,058**	**13,762**	**214,442**
Impairment losses* **	**479**	**732**	**5,277**	**6,488**

* 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

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	**Total**
From AAA to BB	139,673	1,315	—	140,988
From BB- to CCC	42,603	9,115	—	51,718
Default	—	—	14,587	14,587
**	**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
From AAA to BB	171,266	289	—	171,555
From BB- to CCC	25,108	12,603	—	37,711
Default	—	—	14,941	14,941
**	**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 2019 and, EUR 125,544, EUR 66 and EUR 1,657 million in 2018 of exposure 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 in 2019 and EUR 132 million, EUR 48 million and EUR 957 million in 2018, in stage 1, stage 2 and stage 3, respectively.

The real estate unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in

2020). Consequently, unlike in 2019 and 2018, in 2020 the perimeter is aligned.

The Government support measures taken in Spain in response to the covid-19 pandemic are detailed below:

- Moratoriums on mortgages were granted with moratoriums of up to 12 months, 25% of which were legislative moratoriums of 3 months, some of which were extended in the last quarter of the year.
- The legal moratoriums granted entailed a deferral of principal and interest, unlike the sectoral moratoriums which only involved a deferral for principal.
- In the consumer portfolio, moratoriums of up to 6 months were granted.

At 31 December 2020, moratoriums had been granted to 248,336 customers, for a total amount of EUR 9,438 million, equivalent to 4.70% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	9,267	71,577	2,476
Mortgages	7,828	43,919	1,346
Consumer	1,439	17,658	1,130
SME & corporates	171	126,568	12
Total*	**9,438**	**198,145**	**2,488**

* Total portfolio includes segmented exposure and excludes off-balance

Of the total moratoriums expired at 31 December 2020, EUR 1,921 million were classified in stage 1, EUR 374 million in stage 2 and EUR 193 million in stage 3.

At the end of 2020, 26.36% of total moratoria granted by the Group had expired and only 7.74% of these was classified in stage 3.

Total loans granted under government liquidity programmes amounted to EUR 25,510 million. Spain represents 67% of the Group's total exposure to government liquidity programs. It has the longest maturities (in both the SME and corporate segments) due to the nature of these legislative programs.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, EUR 466 million corresponds to the overlay calculated as of December 31, 2020 (EUR 37 million in stage 1, EUR 261 million in stage 2 and EUR 168 million in stage 3).

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. The projected evolution for a period of five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

	2020 - 2024		
Variables	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	-0.12 %	-0.12 %	0.80 %
Unemployment rate	13.71 %	11.65 %	9.59 %
Housing price change	-0.26 %	1.62 %	3.22 %
GDP growth	0.77 %	1.61 %	2.34 %

In the case of Santander Spain, the previously projected macroeconomic scenarios up to 2024 have been complemented with an additional scenario, the 'long-run' scenario, as indicated below.

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:

	2020	2019	2018
Pessimistic scenario	30 %	30 %	30 %
Base scenario	40 %	40 %	40 %
Optimistic scenario	30 %	30 %	30 %

Regarding the the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for a period of five years is shown below:

Variables	Long-run scenario
Interest rate	-0.29 %
Unemployment rate	14.35 %
Housing price change	1.20 %
GDP growth	0.79 %

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision		
	Mortgages	Corporate	Rest
GDP Growth			
-100 bp	6.24%	8.17%	8.63%
100 bp	-2.63%	-4.50%	-5.48%
Housing price change			
-100 bp	1.42%	8.14%	7.73%
100 bp	-1.12%	-3.12%	-3.74%

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 0.1 and 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 59,605 million in 2020 (EUR 62,236 million and EUR 63,290 million in 2019 and 2018,respectively), 99.35% of which have a mortgage guarantee (99.51% and 99.14% in 2019 and 2018, respectively).

	2020	
EUR million	Gross amount	*Of which, non - performing*
Home purchase loans to families	59,605	1,850
Without mortgage guarantee	*387*	*75*
With mortgage guarantee	*59,218*	*1,775*

	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 27% (26% and 28% in 2019 and 2018, respectively).
- The 86% 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):

	2020					
	Loan to value ratio					
EUR million	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	15,570	18,028	17,585	5,205	2,830	59,218
Of which, watchlist /non-performing	*170*	*222*	*318*	*305*	*760*	*1,775*

Businesses portfolio

Credit risk with SME and corporates amounted to EUR 149,646 million. Accounting for 68% of total credit risk, this is Santander Spain's main lending segment. Most of the portfolio corresponds to customers with an assigned credit analyst to monitor their loans throughout the risk cycle.

The portfolio is highly diversified and not concentrated in any sector.

The portfolio’s NPL ratio stood at 7.04% in December 2020. Even though total risk decreased, the NPL ratio fell by 21 bp compared to December 2019 owning to better performance driven by customer support programmes, the cure of several restructured exposures in corporates and portfolio sales. 2020 growth was mainly focused in liquidity support programs (ICO).

Real estate activity

The Real Estate Unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in 2020). The part of the portfolio resulting from the past financial crisis and the new business that is identified as viable should be differentiated. 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	2020	2019	2018
Balance at beginning of year	2,939	4,812	6,472
Foreclosed assets	(6)	(29)	(100)
Reductions*	(24)	(1,685)	(1,267)
Written-off assets	(38)	(159)	(293)
Balance at end of year	**2,871**	**2,939**	**4,812**

* Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 6.13% (compared with 9.73% and 27.58% at December 2019 and 2018, respectively) 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 32.95% (35.31% and 35.27% in 2019 and 2018, respectively).

	2020		
EUR million	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)	2,871	397	70
Of which, watchlist/ non-performing	*176*	*20*	*58*
Memorandum items written-off assets	924		

Memorandum items: Data from the public consolidated balance sheet

	2020
EUR million	Carrying amount
Total loans and advances to customers excluding the Public sector (business in Spain) (Book value)	237,165
Total consolidated assets (Total business) (Book value)	1,508,250
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,591

At year-end, the concentration of this portfolio was as follows:

	Loans: gross amount
EUR million	2020
1. Without mortgage guarantee	164
2. With mortgage guarantee	2,707
2.1 Completed buildings	1,454
2.1.1 Residential	844
2.1.2 Other	610
2.2 Buildings and other constructions under construction	1,185
2.2.1 Residential	1,124
2.2.2 Other	61
2.3 Land	68
2.3.1 Developed consolidated land	44
2.3.2 Other land	24
Total	**2,871**

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 2020, the net balance of these assets amounted to EUR 3,962 million (gross amount: EUR 7,937 million; recognised allowance: EUR 3,975 million, of which EUR 2,834 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 2020:

	2020			
EUR million	Gross carrying amount	Valuation adjustments	Impairment losses on assets since time of foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	6,810	3,568	2,563	3,242
Of which:				
Completed buildings	*2,140*	*846*	*644*	*1,294*
Residential	*527*	*171*	*130*	*356*
Other	*1,613*	*675*	*514*	*938*
Buildings under construction	*178*	*70*	*36*	*108*
Residential	*178*	*70*	*36*	*108*
Other	*—*	*—*	*—*	*—*
Land	*4,492*	*2,652*	*1,883*	*1,840*
Developed land	*1,656*	*888*	*559*	*768*
Other land	*2,836*	*1,764*	*1,324*	*1,072*
Property assets from home purchase mortgage loans to households	892	305	200	587
Other foreclosed property assets	235	102	71	133
Total property assets	**7,937**	**3,975**	**2,834**	**3,962**

In addition, the Group has shareholdings in entities holding foreclosed assets amounting to EUR 961 million (mainly Project Quasar Investment 2017, S.L.), and equity instruments foreclosed or received in payment of debts amounting to EUR 66 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 (EUR billion):

	EUR billion		
	2020	2019	2018
Gross additions	0.5	0.7	0.8
Disposals	(0.9)	(2.7)	(1.8)
Difference	(0.4)	(2.0)	(1.0)

3.3. United States

Santander US's credit risk increased to EUR 99,135 million by the end of 2020. It represents 10% of Grupo Santander's total credit risk and includes these subsidiaries:

Santander Bank National Association (SBNA)

Santander Bank N.A.'s business is mainly retail and commercial banking. It accounts for 84% of Santander US's total credit risk, of which 39% is with individuals and approximately 61% with corporates. Its primary goals include increasing the SCIB business (16% of the portfolio) by enhancing customer experience and growing core customers and deposits through digital, branch and commercial transformation initiatives; leveraging its deposit base to support its commercial real estate businesses; and strengthening its auto finance partnership.

The 12% decrease in lending in 2020 affected all segments. Minus the exchange rate effect, the drop was lower, standing at 4%.

The NPL ratio increased to 0.81% (12 bp in the year) as of December 2020 and credit increased to 0.85% due to provisions stemming from the covid-19 pandemic.

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, 2020, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	18,105	1,778	—	19,883
From BB- to CCC	24,380	2,977	—	27,357
Default	—	—	403	403
Total exposure**	**42,485**	**4,755**	**403**	**47,643**
Impairment losses***	**344**	**316**	**42**	**702**

* 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). Excludes portfolio not segmented by rating (0.9%)
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	27,078	763	—	27,841
From BB- to CCC	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 and undrawn exposures) + loan commitments granted.
*** 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
From AAA to BB	5,149	—	—	5,149
From BB- to CCC	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.

The Government support measures taken in the United States in response to the covid-19 pandemic are detailed below:

- There were no legislative moratoriums, all were sectoral. Mortgage moratoriums were granted for up to 12 months, while consumer moratoriums were granted for 1-3 months.
- Once the latter expired, a new round of moratoriums of 1-3 months was granted.
- The moratoriums granted entailed a deferral of principal and interest.

As of 31 December 2020, SBNA had granted moratoriums to 39,235 customers, for a total amount of EUR 5,333 million, equivalent to 11.09% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	1,618	16,332	1,369
Mortgages	850	7,466	677
Consumer	768	8,866	692
SME & corporates	3,715	29,411	3,428
Total*	**5,333**	**45,743**	**4,797**

* Total portfolio includes segmented exposure and excludes off-balance.

Of the total moratoriums expired at December 31, 2020, EUR 2,980 million were classified in stage 1, EUR 1,694 million in stage 2 and EUR 123 million in stage 3.

At the end of 2020, 89.96% of total moratoria granted by the Group had expired and only 2.56% of these was classified in stage 3.

Total loans granted under government liquidity programmes in SBNA amounted to EUR 967 million.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, EUR 220 million corresponds to the overlay calculated as of December 31, 2020 (EUR 175 million in stage 1, EUR 30 million in stage 2 and EUR 15 million in stage 3).

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander Bank, National Association considers four macroeconomic scenarios, which are updated periodically. The evolution projected in 2020 for a period of five years of the main macroeconomic indicators used Santander Bank, National Association to estimate expected losses is presented below:

	2021 - 2025			
Variables	Unfavourable scenario 2	Unfavourable scenario 1	Base scenario	Favourable scenario
Interest rate (annual averaged)	0.78 %	0.27 %	0.63 %	0.99 %
Unemployment rate	5.83 %	7.34 %	5.21 %	4.36 %
House price change	2.67 %	2.17 %	3.40 %	3.79 %
GDP growth	3.05 %	2.76 %	2.60 %	3.40 %

The five-year projected development generated in 2019 to estimate the expected loss is shown below:

	2020 - 2024			
Variables	Unfavourable scenario 2	Unfavourable scenario 1	Base scenario	Favourable scenario
Interest rate (annual averaged)	1.06%	2.22%	2.29%	2.70%
Unemployment rate	7.71%	2.68%	-0.87%	-2.10%
House price change	2.60%	3.68%	4.53%	4.69%
GDP growth	1.60%	2.05%	2.07%	2.75%

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:

	2020	2019	2018
Pessimistic scenario 2	17.5 %	17.5 %	20 %
Pessimistic scenario 1*	20 %	20 %	n.a.
Base scenario	32.5 %	32.5 %	60 %
Optimistic scenario	30 %	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 the case of SBNA, no additional 'long-run' scenario was generated for the calculation of the post model adjustment, but the additional provisions for covid-19 were calculated using the own model.

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 bp In the case of some portfolios, the behaviour score supplements this criterion.

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

SC USA presents higher risk indicators than other Santander US units due to the nature of its business. Its automobile financing business through loans and leases represents 97% of its revenues. It also has a smaller personal lending portfolio (3%).

SC USA's focus remains on managing the relationship between profitability and risk through pricing while improving the dealer experience.

In 2020, loan originations grew by more than 20% from 2019, mainly in the prime segment on the back of the commercial relationship we have had with Fiat Chrysler Automobiles (FCA Group) since 2013 (renewed in July 2019). Auto originations improved particularly in the third quarter as covid-19 restrictions were lifted and dealership activity returned to normal. Prime loans remained elevated from the prior year due to FCA Group incentive programmes.

The NPL ratio dropped to 5.26% (-90 bp in the year). Cost of credit at the end of December stood at 8.09% (-133 bp in the year). Annual net credit losses decreased from last year due to the lower charge-offs resulting from covid-19 loan extensions, federal stimulus and higher recoveries driven by the higher auction prices. Furthermore, due to the decrease in NPL, the coverage ratio grew to 230% (+55 bp in the year).

Leases carried out exclusively under the FCA Group agreement, primarily with highly creditworthy customers, decreased by 6% to EUR 13,903 million, providing stable and recurring earnings. The management and mitigation of residual value remains a priority.

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 2020, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	1,689	12	—	1,701
From BB- to CCC	21,491	4,831	—	26,322
Default	—	—	1,019	1,019
**	**23,180**	**4,843**	**1,019**	**29,042**
Impairment losses***	**911**	**1,820**	**726**	**3,457**

* 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

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	1,029	14	—	1,043
From BB- to CCC	20,083	6,277	—	26,360
Default	—	—	1,600	1,600
**	**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) + loan commitments granted.
*** 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
From AAA to BB	224	—	—	224
From BB- to CCC	20,313	6,600	—	26,913
Default	—	—	2,218	2,218
**	**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.

As of December 31, 2020, SC USA had granted moratoriums to 600,899 customers, for a total amount of EUR 8,912 million, equivalent to 30.68% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	8,912	29,050	8,005
Mortgages	—	—	—
Consumer	8,912	29,050	8,005
SME & corporates	—	—	—
Total	**8,912**	**29,050**	**8,005**

Of the total moratoriums expired at December 31, 2020, EUR 6,280 million were classified in stage 1, EUR 1,770 million in stage 2 and EUR 554 million in stage 3.

At the end of 2020, 89.82% of total moratoria granted by the SC USA had expired and only 6.92% of these was classified in stage 3.

Given the nature of its business focused on auto financing for individuals, no loans were granted by liquidity programs in SC USA.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated on the basis of a macroeconomic effect, and taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, EUR 702 million corresponds to the overlay calculated as of December 31, 2020 (EUR -104 million in stage 1, EUR 578 million in stage 2 and EUR 228 million in stage 3).

In SC USA, better performance than initially expected has been observed in the used car price indices (Manheim index) and customer impairment resulting from government assistance programs, thus counteracting this effect through an overlay reflecting possible reductions in the Manheim index and a levelling effect of impairment by applying historical levels of distribution by stage, which incorporates migrations of exposure and their respective reserves from stage 1 to stage 2 and stage 3.

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 four macroeconomic scenarios, periodically updated over a 5-year time horizon.

The evolution forecasted in 2020 for a period of five years of the main macroeconomic indicators used by in Santander Consumer USA Holdings Inc in the estimation of expected losses is shown below:

	2021 - 2025			
Variables	Unfavourable scenario 1	Unfavourable scenario 2	Base scenario	Favourable scenario
Interest rate (year averaged)	0.78%	0.27%	0.63%	0.99%
Unemployment rate	5.83%	7.34%	5.21%	4.36%
Housing price growth	2.67%	2.17%	3.40%	3.79%
GDP Growth	3.05%	2.76%	2.60%	3.40%
Manheim[A] index	1.60%	1.57%	1.61%	1.64%

A. US used vehicle price car index.

The five-year projected development generated in 2019 to estimate the expected loss is shown below:

	2020 - 2024			
Variables	Unfavourable scenario 1	Unfavourable scenario 2	Base scenario	Favourable scenario
Interest rate (year averaged)	1.06%	2.22%	2.29%	2.70%
Unemployment rate	7.71%	2.68%	-0.87%	-2.10%
Housing price growth	2.60%	3.68%	4.53%	4.69%
GDP Growth	1.60%	2.05%	2.07%	2.75%
Manheim[A] index	-1.20%	0.50%	1.60%	3.10%

A. US used vehicle price car index

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:

	2020	2019	2018
Pessimistic scenario 2	17.5%	17.5%	20.0%
Pessimistic scenario 1*	20.0%	20.0%	n.a.
Base scenario	32.5%	32.5%	60.0%
Optimistic scenario	30.0%	30.0%	20.0%

* The exercise carried out in 2019 includes two adverse scenarios compared to one in 2018, due to the evolution of the local methodology.

In the case of SC USA, no additional 'long-run' scenario was generated for the calculation of the post model adjustment, but the additional provisions for covid-19 were calculated using the own model.

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision
	SC Auto
Manheim index	
-0.01	1.91%
0.01	-1.21%
Unemployment Rate	
-0.01	-4.29%
0.01	6.48%
House Price Change	
-0.01	3.22%
0.01	-2.06%
GDP growth	
-0.01	3.11%
0.01	-1.94%

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 bp to 60 bp.

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. Banco Santander (Brasil) S.A.

Economic growth had one of the most moderate declines in Latin America between March and April. Recovery started in May, owing to relaxed confinement measures, the reopening of businesses, fiscal and monetary stimuli, low inflation (4.5% in December vs 4% target), and an expansive monetary policy, with the official rate of interest at 2% from 4.50% at the end of 2019.

Santander Brasil's credit risk amounted to EUR 74,712 million. It decreased by 16% from 2019. Minus the exchange rate effect, it grew by 19%. As of December 2020, Santander Brasil accounts for 8% of Grupo Santander's loan book.

In line with strategy, growth was prominent in retail segments with a more conservative risk profile, driven by customer engagement and loyalty and by new business on digital channels, which significantly increased last year.

The profitability of the SME portfolio increased significantly, boosted by an active loan origination under government programmes (EUR 1,790 million) to combat the pandemic that provided SMEs with liquidity to adapt to the new environment.

A proactive credit risk management approach was key to achieving a profitable increase in market share, while credit quality indicators remained at moderate levels.

Net loan-loss provisions stood almost flat at EUR 3,018 million (-0.6% compared to 2019), favoured by the exchange rate effect. In local currency, provisions grew +31% mainly driven by additional provisions related to covid-19.

Cost of credit rose to 4.35% from 3.93% at the end of 2019, driven by the current convid-19 pandemic context, as well as the aforementioned provisions performance.

Information on the estimation of impairment losses

The detail of Banco Santander (Brasil) S.Al exposure and impairment losses associated with each of the stages at 31December, 2020, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses

EUR million	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	38,686	210	—	38,896
From BB- to CCC	26,166	5,942	—	32,108
Default	—	—	3,428	3,428
**	**64,852**	**6,152**	**3,428**	**74,432**
Impairment losses***	**971**	**777**	**2,132**	**3,880**

* 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

EUR million	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	45,765	308	—	46,072
From BB- to CCC	32,698	5,393	—	38,091
Default	—	—	4,727	4,727
**	**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

EUR million	2018			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	51,150	472	—	51,622
From BB- to CCC	56,884	5,334	—	62,218
Default	—	—	4,223	4,223
**	**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.

The Government support measures taken in the Brazil in response to the covid-19 pandemic are detailed below:

- The moratoriums for individuals were granted for a term of 2 months with an additional extension of one month.

- In the case of legal entities, the moratoriums were for up to 6 months in line with BNDES (Banco Nacional de Desenvolvimento Econômico e Social) programs. These were granted slightly later than those granted to individuals.
- The moratoriums granted entailed a deferral of principal and interest.

As of 31 December 2020, moratoriums had been granted to 1,728,197 customers, for a total amount of EUR 6,369 million, equivalent to 9.45% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	of which: Expired
Individuals	4,518	35,182	4,451
Mortgages	2,177	7,196	2,129
Consumer	2,341	27,987	2,321
SME & Corporates	1,851	29,874	1,437
Total*	**6,369**	**65,056**	**5,888**

* Total portfolio includes segmented exposure and excludes off-balance

Of the total moratoriums expired at 31 December 2020, EUR 4,448 million were in stage 1, EUR 1,037 million in stage 2 and EUR 403 million in stage 3.

At the end of 2020, 92.44% of the total moratoriums granted by Brazil had expired and only 6.84% of these was classified in stage 3.

Total loans granted by liquidity programmes in Brazil amounted to EUR 2,019 million as of 31 December 2020.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated on the basis of a macroeconomic effect, and taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment losses, EUR 523 million related to the overlay calculated at 31 December 2020 (EUR 243 million in stage 1, EUR 193 million in stage 2 and EUR 87 million in stage 3).

For the expected losses estimation, prospective information is taken into account. Particularly, Santander Brazil considers three macroeconomic scenarios, periodically updated. The evolution for a period of five years of the main macroeconomic indicators used to estimate the expected losses in Santander Brazil is as follows:

	2020 - 2024		
Variables	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	8.70%	5.60%	4.45%
Unemployment rate	16.48%	9.58%	8.04%
Housing price change	-1.24%	2.69%	6.39%
GDP Growth	-1.40%	2.38%	4.41%
income	21.70%	20.39%	19.02%

In the case of Santander Brazil, the scenarios projected up to 2024 have been complemented with an additional scenario that counts with the appropriate extension to reflect loss materialization, taking into account the loan portfolios shorter average terms and the expected deterioration in the following periods.

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:

	2020	2019	2018
Pessimistic scenario	10 %	10 %	10 %
Base scenario	80 %	80 %	80 %
Optimistic scenario	10 %	10 %	10 %

Regarding the the additional scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for a period of five years is shown below:

	2020-2024		
Variables	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	5.97%	4.25%	4.25%
Unemployment rate	18.00%	12.34%	12.34%
Housing price change	-0.88%	1.84%	1.84%
GDP Growth	-1.62%	1.40%	1.40%
Burden income	22.30%	20.80%	20.80%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision		
	Consumer	Corporate	Rest
GDP Growth			
-100 bp	0.89%	1.66%	0.75%
100 bp	-0.91%	-1.49%	-0.41%
Burden income			
-100 bp	-0.82%	1.56%	-0.43%
100 bp	1.61%	0.69%	1.49%
Interest rate (Selic)			
-100 bp	-1.43%	0.55%	-0.29%
100 bp	2.11%	8.42%	1.54%

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 3.2 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 in 2020 for a period of five 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:

	2021 - 2025		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
growth	3.03%	3.39%	3.56%

The five-year projected development generated in 2019 to estimate the expected loss is shown below:

	2020 - 2024		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
growth	3.04%	3.55%	3.83%

Regarding the the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for the next five years is shown below:

Variable	Long-run scenario
Global GDP growth	1.54%

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.

	2020	2019	2018
Pessimistic scenario	30 %	30 %	20 %
Base scenario	40 %	40 %	60 %
Optimistic scenario	30 %	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) n.º 575/2013, counterparty credit risk, which includes derivative instruments, transactions with a repurchase obligation, stock and commodities lending, transactions with deferred repayment and financing of guarantees, arises from the likelihood that a counterparty will default before the final settlement of the transaction's cash flows.

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 the Montecarlo simulation to calculate exposures for some countries and products. We also calculate capital at risk and unexpected loss, which is the difference between the economic capital, net of guarantees and recoveries, and expected loss.

After market close, the exposures are recalculated by adjusting transactions to their new time frame, adapting potential future exposure and applying mitigation measures (netting, collateral, etc.) to control exposures directly against the limits approved by senior management. Grupo Santander runs risk control with an integrated system in real time that enables us to know the exposure limit with any counterparty, product and maturity and in any of Santander's subsidiaries 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.

Grupo Santander 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 mitigation 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 2020.

The detail, by activity and geographical area of the Group's risk concentration at 31 December 2020 is as follows:

EUR million

	31 December 2020				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	278,343	69,467	49,359	75,831	83,686
Public sector	166,114	43,121	30,571	83,960	8,462
Of which:					
Central government	*143,003*	*32,070*	*28,988*	*74,032*	*7,913*
Other central government	*23,111*	*11,051*	*1,583*	*9,928*	*549*
Other financial institutions (financial business activity)	113,569	14,882	37,661	27,883	33,143
Non-financial companies and individual entrepeneurs (non-financial business activity) (broken down by purpose)	400,329	125,608	85,897	131,578	57,246
Of which:					
Construction and property development	*19,105*	*3,921*	*3,531*	*5,631*	*6,022*
Civil engineering construction	*5,723*	*2,924*	*1,864*	*798*	*137*
Large companies	*232,469*	*59,037*	*48,120*	*86,515*	*38,797*
SMEs and individual entrepreneurs	*143,032*	*59,726*	*32,382*	*38,634*	*12,290*
Households – other (broken down by purpose)	501,901	86,076	93,301	112,954	209,570
Of which:					
Residential	*324,193*	*60,556*	*34,102*	*38,762*	*190,773*
Consumer loans	*160,037*	*17,881*	*57,033*	*69,263*	*15,860*
Other purposes	*17,671*	*7,639*	*2,166*	*4,929*	*2,937*
Total	**1,460,256**	**339,154**	**296,789**	**432,206**	**392,107**

* 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'.

4.3. Sovereign risk and exposure to other public sector entities

Sovereign risk occurs in transactions with a central bank. It includes the regulatory cash reserve, issuer risk with the Treasury (public debt portfolio) and risk from transactions with government institutions whose funding only come from the state's budgetary revenue and not commercial operations.

The historic criteria of Grupo Santander can differ from regular EBA stress test standards. Though the EBA does include national, regional and local government institutions, it does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments.

According to our management criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (EUR 12,080 million, 3.8% of total sovereign risk). Furthermore, exposure to non-local sovereign issuers involving cross-border risk[22] is even less significant (EUR 7,168 million, 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 in line with regulatory requirements and our strategy to manage this portfolio.

The shifts in our sovereign risk in our countries is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Santander's exposure spreads among countries with varied macroeconomic outlooks and dissimilar growth, interest and exchange rate scenarios.

The shifts observed in the different countries exposure is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Santander's exposure spreads among countries with varied macroeconomic outlooks and dissimilar scenarios in terms of growth, interest and exchange rates.

Our investment strategy for sovereign risk considers country's credit quality to set the maximum exposure limits:

	2020	2019	2018
AAA	18%	20%	11%
AA	25%	24%	20%
A	25%	18%	31%
BBB	14%	15%	13%
Less than BBB	18%	23%	25%

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 2020:

	2020					2019	2018
	Portfolio						
Country	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure		Total net direct exposure
Spain	4,100	7,048	13,097	—	24,245	35,366	49,640
Portugal	(380)	4,148	4,962	—	8,730	8,689	8,753
Italy	249	2,468	1,298	—	4,015	2,735	261
Greece	—	—	—	—	—	—	—
Ireland	—	—	—	—	—	—	—
Rest Eurozone	(29)	1,687	2,396	—	4,054	1,809	2,778
UK	(1,672)	612	963	—	(97)	10,363	10,869
Poland	16	10,263	668	—	10,947	8,366	11,229
Rest of Europe	7	121	942	—	1,070	777	329
US	589	9,501	5,458	—	15,548	16,299	8,682
Brazil	5,127	17,281	5,309	—	27,717	28,998	27,054
Mexico	8,005	10,256	2,768	—	21,029	13,673	10,415
Chile	148	6,732	75	—	6,955	3,460	1,776
Rest of America	19	397	542	—	958	1,029	893
world	—	3,776	976	—	4,752	4,813	6,222
Total	**16,179**	**74,290**	**39,454**	**—**	**129,923**	**136,377**	**138,901**

[22] Countries that are not considered low risk by Banco de España.

5. Forborne loan portfolio

Grupo Santander's internal forbearance policy acts as a reference for our subsidiaries locally. It shares the principles of regulations and supervisory expectations. It includes the requirements of the EBA guidelines on management of non performing and forborne exposures. It defines forbearance as the modification of the payment conditions of a transaction to allow a customer experiencing financial difficulties (current or foreseeable) to fulfil their payment obligations. If forbearance is not allowed, there would be reasonable certainty that the customer would not be able to meet their financial obligations.

In addition, this policy also sets down rigorous criteria for evaluating, classifying and monitoring forbearances to ensure the strictest possible care and diligence in recovering due amounts. Thus, it dictates that we must adapt payment obligations to customers' current circumstances. Our forbearance policy also defines classification criteria to ensure we recognize risks appropriately. They must remain classified as non-performing or in watch-list for a prudential period for reasonable certainty of repayment.

Forbearances may never be used to delay the immediate recognition of losses or hinder the appropriate recognition of risk of default. Thus, we must recognize losses as soon as we deem any amounts irrecoverable.

The forborne portfolio stood at EUR 29,159 million at the end of December 2020. In terms of credit quality, 51% of the loans are classified as non-performing loans, with average coverage of 43%.

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 EUR million, 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		
	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
Credit entities	—	—	—	—	—	—	—
Public sector	40	21	17	9	7	—	1
Other financial institutions and: individual shareholder	615	22	565	123	38	55	29
Non-financial institutions and individual shareholder	176,310	4,936	45,872	9,872	6,444	828	4,475
Of which financing for constructions and property development	*6,395*	*131*	*1,557*	*802*	*599*	*38*	*246*
Other warehouses	2,569,758	4,059	427,282	10,117	6,239	1,561	3,657
Total	**2,746,723**	**9,038**	**473,736**	**20,121**	**12,728**	**2,444**	**8,162**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—

In 2020, 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 4,454 million, without these modifications having a material impact on the income statement. Also, during 2020, 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 EUR 1,478 million.

The transactions presented in the foregoing tables were classified at 31 December 2020 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.

Attending to the credit attention 49% 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 43% of the non-performing portfolio)

The table below shows the changes in 2020 in the forborne loan portfolio (net of provisions):

EUR million

	2020
Beginning balance	**23,430**
Refinancing and restructuring of the period	8,351
Memorandum item: impact recorded in the income statement for the period	*2,249*
Debt repayment	(5,449)
Foreclosure	(293)
Derecognised from the consolidated balance sheet	(1,314)
Others variations	(3,728)
Balance at end of year	**20,997**

2020

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		Real estate guarantee	Rest of real guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk
—	—	—	—	—	—	—
19	1	9	3	3	—	1
323	12	358	79	26	49	27
103,692	3,160	31,861	6,147	3,944	355	4,091
3,838	*50*	*1,023*	*509*	*255*	*14*	*225*
1,299,317	1,762	148,862	3,831	2,703	241	2,272
1,403,351	**4,935**	**181,090**	**10,060**	**6,676**	**645**	**6,391**
—	—	—	—	—	—	—

c) Market, structural and liquidity risk

1. Activities subject to market risk and types of market risk

Activities subject to market risk encompass transactions where risk is assumed as a consequence of potential changes in interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices, volatility and other market factors; the liquidity risk from our products and markets, and the balance sheet liquidity risk. Therefore, they include trading risks and structural risks.

- **Interest rate risk** arises from changes in interest rates that could adversely affect the value of a financial instrument, a portfolio or the group as a whole. It affects loans, deposits, debt securities and most assets and liabilities in trading books and derivatives.

- **Inflation rate risk** originates from changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the entire group. It affects instruments such as loans, debt securities and derivatives, where returns are linked to future inflation values or a change in the current rate.

- **Exchange rate risk** is the sensitivity to movements in exchange rates of a position's value not denominated in the base currency. A long or open position in a foreign currency may produce a loss if it depreciates against the base currency. Exposures affected by this risk include non-euro investments in subsidiaries and transactions in foreign currency.

- **Equity risk** is the sensitivity of the value of an open positions in equities to adverse movements in their market prices or future dividend expectations. This affects positions in shares, stock market indexes, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, etc.).

- **Credit spread risk** is the sensitivity of the value of an open positions in fixed income securities or credit derivatives to movements in the 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.

- **Commodity price risk** is the risk from changes in commodity prices. Our exposure to this risk is not significant, mainly coming from our customers' derivative transactions in commodities.

- **Volatility risk** is the sensitivity of the value of a portfolio to changes in the volatility of risk factors such as interest rates, exchange rates, shares and credit spreads. This risk is incurred by all financial instruments, in which volatility is a variable in valuation. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated with derivatives such as options, futures, forwards and swaps.

There are other types of market risk that require more complex hedging:

- **Correlation risk** is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation) of the same type (e.g., two exchange rates) or different types (e.g., an interest rate and the price of a commodity).

- **Market liquidity risk** originates when Grupo Santander or a subsidiary cannot reverse or close a position without 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. This risk could also increase depending on how exposures are distributed among products and currencies.

- **Pre-payment or cancellation risk** originates when on-balance- sheet instruments (such as mortgages or deposits) may have options that allow holders to buy or sell them or alter future cash flows. Potential mismatches on the balance sheet 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** arises from an entity's involvement in underwriting or placing securities or other types of debt when it assumes the risk of having to acquire issued securities partially if they have not fully been taken up by potential buyers.

- **Balance sheet liquidity risk** must also be considered. Unlike market liquidity risk, it is defined as the possibility of meeting payment obligations late or at an excessive cost. Losses may be caused by 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.

Grupo Santander ensures make sure we comply with the Basel Committee's Fundamental Review of the Trading Book and the EBA guidelines on balance-sheet interest-rate risk. Through several projects, Santander aims to provide risk managers and control teams with the best tools to manage market risks under the right governance framework for the models used, to report risk metrics, and help satisfy requirements on these risks.

1. Trading market risk management

Setting market risk limits is a dynamic process that follows predefined risk appetite levels. It is part of senior management's annual limits plan that extends to all subsidiaries.

The standard methodology for risk management and control in trading, measures the maximum expected loss with a specific level of confidence and time frame. The standard for historical simulation is a confidence level of 99% over one day. We apply statistical adjustments efficiently to incorporate recent developments affecting our levels of risk. Our time frame is two years or at least 520 days from the reference date of the VaR calculation.

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 metric VaR	Other	Main risk factor for 'Other' balance
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	153,839		153,839	Interest rate
Financial assets held for trading	114,945	114,945		Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	3,234	1,252	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	48,717	35,337	13,380	Interest rate
Financial assets designated at fair value through other comprehensive income	120,953	2,783	118,170	Interest rate, spread
Financial assets at amortized cost	958,378		958,378	Interest rate
Hedging derivatives	8,325		8,325	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980		1,980	Interest rate
Other assets	96,627			
Total assets	**1,508,250**			
Liabilities subject to market risk				
Financial liabilities held for trading	81,167	81,167		Interest rate, spread
Financial liabilities designated at fair value through profit or loss	48,038	14,641	33,397	Interest rate
Financial liabilities at amortized cost	1,248,188		1,248,188	Interest rate, spread
Hedging derivatives	6,869		6,869	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	286		286	Interest rate
Other liabilities	32,380			
Total liabilities	**1,416,928**			
Equity	**91,322**			

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 2020 and the ES at 97.5% as of the end of December 2020:

VaR statistics and expected shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2020					2019		2018	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**6.5**	**12.5**	**54.8**	**8.3**	**8.1**	**12.1**	**10.3**	**9.7**	**11.3**
Diversification effect	(6.0)	(13.1)	(15.8)	(11.8)	(12.6)	(8.2)	(9.9)	(9.3)	(11.5)
Interest rate	4.7	9.2	29.2	5.4	5.9	10.0	9.2	9.4	9.7
Equities	2.1	4.4	14.7	3.1	3.7	2.9	4.8	2.4	2.8
Exchange rate	2.6	5.9	12.9	6.0	5.5	3.9	2.6	3.9	6.2
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.4	4.1
Commodities	0.0	0.5	2.5	1.1	1.0	0.0	0.0	—	—
Total Europe	**5.0**	**10.5**	**39.1**	**8.0**	**9.3**	**6.3**	**10.1**	**5.0**	**5.5**
Diversification effect	(4.6)	(10.6)	(21.9)	(8.9)	(8.8)	(6.9)	(8.3)	(6.7)	(8.2)
Interest rate	3.2	7.9	24.0	6.5	7.2	6.0	8.2	5.0	5.8
Equities	2.1	4.3	15.0	3.0	3.6	1.9	4.9	1.1	1.2
Exchange rate	1.3	3.5	10.7	2.9	2.7	1.9	1.9	1.7	2.1
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.9	4.6
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	—	—
Total North America	**2.8**	**6.6**	**13.7**	**2.9**	**2.7**	**3.5**	**3.8**	**7.2**	**8.3**
Diversification effect	0.7	(2.2)	(5.3)	(1.1)	(0.9)	(1.3)	(2.1)	(4.8)	(2.7)
Interest rate	1.6	3.4	7.1	3.3	3.0	2.6	3.4	6.4	7.7
Equities	0.0	0.3	1.2	0.1	0.1	0.2	0.1	0.1	—
Exchange rate	0.5	5.1	10.7	0.5	0.5	2.0	2.4	5.5	3.3
Total South America	**2.4**	**5.6**	**26.4**	**4.5**	**5.0**	**9.5**	**6.0**	**7.2**	**10.0**
Diversification effect	(0.8)	(3.4)	(13.8)	(4.3)	(3.7)	(2.9)	(3.8)	(3.5)	(2.3)
Interest rate	2.3	5.2	26.3	4.1	4.2	7.8	5.9	6.4	6.6
Equities	0.2	1.0	6.3	0.5	0.5	2.0	1.7	2.5	2.9
Exchange rate	0.8	2.7	7.6	4.2	4.2	2.6	2.1	1.9	2.9

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.

By the end of December, VaR had decreased by EUR 2 million vs. the end of 2019. Average VaR increased slightly by EUR 0.4 million. By risk factor, average VaR increased in most factors due to higher market volatility along the year. By geographic area, average VaR rose in Europe and North America but remained at low levels.

VaR by risk factor has generally remained stable over the last few years. Temporary rises are due more to temporary increases in the volatility of market prices than to significant changes in positions.

Grupo Santander's exposure to complex structured instruments and assets is very limited, this is a reflection of our risk culture and prudent risk management. At the end of December 2020, the exposures in this area were:

• Hedge funds: exposure was EUR 344 million (all indirect), acting as counterparty in derivatives transactions. We analyse the risk related to this type of counterparty on a case by case basis, establishing percentages of collateralization based on each fund's features and assets.

• Monolines: no exposure at the end of December 2020.

Grupo Santander's policy for approving new transactions in these products remains extremely prudent and conservative.

It is strictly supervised by top management.

Backtesting

Actual losses can differ from those forecast by VaR due to the aforementioned limitations of this metric. Grupo Santander regularly analyses the accuracy of the VaR calculation model to confirm its reliability. The most important tests have backtesting:

- For hypothetical P&L backtesting and for the total portfolio, we observed overshootings in VaR at 99% on 9 and 12 March and on 7 July and on 30 December.
- In the case of VaE at 99%, overshootings was observed on 20 March.
- Most of overshootings were due to the strong market variations caused by the health crisis.
- The overshootings we observed in 2020 are consistent with the assumptions in the VaR calculation model.

IBOR Reform

Since 2015, central banks and regulators in several major jurisdictions have convened Working Groups (WGs) to find and implement the transition to suitable replacements for some existing 'IBOR' benchmarks, such as Euro Overnight Index Average (EONIA) and London Interbank Offered Rates (LIBORs).

On 27 July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the FCA), which regulates the LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmarks after 2021. This announcement indicates that the continuation of LIBORs on the current basis cannot be guaranteed after 2021. Therefore, after 2021 LIBORs may cease to be calculated.

Additionally, on 13 September 2018 the WG euro RFR recommended that the Euro Short Term Rate (€STR) shall replace EONIA. Since 2 October 2019, the date on which the €STR became available, EONIA changed its methodology to be calculated as the €STR plus a spread of 8.5 basis points. This change in EONIA's methodology is intended to facilitate the market's transition from EONIA to €STR, with the former expected to be discontinued by the 3 January 2022.

On October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which will become effective on 25 January 2021, and will provide derivatives market participants with new IBOR fallbacks for legacy and new derivatives contracts. Banco Santander S.A. and several subsidiaries have adhered to this protocol.

On December 2020, ICE Benchmark Administration (IBA), the FCA-regulated and authorized administrator of LIBOR, announced its intention that one week and two months USD LIBOR settings will cease at end-2021, while the rest of USD LIBOR tenors (Overnight and 1, 3, 6 and 12 months) will cease at end-June 2023.

On December 2020, the European Union Council endorsed new rules amending of the EU Benchmark Regulation (BMR). The aim of the amendments to the Benchmark Regulation is to make sure that a statutory replacement benchmark can be established by the regulators by the time a systemically important benchmark is no longer in use, and thus protect financial stability on EU markets. It is likely that the regulators decide to use these powers in order to mitigate, as much as possible, systemic risks that might result from the phasing out of the London Inter-Bank Offered Rate (LIBOR) by the end of 2021. The new rules give the Commission the power to replace so-called 'critical benchmarks', which could affect the stability of financial markets in Europe, and other relevant benchmarks, if their termination would result in a significant disruption in the functioning of financial markets in the EU. The Commission will also be able to replace third-country benchmarks if their cessation would result in a significant disruption in the functioning of financial markets or pose a systemic risk for the financial system in the EU..

Interest rate benchmarks have an extended footprint in a significant number of contracts that Santander Group is holding and are used in multiple processes. The most relevant interest rate benchmarks for Santander are EURIBOR, EONIA, USD-LIBOR, GBP-LIBOR, and CHF-LIBOR. Santander Group uses these benchmarks as the reference rate not only for derivatives, but also for loans, discounting products, deposits, collateral agreements and floating rate notes, among others.

The main risks to which Santander is exposed arising from financial instruments because of the transition are: (i) legal risks arising from potential changes required to documentation for new and existing transactions; (ii) risk management, financial and accounting risks arising from market risk models and from valuation, hedging, discontinuation and recognition of financial instruments linked to benchmark rates; (iii) business risk of a decrease in revenues of products linked to indices that will be replaced; (iv) pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments; (v) operational risks arising from the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; (vi) conduct risks arising from the potential impact of communication with customers and engagement during the transition period and (vii)litigation risks regarding our existing products and services, which could adversely impact our profitability.

In order to monitor the risks and address the challenges of the transition, Santander launched the IBOR Transition Programme in 2019. This programme has a group wide scope and reports on a regular basis to Executive Management involving statutory committees. Its main objective is to ensure a smooth operational transition and to anticipate and address any potential customer and conduct related issues that could arise from the IBOR transition. It also aims to ensure that all impacted areas, business units and geographies understand the risks associated with the transition in a homogeneous way and can take appropriate measures to mitigate them.

Santander's IBOR Transition Programme is aligned with the recommendations, guidance and milestones defined by regulators and working groups of different jurisdictions and is structured around the following areas: Technology & Operations, Legal, Client Outreach, Risk Management & Models, Conduct & Communications and Accounting & Finance.

Santander is engaged with the public and private sector initiatives in connection with IBOR transition. As part of this involvement, Santander participates in the WG Risk Free Rate Groups of different jurisdictions in Europe and America. Santander provides active feedback on the multiple consultations issued by industry forums, market associations, bank associations and other public organisms on this issue.

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 2020, in line with previous years.

Structural VaR

A standardized metric such as VaR can be used for monitoring total market risk for the banking book (excluding the trading activity of SCIB). Santander distinguishes fixed income considering interest rates and credit spreads on ALCO portfolios, exchange rates and equities.

In general, structural VaR is not material in terms of our volume of total assets or equity.

Structural VaR

EUR million. Structural VaR 99% with a temporary horizon of one day.

	2020				2019		2018	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**611.4**	**911.0**	**1,192.1**	**903.1**	**511.4**	**729.1**	**568.5**	**556.8**
Diversification effect	(227.2)	(349.8)	(261.0)	(263.4)	(304.2)	(402.0)	(325.0)	(267.7)
VaR interest rate*	345.5	465.1	581.9	345.5	345.6	629.7	337.1	319.5
VaR exchange rate	317.8	499.9	547.0	502.6	308.1	331.7	338.9	324.9
VaR equities	175.3	295.9	324.2	318.5	161.9	169.8	217.6	180.1

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- Europe

  The EVE and NII sensitivities of our main balance sheets (Santander Spain and Santander UK) are usually positive.

  Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

  By the end of December 2020, considering the scenarios previously mentioned, the most significant risk of NII sensitivity was in the euro, at EUR 191 million; the Polish zloty, at EUR 66 million; the British pound yield curve at EUR 25 million; and the US dollar, at EUR 19 million, all relating to the risk of rate cuts.

  The most significant risk in economic value of equity was in the euro interest rate curve, at EUR 2,236 million; the British pound at EUR 643 million ; the US dollar at EUR 142 million; and the Polish zloty at EUR 22 million, all relating to the risk of rate cuts.

- North America

  The EVE and NII of our North American balance sheets (excluding the EVE of Mexico) usually show positive sensitivities to interest rates.

  Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

  By the end of December, the most significant risk to net interest income was mainly in the US (EUR 61 million).

The most significant risk to the economic value of equity was also in the US (EUR 1,035 million).

- South America

The economic value and net interest income in our South American balance sheets are usually positioned for interest rate cuts.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly located in Chile (EUR 80 million) and Brazil (EUR 68 million).

The most significant risk to the economic value of equity was also mainly in Chile (EUR 313 million) and Brazil (EUR 278 million).

Structural foreign currency rate risk/results hedging

The structural exchange rate risk is driven by transactions in foreign currencies related to permanent financial investments, their results and related hedges. The dynamic management of this risk seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In 2020, hedging of the core capital ratio for foreign exchange rate risk was kept close to 100%.

In December 2020, the largest exposures of permanent investments (with their potential impact on equity) were (in order) in US dollars, British pounds sterling, Brazilian real, Mexican pesos, Chilean pesos and Polish zlotys. Santander hedges some positions (which are permanent in nature) with foreign exchange-rate derivatives. The Finance Division is also responsible for foreign exchange rate risk management, hedging expected results and dividends in subsidiaries whose base currency is not the euro.

Structural equity risk

Grupo Santander maintains equity positions in its banking book as well as in its trading portfolio. These positions are maintained as equity instruments or equity stakes depending on the percentage owned or control.

The equity portfolio in the banking book at the end of December 2020 was diversified between securities in various countries, e.g. Spain, China, Morocco and Poland. Most of the portfolio is invested in the finance and insurance sectors. Among other sectors with lower exposure allocations real estate is included.

Structural equity positions are exposed to market risk. VaR is calculated for these positions with market price data series or proxies. By the end of September 2020, the VaR at 99% over a one day time horizon was EUR 319 million (EUR 170 million and EUR 180 million at the end of 2019 and 2018, respectively).

2.2. Methodologies

Structural interest rate risk

Grupo Santander analyses the potential impact of changes in interest rate levels on EVE and NII. Depending on the changes in rates, impacts will be different and therefore various subtypes of interest rate risk need to be monitored and managed, such as repricing, curve or basis risk.

Based on the balance-sheet interest rate position and the market situation and outlook, financial actions (such as transacting positions or setting interest rates for products marketed) may be needed to attain the desired risk profile determined by Grupo Santander.

The suite of metrics used to monitor interest rate risks includes the sensitivity of NII and EVE to changes in interest rates, and value at risk (VaR) for calculating economic capital.

Structural exchange-rate risk/hedging of results

These activities are monitored daily via position measurements, VaR and results.

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.

  Grupo Santander'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 2020 (thousand of million of euros):

Residual maturities of the liabilities	Unmatured	<=1month	>1 month <=3 months	>3 months <=12 months	>1 year <=2 years	>2 years <=3 years	3 years <=5 years	5 years <=10 years	>10 years	Total
Committed assets	35.7	40.2	10.2	35.5	32.4	106.4	50.5	23.9	15.6	350.4
Guarantees received	29.7	30.6	3.9	16.9	1.4	0.5	1.6	—	0.1	84.7

The reported Group information as required by the EBA at 2020 year-end is as follows:

On-balance-sheet encumbered assets

EUR billion

	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	249.5		884.7	
Equity instruments	5.8	5.8	9.9	9.9
Debt securities	61.9	60.7	114.6	115.4
Other assets	33.2		148.7	
Total assets	**350.4**		**1,157.9**	

Encumbrance of collateral received

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	**84.7**	**43.0**
Loans and advances	—	—
Equity instruments	3.5	5.9
Debt securities	80.3	37.1
Other collateral received	0.9	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**0.9**

Encumbered assets and collateral received and matching 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)	**306.3**	**435.1**

On-balance-sheet encumbered assets amounted to EUR 350,400 million, of which 71% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 84,700 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 435,100 million of encumbered assets, which give rise to EUR 306,300 million matching liabilities.

As of December 2020, total asset encumbrance in funding operations represented 26.6% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,635,900 million as of December 2020). This percentage has been increased from 24.1% that presented the Group as of December 2019. This increase was mainly due to Grupo Santander's use of the financing programmes launched by central banks in response to the pandemic.

d) Capital risk

In the second line of defence, capital risk management can independently challenge business and first-line activities by:

- Supervising capital planning and adequacy exercises through a review of the main components affecting the capital ratios.
- Identifying key metrics to calculate the Group’s regulatory capital, setting tolerance levels and analysing significant variations, as well as single transactions with impact on capital.
- Reviewing and challenging the execution of capital actions proposed in line with capital planning and risk appetite.

Grupo Santander commands a sound solvency position, above the levels required by regulators and by the European Central bank.

Regulatory capital

At 1 January 2021, at a consolidated level, the Group must maintain a minimum capital ratio of 8.85% of CET1 (4.50% being the requirement for Pillar I, 0.84% being the requirement for Pillar 2R (requirement), 2.50% being the requirement for capital conservation buffer, 1.00% being the requirement for G-SIB and 0.01% being the requirement for anti-cyclical capital buffer).

Grupo Santander must also maintain a minimum capital ratio of 10.63% of tier 1 and a minimum total ratio of 13.01%.

In 2020, the solvency target set was achieved. Santander’s CET1 ratio stood at 12.34% (figures calculated by applying the transitional provisions of IFRS 9) 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

EUR million

	2020	2019	2018
Subscribed capital	8,670	8,309	8,118
Share premium account	52,013	52,446	50,993
Reserves	62,777	56,526	53,988
Treasury shares	(69)	(31)	(59)
Attributable profit	(8,771)	6,515	7,810
Approved dividend	—	(1,662)	(2,237)
Shareholders’ equity on public balance sheet	**114,620**	**122,103**	**118,613**
Valuation adjustments	(33,144)	(22,032)	(22,141)
Non-controlling interests	9,846	10,588	10,889
Total Equity on public balance sheet	**91,322**	**110,659**	**107,361**
Goodwill and intangible assets	(15,711)	(28,478)	(28,644)
Eligible preference shares and participating securities	9,102	9,039	9,754
Accrued dividend	(478)	(1,761)	(1,055)
Other adjustments*	(5,734)	(9,923)	(9,700)
Tier 1* **	**78,501**	**79,536**	**77,716**

* Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.
* Figures calculated by applying the transitional provisions of IFRS 9.

The following table shows the capital coefficients and a detail of the eligible internal resources of the Group:

	2020	2019	2018
Capital coefficients			
eligible capital (EUR million)	69,399	70,497	67,962
eligible capital (EUR million)	9,102	9,039	9,754
Level 2 eligible capital (EUR million)	12,514	11,531	11,009
Risk-weighted assets (EUR million)	562,580	605,244	592,319
Level 1 ordinary capital coefficient (CET 1)	12.34%	11.65%	11.47%
Level 1 additional capital coefficient (AT1)	1.61%	1.49%	1.65%
Level 1 capital coefficient (TIER1)	13.95%	13.14%	13.12%
Level 2 capital coefficient (TIER 2)	2.23%	1.91%	1.86%
Total capital coefficient	**16.18%**	**15.05%**	**14.98%**

Eligible capital

EUR million

	2020	2019	2018
Eligible capital			
Common Equity Tier I	**69,399**	**70,497**	**67,962**
Capital	8,670	8,309	8,118
(-) Treasure shares and own shares financed	(126)	(63)	(64)
Share Premium	52,013	52,446	50,993
Reserves	64,766	57,368	55,036
Other retained earnings	(34,937)	(22,933)	(23,022)
Minority interests	6,669	6,441	6,981
Profit net of dividends	(9,249)	3,092	4,518
Deductions	(18,407)	(34,163)	(34,598)
Goodwill and intangible assets	*(15,711)*	*(28,478)*	*(28,644)*
Others	*(2,696)*	*(5,685)*	*(5,954)*
Additional Tier I	**9,102**	**9,039**	**9,754**
Eligible instruments AT1	8,854	9,209	9,666
T1-excesses-subsidiaries	248	(170)	88
Residual value of dividends	—	—	—
Others	—	—	—
Tier II	**12,514**	**11,531**	**11,009**
Eligible instruments T2	13,351	12,360	11,306
Gen. funds and surplus loans loss prov. IRB	—	—	—
T2-excesses - subsidiaries	(837)	(829)	(297)
Others	—	—	—
Total eligible capital	**91,015**	**91,067**	**88,725**

Note: Banco Santander 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).

With the publication of Regulation (EU) 2019/876 of 20 May, 2019, amending Regulation (EU) n.º 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-SIB, 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-SIB) from January 2023.

EUR million

	2020	2019	2017
Leverage			
Level 1 Capital	78,501	79,536	77,716
Exposure	1,471,480	1,544,614	1,489,094
Leverage Ratio	**5.33%**	**5.15%**	**5.22%**

Global systemically important banks

Grupo Santander 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.

54. Explanation added for translation to English

These accompanying Consolidated Financial Statements, translation of the Consolidated Financial Statements originally issued in Spanish, are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see note 1.b).

Appendix

Appendix I

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
2 & 3 Triton Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate
A & L CF (Guernsey) Limited (f)	Guernsey	0.00%	100.00%	100.00%	100.00%	Leasing
A & L CF June (2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
A & L CF June (3) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
A & L CF March (5) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
A & L CF September (4) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
Abbey Business Services (India) Private Limited	India	0.00%	100.00%	100.00%	100.00%	Holding company
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(a)	-	-	Securitization
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Abbey Covered Bonds LLP	United Kingdom	-	(a)	-	-	Securitization
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%	Financial services
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
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
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
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	Holding company
Aduro S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payments and collections services
Aevis Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards
AFB SAM Holdings, S.L.	Spain	1.00%	99.00%	100.00%	100.00%	Holding company
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company
ALIL Services Limited (b)	Isle of Man	0.00%	100.00%	100.00%	100.00%	Services
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	Holding company
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	% of ownership held by Banco Santander Indirect	% of voting power (c) Year 2020	% of voting power (c) Year 2019	Activity
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
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate
Alternative Leasing, FIL	Spain	99.99%	0.00%	99.99%	-	Investment fund
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
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-commerce
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Services
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-commerce
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services
Arcaz - Sociedade Imobiliária Portuguesa, Lda.	Portugal	0.00%	99.91%	100.00%	100.00%	Inactive
Argenline S.A. (b)	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
Athena Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services
Atlantes Azor No. 1	Portugal	-	(a)	-	-	Securitization
Atlantes Azor No. 2	Portugal	-	(a)	-	-	Securitization
Atlantes Mortgage No. 2	Portugal	-	(a)	-	-	Securitization
Atlantes Mortgage No. 3	Portugal	-	(a)	-	-	Securitization
Atlantes Mortgage No. 4	Portugal	-	(a)	-	-	Securitization
Atlantes Mortgage No. 5	Portugal	-	(a)	-	-	Securitization
Atlantes Mortgage No. 7	Portugal	-	(a)	-	-	Securitization
Atual - Fundo de Invest Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.99%	100.00%	-	Investment fund
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Financial services
Auto ABS Belgium Loans 2019, SA/NV	Belgium	-	(a)	-	-	Securitization
Auto ABS DFP Master Compartment France 2013	France	-	(a)	-	-	Securitization
Auto ABS French Lease Master Compartiment 2016	France	-	(a)	-	-	Securitization
Auto ABS French Leases 2018	France	-	(a)	-	-	Securitization
Auto ABS French Loans Master	France	-	(a)	-	-	Securitization
Auto ABS French LT Leases Master	France	-	(a)	-	-	Securitization
Auto ABS Italian Balloon 2019-1 S.R.L.	Italy	-	(a)	-	-	Securitization
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(a)	-	-	Securitization
Auto ABS Italian Rainbow Loans 2020-1 S.R.L.	Italy	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	% of ownership held by Banco Santander Indirect	% of voting power (c) Year 2020	% of voting power (c) Year 2019	Activity
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Auto ABS Spanish Loans 2020-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Auto ABS Swiss Leases 2013 GmbH	Switzerland	-	(a)	-	-	Securitization
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(a)	-	-	Securitization
Auto ABS UK Loans 2019 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Auto ABS UK Loans 2019 Plc	United Kingdom	-	(a)	-	-	Securitization
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Auto ABS UK Loans PLC	United Kingdom	-	(a)	-	-	Securitization
Autodescuento, S.L.	Spain	0.00%	93.89%	93.89%	93.89%	Vehicles purchase
Autohaus24 GmbH	Germany	0.00%	46.95%	100.00%	-	Renting
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting
Aviación Intercontinental, A.I.E.	Spain	99.97%	0.03%	100.00%	100.00%	Renting
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Aviación Santillana, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Renting
Aviación Suances, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company
Azor Mortgages PLC	Ireland	-	(a)	-	-	Securitization
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	Banking
Banco Bandepe S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Banking
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking
Banco Hyundai Capital Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	Banking
Banco Santander (Brasil) S.A.	Brazil	0.04%	89.95%	90.58%	90.52%	Banking
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	92.47%	100.00%	100.00%	Holding company
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	92.68%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	Banking
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	Banking
Banco Santander International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Banking
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	16.68%	75.11%	91.80%	91.77%	Banking
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	Banking
Banco Santander Río S.A.	Argentina	0.00%	99.31%	99.26%	99.25%	Banking
Banco Santander S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	Banking
Banco Santander Totta, S.A.	Portugal	0.00%	99.86%	99.96%	99.96%	Banking
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Real estate
BEN Benefícios e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Payment services
Bilkreditt 6 Designated Activity Company (b)	Ireland	-	(a)	-	-	Securitization
Bilkreditt 7 Designated Activity Company	Ireland	-	(a)	-	-	Securitization
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Canyon Multifamily Impact Fund IV LLC	United States	0.00%	98.00%	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
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Finance company
Carfax (Guernsey) Limited (f)	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
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	Finance company
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	99.97%	99.97%	99.97%	Securities company
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
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%	80.24%	100.00%	100.00%	Leasing
Centro de Capacitación Santander, A.C.	Mexico	0.00%	91.79%	100.00%	100.00%	Non-profit institute
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Aircraft rental

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity
Chrysler Capital Auto Funding I LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Chrysler Capital Auto Funding II LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Chrysler Capital Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Chrysler Capital Master Auto Receivables Funding 4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	85.00%	100.00%	100.00%	Collection services
Community Development and Affordable Housing Fund LLC (g)	United States	0.00%	96.00%	96.00%	-	Asset management
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	Banking
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	Banking
Comunidad Laboral Trabajando Argentina S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services
Comunidad Laboral Trabajando Iberica, S.L. Unipersonal, en liquidación (b)	Spain	0.00%	100.00%	100.00%	100.00%	Services
Consulteam Consultores de Gestão, Lda.	Portugal	100.00%	0.00%	100.00%	100.00%	Real estate
Consumer Lending Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization
Crawfall S.A. (b)	Uruguay	100.00%	0.00%	100.00%	100.00%	Services
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	Reinsurances
Decarome, S.A.P.I. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Finance company
Deva Capital Advisory Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services
Deva Capital Holding Company, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Deva Capital Investment Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
Deva Capital Management Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services
Deva Capital Servicer Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
Digital Procurement Holdings N.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Holding company
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	Cards
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	Services
Dirgenfin, S.L., en liquidación (b)	Spain	0.00%	100.00%	100.00%	100.00%	Real estate development
Drive Auto Receivables Trust 2016-C	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2017-1	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2017-2	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2017-3	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2017-A	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2017-B	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2018-1	United States	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity
Drive Auto Receivables Trust 2018-2	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2018-3	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2018-4	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2018-5	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2019-1	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2019-2	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2019-3	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2019-4	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2020-1	United States	-	(a)	-	-	Securitization
Drive Auto Receivables Trust 2020-2	United States	-	(a)	-	-	Securitization
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Electrolyser, S.A. de C.V.	Mexico	0.00%	91.79%	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%	100.00%	Finance company
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	Inactive
Esfera Fidelidade S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Services
Evidence Previdência S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	Finance company
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Finance company
Finsantusa, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
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
Fondation Holding Auto ABS Belgium Loans	Belgium	-	(a)	-	-	Securitization
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(a)	-	-	Securitization
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(a)	-	-	Securitization
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(a)	-	-	Securitization
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(a)	-	-	Securitization
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(a)	-	-	Securitization
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(a)	-	-	Securitization
Fondo de Titulización PYMES Santander 13	Spain	-	(a)	-	-	Securitization
Fondo de Titulización PYMES Santander 14	Spain	-	(a)	-	-	Securitization
Fondo de Titulización PYMES Santander 15	Spain	-	(a)	-	-	Securitization
Fondo de Titulización RMBS Santander 4	Spain	-	(a)	-	-	Securitization
Fondo de Titulización RMBS Santander 5	Spain	-	(a)	-	-	Securitization
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(a)	-	-	Securitization
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(a)	-	-	Securitization
Fondo de Titulización Santander Financiación 1	Spain	-	(a)	-	-	Securitization
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (b)	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	-	(a)	-	-	Securitization
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Fosse PECOH Limited	United Kingdom	-	(a)	-	-	Securitization
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Fundo de Investimento em Direitos Creditórios Atacado- Não Padronizado	Brazil	-	(a)	-	-	Investment fund
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado	Brazil	-	(a)	-	-	Investment fund
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado	Brazil	-	(a)	-	-	Investment fund
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Securitization
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Services
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Accounting services
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Services
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Electricity production
Gestión de Inversiones JILT, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services
Gestora de Procesos S.A. en liquidación (b)	Peru	0.00%	100.00%	100.00%	100.00%	Holding company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Payment services
Global Vosgos, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	Holding company
Golden Bar (Securitisation) S.R.L.	Italy	-	(a)	-	-	Securitization
Golden Bar Stand Alone 2016-1	Italy	-	(a)	-	-	Securitization
Golden Bar Stand Alone 2018-1	Italy	-	(a)	-	-	Securitization
Golden Bar Stand Alone 2019-1	Italy	-	(a)	-	-	Securitization
Golden Bar Stand Alone 2020-1	Italy	-	(a)	-	-	Securitization
Golden Bar Stand Alone 2020-2	Italy	-	(a)	-	-	Securitization
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	Holding company
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company
GTS El Centro Equity Holdings, LLC	United States	0.00%	58.40%	58.40%	57.40%	Holding company
GTS El Centro Project Holdings, LLC	United States	0.00%	58.40%	100.00%	100.00%	Holding company
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Automotive
Hipototta No. 13	Portugal	-	(a)	-	-	Securitization
Hipototta No. 4 FTC	Portugal	-	(a)	-	-	Securitization
Hipototta No. 4 plc	Ireland	-	(a)	-	-	Securitization
Hipototta No. 5 FTC	Portugal	-	(a)	-	-	Securitization
Hipototta No. 5 plc	Ireland	-	(a)	-	-	Securitization
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Renting
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Holding company
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Holmes Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
HQ Mobile Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Internet technology
Hyundai Capital Bank Europe GmbH	Germany	0.00%	51.00%	51.00%	51.00%	Banking
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-commerce
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company
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
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Inversiones Marítimas del Mediterráneo, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Inactive
Isar Valley S.A.	Luxembourg	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Isla de los Buques, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	Finance company
Klare Corredora de Seguros S.A.	Chile	0.00%	33.63%	50.10%	50.10%	Insurance brokerage
Landcompany 2020, S.L.	Spain	17.22%	82.78%	100.00%	100.00%	Real estate management
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Langton PECOH Limited	United Kingdom	-	(a)	-	-	Securitization
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Langton Securities Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	Agricultural holding
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Factoring
Luri 1, S.A., en liquidación (b) (e)	Spain	46.00%	0.00%	46.00%	46.00%	Real estate
Luri 6, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Real estate investment
MAC No. 1 Limited	United Kingdom	-	(a)	-	-	Mortgage credit company
Master Red Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	Real estate
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	Financial advisory
Mercury Trade Finance Solutions, S.A. de C.V.	Mexico	0.00%	50.10%	100.00%	-	IT services
Mercury Trade Finance Solutions, S.L.	Spain	0.00%	50.10%	50.10%	-	IT services
Mercury Trade Finance Solutions, S.p.A.	Chile	0.00%	50.10%	100.00%	-	IT services
Merlion Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting
Moneybit, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Services
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services
Motor 2015-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Motor 2016-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Motor 2017-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Motor Securities 2018-1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Mouro Capital I LP	United Kingdom	0.00%	100.00%	100.00%	-	Investment fund
Multiplica SpA	Chile	0.00%	100.00%	100.00%	100.00%	Payment services
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Naviera Trans Wind, S.L. (b)	Spain	99.99%	0.01%	100.00%	100.00%	Renting
Naviera Transcantábrica, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Leasing
NeoAuto S.A.C.	Peru	0.00%	55.00%	55.00%	-	Vehicles purchase by internet
Newcomar, S.L., en liquidación (b)	Spain	40.00%	40.00%	80.00%	80.00%	Real estate
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	Securities investment
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.63%	78.74%	78.74%	Investment fund
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-commerce
Open Bank Argentina S.A.	Argentina	0.00%	99.66%	100.00%	-	Banking
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking
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
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Fund management company
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund	Ireland	0.00%	57.20%	54.10%	54.10%	Fund management company
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund	Ireland	0.00%	44.49%	51.93%	51.57%	Fund management company
PagoFX Europe S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Payment services
PagoFX HoldCo, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Payment services
PagoFX UK Ltd	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payment services
PagoNxt Merchant Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
PagoNxt, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Holding company
PBD Germany Auto 2018 UG (Haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
PBD Germany Auto Lease Master 2019	Luxembourg	-	(a)	-	-	Securitization
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company
Phoenix C1 Aviation Designated Activity Company	Ireland	-	(a)	-	-	Renting
PI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Leasing
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Services
Popular Spain Holding de Inversiones, S.L.U.	Spain	100.00%	0.00%	100.00%	40.00%	Insurance
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	Internet

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
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%	89.99%	100.00%	100.00%	Investment fund
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Banking
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	Banking
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	100.00%	100.00%	Finance company
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	Finance company
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	50.00%	50.00%	Finance company
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	Finance company
PSA Financial Services Nederland B.V.	Netherlands	0.00%	50.00%	50.00%	50.00%	Finance company
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Finance company
PSA Renting Italia S.p.A.	Italy	0.00%	50.00%	100.00%	100.00%	Renting
PSRT 2018-A	United States	-	(a)	-	-	Securitization
PSRT 2019-A	United States	-	(a)	-	-	Securitization
Punta Lima Wind Farm, LLC	United States	0.00%	100.00%	100.00%	100.00%	Electricity production
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing
Retop S.A.	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Collection services
Return Gestão de Recursos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Fund management company
Riobank International (Uruguay) SAIFE (b)	Uruguay	0.00%	100.00%	100.00%	100.00%	Inactive
Roc Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting
Roc Shipping One Designated Activity Company	Ireland	-	(a)	-	-	Renting
Rojo Entretenimento S.A.	Brazil	0.00%	85.13%	94.60%	94.60%	Services
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
SAM Investment Holdings, S.L.	Spain	92.37%	7.62%	100.00%	100.00%	Fund management
SAM UK Investment Holdings Limited (b)	United Kingdom	92.37%	7.63%	100.00%	100.00%	Holding company
SANB Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services
Santander (CF Trustee) Limited	United Kingdom	-	(a)	-	-	Asset management
Santander (UK) Group Pension Schemes Trustees Limited	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
Santander Ahorro Inmobiliario 2, S.A.	Spain	99.91%	0.00%	99.91%	99.91%	Real estate rental

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity
Santander Alternatives SICAV RAIF	Luxembourg	0.00%	100.00%	100.00%	-	Investment company
Santander Asesorías Financieras Limitada	Chile	0.00%	67.44%	100.00%	100.00%	Securities company
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Asset Management - S.G.O.I.C., S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Fund management company
Santander Asset Management Chile S.A.	Chile	0.01%	99.94%	100.00%	100.00%	Securities investment
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Fund management company
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Management
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Advisory
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking
Santander Bank Polska S.A.	Poland	67.41%	0.00%	67.41%	67.47%	Banking
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	Banking
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Services
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Securities investment
Santander Brasil Tecnologia S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Venture capital
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Investment company
Santander Capitalização S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	Cards
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Cards
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Chile Holding S.A.	Chile	22.11%	77.73%	99.84%	99.84%	Holding company
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	Advisory
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity
Santander Consumer Auto Receivables Funding 2018-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2018-L4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2018-L5 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2019-B1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2019-L2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2019-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Auto Receivables Funding 2020-B1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company
Santander Consumer Auto Receivables Funding 2020-L1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company
Santander Consumer Auto Receivables Funding 2020-L2 LLC	United States	0.00%	80.24%	100.00%	-	Finance company
Santander Consumer Auto Receivables Grantor Trust 2021-A	United States	-	(a)	-	-	Inactive
Santander Consumer Auto Receivables Grantor Trust 2021-B	United States	-	(a)	-	-	Inactive
Santander Consumer Auto Receivables Trust 2021-A	United States	-	(a)	-	-	Inactive
Santander Consumer Auto Receivables Trust 2021-B	United States	-	(a)	-	-	Inactive
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Bank S.A.	Poland	0.00%	80.44%	100.00%	100.00%	Banking
Santander Consumer Bank S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	Banking
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Consumer Finance Benelux B.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT
Santander Consumer Finance Limitada	Chile	49.00%	34.23%	100.00%	100.00%	Finance company
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Consumer Finance Schweiz AG	Switzerland	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Consumer Finance, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking
Santander Consumer Financial Solutions Sp. z o.o.	Poland	0.00%	80.44%	100.00%	-	Leasing
Santander Consumer Finanse Sp. z o.o. (b)	Poland	0.00%	80.44%	100.00%	100.00%	Services
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Holding company
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Holding company
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	80.24%	100.00%	100.00%	Services
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	Insurance intermediary

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	80.44%	100.00%	100.00%	Leasing
Santander Consumer Operations Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Services
Santander Consumer Receivables 10 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Receivables 11 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Receivables 3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Receivables 7 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Consumer S.A.	Argentina	0.00%	99.32%	100.00%	100.00%	Finance company
Santander Consumer S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Financial advisory
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
Santander Consumer Spain Auto 2019-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Santander Consumer Spain Auto 2020-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Santander Consumer Technology Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT services
Santander Consumer USA Holdings Inc.	United States	0.00%	80.24%	80.24%	72.40%	Holding company
Santander Consumer USA Inc.	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Consumo 3, F.T.	Spain	-	(a)	-	-	Securitization
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Cards
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	Insurance brokerage
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	Securities company
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Securities company
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company
Santander Customer Voice, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	Services
Santander de Titulización, S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	Fund management company
Santander Digital Assets, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services
Santander Drive Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company
Santander Drive Auto Receivables Trust 2016-3	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2017-1	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2017-2	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2017-3	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2018-1	United States	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity
		Direct	Indirect	Year 2020	Year 2019	
Santander Drive Auto Receivables Trust 2018-2	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2018-3	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2018-4	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2018-5	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2019-1	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2019-2	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2019-3	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2020-1	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2020-2	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2020-3	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2020-4	United States	-	(a)	-	-	Securitization
Santander Drive Auto Receivables Trust 2021-1	United States	-	(a)	-	-	Inactive
Santander Drive Auto Receivables Trust 2021-2	United States	-	(a)	-	-	Inactive
Santander Drive Auto Receivables Trust 2021-3	United States	-	(a)	-	-	Inactive
Santander Drive Auto Receivables Trust 2021-4	United States	-	(a)	-	-	Inactive
Santander Energías Renovables I, S.C.R., S.A.	Spain	49.48%	10.19%	59.66%	59.66%	Venture capital
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Payment services
Santander España Servicios Legales y de Cumplimiento, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Services
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate
Santander F24 S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Finance company
Santander Facility Management España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	Factoring
Santander Factoring Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Factoring
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services
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
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Finanse Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services
Santander Fintech Holdings, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Holding company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company
Santander Fundo de Investimento Santillana Multimercado Crédito Privado Investimento No Exterior	Brazil	-	(a)	-	-	Investment fund
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado	Brazil	0.00%	89.10%	100.00%	100.00%	Investment fund
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	Financial services
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Real estate management
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate
Santander Global Operations, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services
Santander Global Services S.A. (b)	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
Santander Global Technology Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services
Santander Global Technology Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	IT services
Santander Global Technology, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services
Santander Global Trade Platform Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT services
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization
Santander Holding Imobiliária S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Real estate
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	Holding company
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	Holding company
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	Insurance
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Asset management
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance brokerage
Santander International Products, Plc. (d)	Ireland	99.99%	0.01%	100.00%	100.00%	Finance company
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Holding company
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	Securities company
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking
Santander Investments GP 1 S.à.r.l.	Luxembourg	0.00%	100.00%	100.00%	-	Fund management

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
Santander Inwestycje Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Securities company
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios
Santander Lease, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Leasing S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Leasing
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.99%	100.00%	99.99%	Leasing
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Mortgage credit company
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance intermediary
Santander Merchant Platform Operations, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services
Santander Merchant Platform Services, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services
Santander Merchant Platform SoluçõesTecnológicas Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services
Santander Merchant Platform Solutions México, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Holding company
Santander Merchant Platform Solutions S.A.	Argentina	0.00%	99.66%	100.00%	-	Payment methods
Santander Merchant Platform Solutions Uruguay S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payment methods
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company
Santander Mortgage Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services
Santander Paraty Qif PLC	Ireland	0.00%	89.99%	100.00%	100.00%	Investment company
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	100.00%	Pension fund management company
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	Pension fund management company
Santander Prime Auto Issuance Notes 2018-A Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	Fund management company
Santander Private Banking s.p.a. in Liquidazione (b)	Italy	100.00%	0.00%	100.00%	100.00%	Finance company
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Real estate
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate
Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Inactive
Santander Retail Auto Lease Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization
Santander Retail Auto Lease Trust 2018-A	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2019-A	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2019-B	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2019-C	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2020-A	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2020-B	United States	-	(a)	-	-	Securitization
Santander Retail Auto Lease Trust 2021-A	United States	-	(a)	-	-	Inactive
Santander Retail Auto Lease Trust 2021-B	United States	-	(a)	-	-	Inactive
Santander Revolving Auto Loan Trust 2019-A	United States	-	(a)	-	-	Securitization
Santander Revolving Auto Loan Trust 2021-A	United States	-	(a)	-	-	Inactive
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Fund management company
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	Services
Santander Río Valores S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	Securities company
Santander RMBS 6, Fondo de Titulización	Spain	-	(a)	-	-	Securitization
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.24%	100.00%	100.00%	Fund management company
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
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Services
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Financial services
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	IT services
Santander Tecnologia Argentina S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	IT services
Santander Tecnologia e Inovação Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services
Santander Tecnología España, S.L.U.	Spain	100.00%	0.00%	100.00%	100.00%	IT services
Santander Tecnología México, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	IT services
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.91%	100.00%	100.00%	Insurance
Santander Totta, SGPS, S.A.	Portugal	99.85%	0.06%	99.91%	99.91%	Holding company

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	33.70%	100.00%	100.00%	Fund management company
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	Inactive
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	Finance company
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT services
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(a)	-	-	Securitization
Santander Wealth Management International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Asset management
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	Holding company
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(a)	-	-	Securitization
SC Austria Finance 2020-1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Auto 2018-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Auto 2019-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Mobility 2019-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany S.A.	Luxembourg	-	(a)	-	-	Securitization
SC Germany S.A., Compartment Consumer 2020-1	Luxembourg	-	(a)	-	-	Securitization
SC Germany S.A., Compartment Mobility 2020-1	Luxembourg	-	(a)	-	-	Securitization
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(a)	-	-	Securitization
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto I Limited (b)	Ireland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto II Limited	Ireland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto IX Limited	Ireland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto VII Limited	Ireland	-	(a)	-	-	Securitization
SCF Ajoneuvohallinto VIII Limited	Ireland	-	(a)	-	-	Securitization

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate management
SCF Rahoituspalvelut I Designated Activity Company (b)	Ireland	-	(a)	-	-	Securitization
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(a)	-	-	Securitization
SCF Rahoituspalvelut IX DAC	Ireland	-	(a)	-	-	Securitization
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(a)	-	-	Securitization
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(a)	-	-	Securitization
SCF Rahoituspalvelut VIII Designated Activity Company	Ireland	-	(a)	-	-	Securitization
SCM Poland Auto 2019-1 DAC	Ireland	-	(a)	-	-	Securitization
SDMX Superdigital, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	-	Payment platform
Secucor Finance 2013-I Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Security
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	Finance company
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
Silk Finance No. 5	Portugal	-	(a)	-	-	Securitization
Sixt Leasing (Schweiz) AG	Switzerland	0.00%	46.95%	100.00%	-	Renting
Sixt Leasing GmbH	Austria	0.00%	46.95%	100.00%	-	Renting
Sixt Leasing SE	Germany	0.00%	46.95%	92.07%	-	Leasing
Sixt Location Longue Durée S.à.R.L.	France	0.00%	46.95%	100.00%	-	Renting
Sixt Mobility Consulting AG	Switzerland	0.00%	46.95%	100.00%	-	Consulting services
Sixt Mobility Consulting B.V.	Netherlands	0.00%	46.95%	100.00%	-	Consulting services
Sixt Mobility Consulting GmbH	Germany	0.00%	46.95%	100.00%	-	Consulting services
Sixt Mobility Consulting Österreich GmbH	Austria	0.00%	46.95%	100.00%	-	Consulting services
Sixt Mobility Consulting S.à.R.L.	France	0.00%	46.95%	100.00%	-	Consulting services
SMPS Merchant Platform Solutions México, S.A de C.V	Mexico	0.00%	95.98%	100.00%	-	Collection and payment services
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Appraisals
Sociedad Operadora de Tarjetas de Pago Santander Getnet Chile S.A.	Chile	0.00%	67.12%	100.00%	-	Collection and payment services
Socur S.A.	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity
Sol Orchard Imperial 1 LLC	United States	0.00%	58.40%	100.00%	100.00%	Electricity production
Solarlaser Limited	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
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	Holding company
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company
Sovereign Spirit Limited (f)	Bermudas	0.00%	100.00%	100.00%	100.00%	Leasing
Sterrebeeck B.V.	Netherlands	100.00%	0.00%	100.00%	100.00%	Holding company
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Securities investment
Summer Empreendimentos Ltda.	Brazil	0.00%	89.99%	100.00%	-	Real estate management
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Payment services
Superdigital Argentina S.A.U.	Argentina	0.00%	100.00%	100.00%	-	IT services
Superdigital Colombia S.A.S.	Colombia	0.00%	99.97%	99.97%	-	IT services
Superdigital Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
Superdigital Perú S.A.C.	Peru	0.00%	100.00%	100.00%	-	Financial services
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	Intermediation
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Holding company
SXT Dienstleistungen GmbH & Co. KG	Germany	0.00%	46.95%	100.00%	-	Services
SXT Leasing Verwaltungs GmbH	Germany	0.00%	46.95%	100.00%	-	Portfolio management
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Holding company
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	Holding company
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate
The Best Specialty Coffee, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Restaurant services
Tikgi Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting
Time Retail Finance Limited (b)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services
TIMFin S.p.A.	Italy	0.00%	51.00%	51.00%	-	Finance company
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company
TOPSAM, S.A de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Fund management company
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Telemarketing
Tornquist Asesores de Seguros S.A. (b)	Argentina	0.00%	99.99%	99.99%	99.99%	Advisory services
Totta (Ireland), PLC	Ireland	0.00%	99.86%	100.00%	100.00%	Finance company

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	% of ownership held by Banco Santander Indirect	% of voting power (c) Year 2020	% of voting power (c) Year 2019	Activity
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Real estate
Trabajando.com Mexico, S.A. de C.V. en liquidación (b)	Mexico	0.00%	100.00%	100.00%	99.87%	Services
Trabajando.com Perú S.A.C.	Peru	0.00%	100.00%	100.00%	100.00%	Services
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(a)	-	-	Securitization
Trade Maps 3 Ireland Limited (b)	Ireland	-	(a)	-	-	Securitization
Trans Rotor Limited (b)	United Kingdom	100.00%	0.00%	100.00%	100.00%	Renting
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Leasing
Tresmares Growth Fund Santander, SCR, S.A.	Spain	100.00%	0.00%	100.00%	-	Holding company
Tresmares Santander Direct Lending, SICC, S.A.	Spain	99.60%	0.00%	99.60%	-	Fund management
Tuttle and Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Internet
Universia Chile S.A.	Chile	0.00%	86.84%	86.84%	86.84%	Internet
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
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Internet
Universia Perú, S.A.	Peru	0.00%	100.00%	100.00%	99.73%	Internet
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Internet
Uro Property Holdings, SOCIMI, S.A.	Spain	99.99%	0.00%	99.99%	22.77%	Real estate
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Financial services
Wave Holdco, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company
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

a. Companies over which effective control is exercised.
b. Company in liquidation as at 31 December 2020.
c. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a Group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the share capital of the latter.
d. Company with Tax Residence in Spain.
e. See note 2.b.i.
f. Company with Tax Residence in the United Kingdom.
g. Company recently incorporated to the Group, with no available accounts.
1. The companies issuing preference shares and participating interests are listed in Annex III, together with other relevant information.

Appendix II

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Abra 1 Limited (f)	Caymand Island	-	(e)	-	-	Leasing	Joint venture
Achmea Tussenholding, B.V.	Netherlands	8.89%	0.00%	8.89%	-	Holding company	—
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	Payment and collection services	Associated
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (b)	Portugal	0.00%	19.97%	20.00%	20.00%	Inactive	—
Aguas de Fuensanta, S.A. (f)	Spain	36.78%	0.00%	36.78%	36.78%	Food	—
Alcuter 2, S.L. (f)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—
Altamira Asset Management, S.A.	Spain	0.00%	15.00%	15.00%	15.00%	Real estate	—
Apolo Fundo de Investimento em Direitos Creditórios	Brazil	0.00%	30.00%	33.33%	33.33%	Investment fund	Joint venture
Arena Communications Network, S.L. (consolidado)	Spain	20.00%	0.00%	20.00%	20.00%	Advertising	Associated
Attijariwafa Bank Société Anonyme (consolidado)	Morocco	0.00%	5.11%	5.11%	5.11%	Banking	—
Autopistas del Sol S.A.	Argentina	0.00%	14.17%	14.17%	14.17%	Motorway concession	—
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.	Poland	0.00%	6.74%	10.00%	10.00%	Pension fund management	—
Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	6.74%	10.00%	10.00%	Insurance	—
Banco RCI Brasil S.A.	Brazil	0.00%	35.90%	39.89%	39.89%	Banking	Joint venture
Banco S3 Caceis México, S.A., Institución de Banca Múltiple	Mexico	0.00%	50.00%	50.00%	50.00%	Banking	Joint venture
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance company	Associated
Bank of Shanghai Co., Ltd. (consolidado)	China	6.54%	0.00%	6.54%	6.54%	Banking	—
CACEIS (consolidado)	France	0.00%	30.50%	30.50%	30.50%	Custody services	Associated
Câmara Interbancária de Pagamentos - CIP	Brazil	0.00%	15.88%	17.65%	17.61%	Payment and collection services	—
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Venture capital	Associated
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	Real estate services	Joint venture
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	Payment and collection services	Associated

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Technology	Associated
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	Services	Associated
Comder Contraparte Central S.A	Chile	0.00%	8.37%	12.47%	12.45%	Financial services	Associated
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	Financial services	Joint venture
Compañía Española de Financiación de Desarrollo, Cofides, S.A., SME	Spain	20.18%	0.00%	20.18%	20.18%	Finance company	—
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado)	Spain	23.33%	0.55%	23.88%	23.88%	Credit insurance	—
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	Real estate	Associated
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (b)	Spain	21.98%	0.00%	21.98%	21.98%	Real estate development	—
Condesa Tubos, S.L.	Spain	32.21%	0.00%	36.21%	36.21%	Services	—
Connecting Visions Ecosystems, S.L.	Spain	19.90%	0.00%	19.90%	-	Consulting services	Joint venture
Corkfoc Cortiças, S.A.	Portugal	0.00%	27.54%	27.58%	27.58%	Cork industry	—
Corridor Texas Holdings LLC (consolidado)	United States	0.00%	36.30%	36.30%	33.60%	Holding company	—
Ebury Partners Limited (consolidado) (a)	United Kingdom	0.00%	45.45%	45.45%	6.39%	Payment services	Associated
Eko Energy Sp. z o.o (b)	Poland	0.00%	13.13%	22.00%	21.99%	Electricity production	—
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	Payment services	Associated
FAFER- Empreendimentos Urbanísticos e de Construção, S.A. (b)	Portugal	0.00%	36.57%	36.62%	36.62%	Real estate	—
Federal Reserve Bank of Boston	United States	0.00%	25.73%	25.73%	23.56%	Banking	—
Fondo de Titulización de Activos UCI 11	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización de Activos UCI 14	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización de Activos UCI 15	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización de Activos UCI 16	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización de Activos UCI 17	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización, RMBS Prado II	Spain	-	(e)	-	-	Securitizations	Joint venture

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Fondo de Titulización, RMBS Prado III	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización, RMBS Prado IV	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización, RMBS Prado V	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización, RMBS Prado VI	Spain	-	(e)	-	-	Securitizations	Joint venture
Fondo de Titulización, RMBS Prado VII	Spain	-	(e)	-	-	Securitizations	Joint venture
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture
Fremman limited	United Kingdom	33.00%	0.00%	4.99%	-	Finance company	Associated
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	18.00%	20.00%	20.00%	Collection services	Joint venture
Gire S.A.	Argentina	0.00%	57.93%	58.33%	58.33%	Payment and collection services	Associated
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(e)	-	-	Securitizations	Joint venture
Healthy Neighborhoods Equity Fund I LP	United States	0.00%	22.37%	22.37%	22.37%	Real estate	—
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance company	Joint venture
Hyundai Corretora de Seguros Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance brokerage	Joint venture
Imperial Holding S.C.A. (b)	Luxemborg	0.00%	36.36%	36.36%	36.36%	Securities investment	—
Imperial Management S.à r.l. (b)	Luxemborg	0.00%	40.20%	40.20%	40.20%	Holding company	—
Índice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	Information system	Joint venture
Inmoalemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	Holding company	—
Innohub S.A.P.I. de C.V.	Mexico	0.00%	20.00%	20.00%	20.00%	IT services	Associated
Inverlur Aguilas I, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture
Inverlur Aguilas II, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture
Inversiones en Resorts Mediterraneos, S.L., en liquidación (b)	Spain	0.00%	43.28%	43.28%	43.28%	Real estate	Associated
Inversiones Ibersuizas, S.A.	Spain	25.42%	0.00%	25.42%	25.42%	Venture capital	—
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated
J.C. Flowers I L.P.	United States	0.00%	10.60%	0.00%	0.00%	Holding company	—
JCF AIV P L.P.	Canada	0.00%	7.67%	4.99%	4.99%	Holding company	—
LB Oprent, S.A.	Spain	38.33%	0.00%	38.33%	-	Industrial machinery rent	Associated
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.12%	35.70%	35.70%	Business services	Joint venture
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	Investment fund	Associated

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity	Type of company
Mapfre Santander Portugal - Companhia de Seguros, S.A.	Portugal	0.00%	49.94%	49.99%	100.00%	Insurance	Associated
Massachusetts Business Development Corp. (consolidado)	United States	0.00%	21.61%	21.61%	21.60%	Finance company	—
MB Capital Fund IV, LLC	United States	0.00%	21.51%	21.51%	21.51%	Finance company	—
Merlin Properties, SOCIMI, S.A. (consolidado)	Spain	19.00%	5.81%	24.81%	22.78%	Real estate investment	Associated
Metrovacesa, S.A. (consolidado)	Spain	31.94%	17.52%	49.45%	49.46%	Real estate development	Associated
New PEL S.à r.l. (b)	Luxemborg	0.00%	7.67%	0.00%	0.00%	Holding company	—
NIB Special Investors IV-A LP	Canada	0.00%	99.49%	4.99%	4.99%	Holding company	—
NIB Special Investors IV-B LP	Canada	0.00%	91.89%	4.99%	4.99%	Holding company	—
Niuco 15, S.L. (f)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—
Nowotna Farma Wiatrowa Sp. z o.o	Poland	0.00%	12.97%	21.73%	21.73%	Electricity production	—
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A.	Brazil	0.00%	18.17%	20.19%	20.19%	Technology	—
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	Finance company	Associated
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	Electricity production	Joint venture
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	Software	Associated
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.70%	50.00%	50.00%	Management	Associated
Popular Vida 2020, Compañía de Seguros y Reaseguros, S.A.U.	Spain	0.00%	49.00%	49.00%	-	Insurance	Joint venture
Procapital - Investimentos Imobiliários, S.A. (b)	Portugal	0.00%	39.96%	40.00%	40.00%	Real estate	—
Project Quasar Investments 2017, S.L. (consolidado)	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	—
Promontoria Manzana, S.A. (consolidado)	Spain	20.00%	0.00%	20.00%	20.00%	Holding company	Associated
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Joint venture
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture
PSA UK Number 1 plc (b)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Leasing	Associated
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	Services	Associated
Redsys Servicios de Procesamiento, S.L. (consolidado)	Spain	20.00%	0.06%	20.06%	20.08%	Cards	Associated
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Joint venture
Rías Redbanc S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	Services	—
RMBS Green Belem I	Portugal	-	(e)	-	-	Securitizations	Joint venture
Santander Assurance Solutions, S.A.	Spain	0.00%	73.99%	73.99%	-	Insurance intermediary	Joint venture

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Santander Auto S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Associated
Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated
Santander Caceis Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Securities investment	Joint venture
Santander Caceis Brasil Participações S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture
Santander Caceis Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture
Santander Caceis Latam Holding 1, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture
Santander Caceis Latam Holding 2, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture
Santander Mapfre Seguros y Reaseguros, S.A.	Spain	0.00%	49.99%	49.99%	49.99%	Insurance	Associated
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture
Sepacon 31, S.L. (f)	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%	12.48%	Services	Associated
SIBS-SGPS, S.A.	Portugal	0.00%	16.52%	16.55%	16.56%	Portfolio management	—
Siguler Guff SBIC Fund LP	United States	0.00%	20.00%	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 methods	Associated
Sistemas Técnicos de Encofrados, S.A. (consolidado)	Spain	27.15%	0.00%	27.15%	27.15%	Building materials	—
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	45.70%	0.00%	45.70%	42.50%	Payment services	Joint venture
Sociedad de Garantía Recíproca de Santander, S.G.R.	Spain	25.50%	0.23%	25.73%	25.73%	Financial services	—
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.	Spain	22.21%	0.00%	22.21%	22.21%	Financial services	—
Sociedad Española de Sistemas de Pago, S.A.	Spain	21.32%	0.00%	21.32%	21.32%	Payment services	—
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	Securities deposit	Associated
Solar Maritime Designated Activity Company	Ireland	-	(e)	-	-	Leasing	Joint venture
Stephens Ranch Wind Energy Holdco LLC (consolidado)	United States	0.00%	19.20%	19.20%	21.30%	Electricity production	—
Syntheo Limited (b)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Payment services	—

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Security	Associated
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Telecommunications	Associated
Tecnologia Bancária S.A.	Brazil	0.00%	17.83%	19.81%	19.81%	ATM	Associated
Teka Industrial, S.A. (consolidado)	Spain	0.00%	9.42%	9.42%	9.42%	Household appliances	—
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	Holding company	Joint venture
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	Services	Associated
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associated
Tresmares Growth Fund II, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—
Tresmares Growth Fund III, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Joint venture
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	50.00%	Financial services	Joint venture
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture
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
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	Finance company	Associated
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage credit company	Joint venture
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	-	(e)	-	-	Securitizations	Joint venture
Volvo Car Financial Services UK Limited	United Kingdom	0.00%	50.00%	50.00%	-	Leasing	Joint venture
Webmotors S.A.	Brazil	0.00%	62.99%	70.00%	70.00%	Services	Joint venture
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated
Zurich Santander Seguros Argentina S.A.	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associated

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)			
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associated
Zurich Santander Seguros Uruguay S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associated

a. Grupo Santander has the right to receive 50.38% of the dividends distributed by the company.
b. Company in liquidation as at 31 December 2020.
c. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the capital of the latter.
d. Excluding the Group companies listed in Appendix I, as well as those which are of negligible interest with respect to the true and fair view that the consolidated accounts must express (in accordance with articles 48 of the Commercial Code and 260 of the Corporate Enterprises Act).
e. Companies over which joint control is maintained.
f. Company with no financial information available.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by Banco Santander		
Company	Location	Direct	Indirect	Activity
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	Finance company
Santander UK (Structured Solutions) Limited	United Kingdom	0.00%	100.00%	Finance company
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	Finance company

Appendix IV

Notifications of acquisitions and disposals of investments in 2020

With respect to compliance with Article 125 of the Securities Market Law, no communications required under this article were made in 2020.

In relation to the information required by 155 of the Corporate Enterprises Act, on the shareholdings in which Grupo Santander owns more than 10% of the capital of another company, and the successive acquisitions of more than 5% of the share capital, see appendices I, II and III.

Appendix V

Other information on the Group's banks

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 2020, 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 2020, 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 April 2020 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.

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

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..

The shares composing the share capital of Banco Santander (Brasil) S.A. have no par value and there are no pending payments. At 2020 year-end, the bank's treasury shares consisted of 18,828,962 ordinary shares and 18,828,962 preferred shares, with a total of 37,657,924 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 2020, 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 2020, 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 2020 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 own shares and 0.01% to Santander Global Facilities, S.A. de C.V..
On June 15, 2020, Gesban México Servicios Administrativos Globales, S.A. de C.V., acquired the 1,340 shares of Banco Santander México owned by 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.
On September 30, 2020, the General Extraordinary Shareholders' Meetings of Banco Santander México and Santander Vivienda, S.A. de C.V., SOFOM E.R., GFSM, were held. In such meetings the merger by absorption of Banco Santander México with Santander Vivienda, S.A. de C.V., SOFOM E.R., GFSM, was approved. This merger did not result in a movement of the share capital of Banco Santander México, since it was a shareholder of 99.99998% of the shares representative of the share capital of Santander Vivienda , S.A. de C.V., SOFOM, E.R., GFSM, and such circumstance results in the material and legal impossibility for Banco Santander México, S.A., Institución de Banca Multiple, Grupo Financiero Santander México to perform the redemption of the shares, since these shares are already integrated into the assets of the merger.

b) Ongoing capital stock increases.

To this date there are not on going 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	$4,379 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
Notas Senior 144.ª/RegS	Not Revolving	17-Apr-2025	1,750 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.

(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.

On April 17th., 2020, Banco Santander Mexico issued an international Senior Note, due on five years in the global market, on the amount of 1,750 million dollars, with a rate of 5.375 per cent, whereas the demand exceeded three times the placed amount. The due date of such notes will be April 17th, 2025.

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 1,256,189,353 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 416,525 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 2020, there were no equity increases 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

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 2020, 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 2020, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Share capital at 31 December 2020 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, 2020, 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, 2020, there were no equity increases in progress.

c) Capital authorised by the shareholders at the general meeting

There was one share capital increase in 2020 – on 22 June 2020 Annual General Meeting decided to increase the share capital of the Bank in order to settle the Incentive Scheme VI. The Incentive Scheme VI was introduced on 17 May 2017 when the shareholders resolved to approve the it as an initiative to attract, motivate and retain the Bank's employees. Delivery of the shares was tied to the achievement of certain targets in the years from 2017 to 2019. The share capital was increased by the amount of PLN 1,010, 090, i.e. 101,009 ordinary bearer O series shares were issued with the nominal value of PLN 10 each. As of 31 December 2020 the Bank's share capital amounted to PLN 1,021,893,140 and was divided into 102,189,314 ordinary bearer shares with a nominal value of PLN 10 each.

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

All the shares of Santander Bank Polska S.A. are listed on the Warsaw Stock Exchange.

Appendix VI

Annual banking report

Grupo Santander's total tax contribution (taxes incurred directly and by third parties, generated in the course of business) is around EUR 14,500 million, including more than EUR 6,400 million in taxes incurred directly (corporate income tax, non-recoverable VAT and other indirect taxes, employer Social Security contributions, payroll taxes and other taxes and levies).

This report complies 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 Act 10/2014 of 26 June on the regulation, supervision and capital adequacy of credit institutions.

The criteria used to prepare this report were:

a) Name(s), activities and location

Appendices I to III to the consolidated financial statements contain details of the companies operating in each jurisdiction, including their name(s), location and activities.

Santander main activity in the jurisdictions where operate is commercial banking. The group primarily operates in ten markets through subsidiaries that are autonomous in capital and liquidity. This has clear strategic and regulatory advantages, since it limits the risk of contagion between units, imposes a double layer of global and local oversight, and facilitates crisis management and resolution.

b) Turnover and profit or loss before tax

Turnover in this report is Total income, and profit or loss before tax, Operating profit/(loss) before tax, both as defined and presented in the consolidated income statement that forms part of the consolidated financial statements.

c) Number of full time equivalent employees

The data on full-time equivalent employees stem from the average headcount of each jurisdiction.

d) Tax on profit or loss

In the absence of specific criteria, we have included the amount effectively paid (EUR 2,946 million) in respect of taxes whose effect is recognized under Income tax in the consolidated income statement.

Taxes effectively paid by the companies in each jurisdiction include:

- Supplementary payments relating to income tax returns, usually for prior years.
- Advances,prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their nominal amount, we included taxes borne abroad in the jurisdiction of the company that bore them.
- Refunds received with respect to prior years' returns.
- Where appropriate, the amount payable from assessments and litigation relating to these taxes.

The foregoing form part of the cash flow statement and differ from the corporate income tax expense recognized in the consolidated income statement (EUR 5,632 million or, discounting extraordinary results, EUR 3,516 million, see note 27 and 52.c). This is because each country's tax regulations establish:

- when taxes must be paid. There is often a mismatch between the payment dates and the generation of the income bearing the tax.
- their own calculation criteria to define temporary or permanent restrictions on expense deduction, exemptions and relief or deferrals of certain income, generating the 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. In certain cases, special regimes such as the tax consolidation of companies in the same jurisdiction are established.

e) Public subsidies

In the context of the legally-required disclosures, this was interpreted as any aid or subsidy in line with the European Commission's Guidance on the notion of State aid. Grupo Santander did not receive public subsidies in 2020.

The breakdown of information is as follows :

	2020			
Jurisdiction	Turnover (million of euros)	Employees	Gross profit or loss before tax (EUR million)[1]	Tax on profit or loss (EUR million)
Germany	1,522	4,519	520	161
Argentina	1,095	8,938	176	104
Austria	173	344	71	16
Bahamas	7	32	—	2
Belgium	88	177	40	6
Brazil[2]	10,519	42,947	3,842	764
Canada	53	189	12	1
Chile	2,226	11,105	815	365
China	21	66	3	—
Colombia	41	240	5	4
Spain[3]	6,675	35,109	(10,158)	342
United States	7,321	15,657	(1,068)	(14)
Denmark	189	238	50	11
Finland	114	172	37	6
France	697	952	355	40
Hong Kong	70	158	2	3
Ireland	(10)	3	(25)	1
Isle of Man	13	58	8	1
Italy	459	872	207	91
Jersey	26	70	10	1
Luxembourg	188	16	181	30
Mexico	3,700	21,177	1,052	189
Norway	258	528	115	49
Netherlands	86	280	32	53
Peru	103	212	51	16
Poland	1,859	13,632	446	267
Portugal	1,342	6,769	412	175
Puerto Rico	8	610	(28)	—
United Kingdom	4,750	22,987	496	204
Singapore	7	13	2	—
Sweden	165	277	53	21
Switzerland	137	251	50	7
Uruguay	377	1,532	160	30
Consolidated Group Total	**44,279**	**190,130**	**(2,076)**	**2,946**

1. It includes the goodwill impairment losses of EUR 10,100 million recognized by Grupo Santander in 2020 (EUR 7,770 million recognized in Spain and EUR 2,330 million in the United States).
2. 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 is EUR 612 million.
3. Includes the Corporate Centre.

At 31 December 2020, the group's return on assets (ROA) was 0.50%.

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IN THE SPANISH VERSION PAGES 868 AND 869 CONTAIN THE SIGNATURE PAGES TO THE BANCO SANTANDER, S.A. 2020 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

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Hard copies of the Bank's annual report can be requested by shareholders free of charge at the address and phone number indicated above.

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Banking Ombudsman in Spain (Defensor del cliente en España)

Mr José Luis Gómez-Dégano

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Spain

Santander All. Together. Now.

santander.com

Part 3.
Supplemental information

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	Corporate governance code
	Branches
	Important events
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	Auditor's report
	Annual accounts

1. Responsibility statements

The directors of Banco Santander made the following responsibility statements with respect to the annual accounts which were approved by the board of directors, as included in the Spanish-language version of Banco Santander's Annual Report (pages 868 and 869) and of the individual annual accounts and directors' report and auditor's report (pages 319 and 320) for the year ended 31 December 2020, on 22 February 2021:

Responsibility statement with respect to the consolidated annual accounts:

The directors of Banco Santander, S.A., listed below with an indication of their respective positions, declare that, to the best of their knowledge, the company's consolidated annual accounts for the 2020 financial year were drawn up in accordance with the applicable accounting principles and give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and of the undertakings included in the consolidation taken as a whole, and that the consolidated directors' report includes a fair review of the development, performance and position of the company and of the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Responsibility statement with respect to the individual annual accounts:

The directors of Banco Santander, S.A., listed below with an indication of their respective positions, declare that, to the best of their knowledge, the company's individual annual accounts for the 2020 financial year were drawn up in accordance with the applicable accounting principles and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and that the directors' report includes a fair review of the development, performance and position of the company, together with a description of the principal risks and uncertainties that it faces.

Name and position of the members of the board of directors of Banco Santander making the above responsibility statements:

ANA PATRICIA BOTÍN-SANZ DE SAUTUOLA Y O'SHEA
Chairman

JOSÉ ANTONIO ÁLVAREZ ÁLVAREZ
Vice chairman and Chief Executive Officer

BRUCE CARNEGIE-BROWN
Vice chairman

HOMAIRA AKBARI

LUIS ISASI FERNÁNDEZ DE BOBADILLA

FRANCISCO JAVIER BOTÍN-SANZ DE SAUTUOLA Y O'SHEA

HENRIQUE MANUEL DRUMMOND BORGES CIRNE DE CASTRO

SOL DAURELLA COMADRÁN

SERGIO AGAPITO LIRES RIAL

GINA DÍEZ BARROSO

R. MARTÍN CHÁVEZ MÁRQUEZ

RAMIRO MATO GARCÍA-ANSORENA

BELÉN ROMANA GARCÍA

ÁLVARO ANTONIO CARDOSO DE SOUZA

PAMELA ANN WALKDEN

2. Supplemental information to the consolidated directors' report

2.1. Corporate governance code

The CNMV's Good Governance Code for Listed Companies (Spanish Corporate Governance Code), referred to in section 9 of the 'Corporate governance' chapter and to which Banco Santander is subject, is publicly available on the website of the CNMV (*Comisión Nacional del Mercado de Valores*), www.cnmv.es.

2.2. Branches

Details of Santander's branches are set out in note 3 to the consolidated annual accounts.

2.3. Important events

No significant events occurred from 1 January 2021 to 22 February 2021, being the date on which the consolidated financial statements were authorized for issue (see note 1.g to the consolidated financial statements).

The following significant events occurred from 23 February 2021 to the date of filing of this report:

Dividend announcement

On 3 February 2021, the Bank announced its 2020 results and the board of directors' intention to pay a cash dividend of €2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the ECB recommendation of 15 December 2020.

The board of directors has now approved that this dividend will be paid in cash from 4 May 2021.

The last day to trade shares with a right to receive this dividend will be 29 April 2021, the ex-dividend date will be 30 April 2021 and the record date will be 3 May 2021.

This dividend will be paid under the resolution for the distribution of share premium approved at the Bank's general shareholders meeting on 27 October 2020.

General Shareholders´ Meeting

On 26 March 2021, the ordinary general meeting of shareholders of Banco Santander was held at the corporate headquarters of Boadilla del Monte (Madrid) which, in consideration of the existing situation in relation to COVID-19 and in accordance with the provisions of article 3 of Royal Decree-Law 34/2020, of 17 November, on urgent measures to support business solvency and the energy sector, and in tax matters, in its wording given by Royal Decree-Law 5/2021, of 12 March, took place exclusively online, that is, without physical or in-person attendance of shareholders, representatives or guests, except that of the members of the General Meeting Table (president and secretary), the CEO and the notary, and with the necessary security and distancing measures.

A total of 612,804 shareholders attended the meeting, among those present and represented, holding 11,735,176,840 shares, thus increasing the quorum to 67.674% of Banco Santander's share capital.

The resolutions submitted to a vote were approved with an average of 98.31% of favorable votes, having approved with 99.7% of the votes the corporate management of Banco Santander during financial year 2020. It was submitted to the binding approval of the boards the directors' remuneration policy, for the years 2021, 2022 and 2023, having obtained 93.26% of votes in favor.

All the proposed resolutions, the mandatory reports of administrators and other necessary legal documentation related to the general meeting were published on the occasion of its call, on February 23, on the corporate website. This documentation also included the Group's 2020 Annual Report, which contains the corresponding chapter on Corporate Governance where the main activities of the board and its committees in 2020 are reported, including detailed information on Banco Santander's corporate governance system, as well as the annual directors' remuneration report.

The meeting approved the ratification of Ms Gina Díez Barroso as independent director, appointed by co-option by the board on 22 December 2020, and the re-election of Mr. Javier Botín as external director and of Ms Homaira Akbari, Mr. Alvaro Cardoso de Souza, Mr. Ramiro Mato and Mr. Bruce Carnegie-Brown as independent directors.

The meeting also approved the re-election of PricewaterhouseCoopers Auditores, S.L. as auditor of the individual and consolidated accounts of Banco Santander, S.A. for the financial year ending 31 December 2021.

All complete information on the agreements approved by the board of directors can be found on the corporate website (www.santander.com).

Modification of the Bylaws

At the aforementioned General Shareholders´ Meeting, the modification of articles 18, 20, 27 and 34 of the Bylaws and the introduction of a new article 34 bis with the following purposes:

- to attribute to the board of directors the power to issue non-convertible bonds (modification of articles 18 and 20);
- to attribute to the board the competence to decide on the application of remuneration systems consisting of the delivery of shares or rights over them, as well as any other remuneration system that is referenced to the value of the shares, when the beneficiaries of such systems of remuneration are not directors of the Bank (modification of article 20);
- to give the Bank greater flexibility to process the proxies granted and the votes cast remotely by the shareholders, without prejudice to the fact that, as up to now and on the occasion of each call, the board of directors may reduce the time required in advance, with respect to the day scheduled for the holding of the general meeting, for its reception by the Bank, giving it the same publicity that is given to the announcement of the call (modification of articles 27 and 34); and
- to authorize, when the applicable regulations provide for it, the calling by the administrators of meetings to be held exclusively telematically, without physical assistance from the shareholders or their representatives (introduction of a new article 34 bis which includes the previous section 6 of article 34).

Modification of the Rules and Regulations of the General Shareholders´ Meeting

At the aforementioned General Shareholders´ Meeting, the modification of articles 2, 8, 20 and 26 of the Rules and Regulations of the General Meeting of Shareholders was also approved with the following purposes:

- to coordinate the text of the Rules and Regulations with the amendments to the bylaws approved at the General Shareholders´ Meeting (amendment of article 2);
- to introduce a technical precision in the regulation of the mechanisms to confer representation and cast votes from a distance (modification of articles 8 and 20); and
- to incorporate any additional technical improvement (modification of article 26).

Santander to acquire minority interests in Santander Mexico

The Bank announced on 26 March 2021 that it intends to make a cash offer to repurchase the outstanding shares of Banco Santander México, S.A., Institución de Banca Múltiple and Grupo Financiero Santander México ("Santander Mexico") not already held by the Group, which represent c.8.3 per cent. of its Mexican subsidiary's share capital. The expected consideration for those shareholders who accept the offer would be 24 Mexican pesos for every share of Santander México and 120 Mexican pesos for every American Depositary Share ("ADS") of Santander Mexico or, if higher, the book value per share of Santander Mexico (and its equivalent for every ADS) as per the financial statements of Santander Mexico for the quarter immediately preceding the date on which the offer is launched (the "Offered Price").

The Offered Price represents a 24.3 per cent. premium on the closing market price on 25 March 2021 and a 23.6 per cent. premium over the last 30 trading days' volume weighted average price of Santander Mexico's shares. Acquiring the full 8.3 per cent. outstanding stake would require total consideration of c.€550 million .

Banco Santander will be seeking to cancel the registration of Santander Mexico's shares before the National Securities Registry of the Mexican National Banking and Securities Commission and, when permitted, before the U.S. Securities and Exchange Commission, as well as the delisting of the Santander Mexico shares from the Mexican Stock Exchange and the New York Stock Exchange following settlement of the offer.

The offer is therefore expected to be a mandatory delisting offer to purchase under the Mexican Securities Market Law and may not be carried out if the general shareholders meeting of Santander Mexico, which will be called for that purpose, were not to approve the delisting with the required majority.

The offer is expected to be launched and settled in the second and third quarters of the year 2021. The Offered Price assumes Santander Mexico will not pay any dividend on its shares before the offer is settled. In the event that any dividend is paid prior to settlement of the offer, the Offered Price will be reduced by the amount of the dividend per share.

The transaction is consistent with Banco Santander's strategy of increasing its weight in high-growth markets and reflects Banco Santander's confidence in Mexico and its Mexican subsidiary as well as their long-term growth potential. Banco Santander offers Santander Mexico's shareholders the opportunity to sell their shares for a premium. The Bank believes that the offer is attractive for shareholders of both Santander México and Banco Santander. Santander México shareholders will receive a price broadly in line with consensus target price for the next 12 months, as well as allowing them to divest a low-liquidity stock. The transaction is also beneficial for shareholders of Banco Santander, as it increases the Group's growth profile, as well as its capacity to generate capital organically.

The transaction is expected to have a return on invested capital (ROIC) of c.14 per cent. and improve Banco Santander's earnings per share (EPS) by 0.8 per cent. in 2023. It will increase the Group's capacity for organic capital generation and be neutral in terms of tangible net asset value (TNAV) per share. The acquisition of the outstanding shares would reduce the group's CET1 ratio by c.8 basis points.

Commencement of the offer and the offer itself will be subject to customary conditions for this type of transaction, including regulatory authorisations from the Mexican Comisión Nacional Bancaria y de Valores and a review from the U.S. Securities and Exchange Commission, the absence of any material adverse change in the financial condition, results of operations or prospects of Santander Mexico, as well as the approval of the delisting of the Santander Mexico shares from the Mexican Stock Exchange with the affirmative vote of the holders of at least 95 per cent. of the capital stock of Santander Mexico in an extraordinary shareholders' meeting.

New way to present financial information

Starting with the financial information for the first quarter of 2021, a change in the Group's reportable segments is to be carried out to reflect the Bank's new organisational structure, in line with the three strategic initiatives outlined in the 2020 Annual Report: One Santander, Digital Consumer Bank and PagoNxt.

These changes align the segment information with their management and have no impact on the Group's consolidated figures.

The main changes to the Group's segments are:

- Primary segments:

Creation of the new Digital Consumer Bank (DCB) segment, which includes Santander Consumer Finance (SCF), previously included in the Europe segment and Openbank, formerly included in the Santander Global Platform. The consumer finance business in the United Kingdom previously reported in the country will be reported in this new segment.

Elimination of the Santander Global Platform reporting segment: Openbank is now included within DCB, and Merchant Solutions, Trade Solutions and Consumer Solutions (Superdigital and Pago Next) will be assigned accordingly to each of the three main geographic regions.

- Secondary segments:

Creation of the PagoNxt segment, which includes the Merchant Solutions, Trade Solutions and Consumer Solutions, previously recorded in Santander Global Platform.

Elimination of the Santander Global Platform reporting segment, now included under PagoNxt and Retail Banking (mainly Openbank).

An adjustment of the perimeter of the Global Customer Relationship Model between Retail Banking and Santander Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.

Universalpay Payment Institution

Universalpay Entidad de Pago, S.L. has filed a proceeding against Banco Santander, S.A. for breach of the marketing alliance agreement (MAA). The claim is currently being processed in the Court of First Instance no. 81 of Madrid, ordinary procedure 156/2021. The MAA was originally entered into by Banco Popular Español, S.A. and its object is the business of acquiring services for businesses in the Spanish market. The claim is based mainly on the potential breach of clause 6 of the MAA, which establishes certain obligations of exclusivity, non-competition and customer referral. The claim is at a very early stage, and there are factual issues pending resolution, which may have legal consequences and affect eventual liability. This uncertainty makes it impossible to reliably predict the resolution of the issue, the timing or the significance of the potential impact.

Announcement of results for the first quarter of 2021

On 28 April 2021, Banco Santander, S.A. presented results for the Group for the first quarter of 2021, noting in particular that:

- The Group earned €11.4 billion in quarterly revenue, up 8% year-on-year in constant euros (excluding currency movements), driven by growth in volumes with falling funding costs and good performance in all regions, reflecting the strength of its geographic and business diversification, and the long-term sustainability of its earnings.

- Business volumes were higher in most markets. Lending and customer funds (deposit and mutual funds) grew 2% and 10% year-on-year, respectively, in constant euros.

- Pre-provision profit (net operating income) grew by 15% year-on-year in constant euros to €6.3 billion, reflecting the quality and resilience of the bank's earnings.
- During the quarter, the bank recorded €530 million in charges, net of tax, from expected restructuring costs for the year as a whole.
- Credit quality continued to improve. The non-performing loan ratio fell five basis points (bps) year-on-year to 3.20%. Cost of credit improved by 20 bps from December to 1.08%, due to lower loan-loss provisions.
- The group CET1 capital ratio rose 72 bps year-on-year to 12.30%, above its target range of 11-12%. The bank accrued 15 bps of capital for shareholder remuneration, the equivalent of 40% of underlying profit in the quarter. It will accrue 40% of underlying profit throughout the year for shareholder remuneration once authorized by supervisors (subject to board and, if applicable, general meeting resolutions on shareholder remuneration and dividend payment policy).
- The bank also announces changes to its leadership team within the Europe region:
    - Antonio Simoes is to become chief executive officer of Santander Spain while retaining his responsibilities as regional head of Europe. His appointment as CEO of Santander Spain aligns the bank's management structure in Europe with North and South America, where the regional head positions are also held by a country CEO.
    - Antonio succeeds Rami Aboukhair, who has been appointed global head of cards and digital solutions reporting to Santander Group CEO, José Antonio Álvarez.
    - Nathan Bostock, CEO of Santander UK, is to take on a global role as head of investment platforms, responsible for overseeing all investment platforms owned or partly owned by Santander and managed by third parties, focused on high-return businesses that are complementary to traditional banking and can benefit from the Group's geographical and client footprints.

3. Financial statements of Banco Santander, S.A.

Banco Santander, S.A.

Auditor’s report,

Annual accounts for the year ended 31 December 2020

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

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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 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, 2020, 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 the Bank as at December 31, 2020, 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.

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Banco Santander, S.A.

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 complexity of the expected loss impairment calculation models has increased due to the adaptations made in the context of the covid-19 crisis by incorporating new estimates and judgments such as the consideration of certain flexibility measures applied to the operations subject to moratoriums, the consideration of government guarantees or the consideration of the adjustments to the models to determine the expected loss. These estimates require an elevated component of judgment by management and are one of the most significant and complex estimates in the preparation of the annual accounts as of December 31,2020, therefore it has been considered one of the key audit matters The main judgements and assumptions used by management are the following: • The estimation of the Probability of Default (PD) and Loss Given Default (LGD) parameters. • Identification and classification of the staging criteria of loans and advances to customers, including the criteria established in the context of covid-19 in the loans subject to either moratoriums or government guarantees. • The definition and evaluation of post model adjustments to adapt the parameters estimated by the models to the current conditions and environment derived from the covid-19 crisis. • The main assumptions used in the determination of provisions for risks estimated individually. The Bank's business is focused primarily on commercial banking products. In this context, the Bank uses internal models that allow it to estimate both the collective provisions and the provisions for risks estimated individually.	We have performed, in collaboration with our credit risk experts, an understanding of management's process to estimate the impairment of financial assets at amortised cost - loans and advances to costumers – over the estimation of impairment of financial assets assessed collectively and individually. With respect to internal controls, 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, placing special attention over the loan origination process subject to either moratoriums or government guarantees as a consequence of covid-19. • Periodic review process of borrower to determine proper staging criteria. • Review process over the calculation of the principal models and portfolios. • Review process of the post model adjustments made by management, placing special attention to those made as a consequence of covid-19. In addition, we performed the following tests of details: • Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology used for the estimation of the expected loss parameters; iii) data and main assumptions used, iv) staging criteria and v) scenario information and assumptions.

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Banco Santander, S.A.

Key audit matter	How our audit addressed the key audit matter
As a result, during fiscal year 2020 the Bank has recognised an amount of 2,555 million euros of impairment of financial assets at amortised cost. Please refer to Notes 1, 2, 6 and 10 of the annual accounts as at December 31, 2020.	• For a sample of loans subject to either moratoriums or government guarantees, assess the documentation used in the origination process. • Reperformance of collective impairment losses based on the expected credit loss models parameters. • Evaluation of the post model adjustments made by management. • 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.
Recoverability of deferred tax assets	
Assessing the recoverability of deferred tax assets is an exercise that requires a high degree of judgment and estimation, therefore it has been considered one of the key audit matters Within the framework of the recoverability model defined by the Bank's management, in relation to the Consolidated Tax Group, on an annual basis, or whenever there is any indication of impairment, each business unit compiles the assumptions that support the business plans that are projected over the time horizon established for that business. As a result of the impact of covid-19 on the main hypotheses on which financial projections are based, mainly derived by the changes in the macroeconomic variables and the actual results as compared to budget, the Bank has evaluated the ability to generate future taxable profits in assessing the recoverability of the deferred tax assets recorded during fiscal year 2020. The process carried out during this period includes specific considerations that management considers in assessing the recoverability of deferred tax assets, placing special attention to the environment and uncertainty resulting from the pandemic.	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: • Process on which the financial projections used to estimate future taxable profits are based for the recoverability model of deferred tax assets. • Calculation of deductible temporary difference, including the adequacy with the current tax regulation.

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Banco Santander, S.A.

Key audit matter	How our audit addressed the key audit matter
The most significant considerations made by management in this respect are: • Assuring that the tax regulations of each country are applied correctly and the temporary differences that meet the consideration as deductibles are duly recognised. • Reviewing the projections that are part of the recoverability model of deferred tax assets which is in turn used to estimate the tax profits, used to assess the recoverability of the deferred tax assets that will be recoverable in future periods, are indeed achievable. • Applying the model and validating the calculations of this model to ensure that the valuation of tax assets, and that the conclusions drawn regarding their recoverability, are appropriate. As a result, during fiscal year 2020 the Bank has estimated that 1,632 million euros of deferred tax assets are not recoverable. Please refer to Notes 2 and 24 of the annual accounts as at December 31, 2020.	We also performed the following tests of details: • Evaluated the accuracy of the calculations and the reasonableness of the estimations made by management for deductible temporary differences. • Assessed the completeness and appropriateness of the assumptions used by management in their calculation of the deductible temporary differences. • Analysis of the key assumptions used by management in their estimation and monitoring of the recoverability of deferred tax assets, with special attention to the covid-19 impact, including: - Obtaining and analysing the financial projections carried out by the Bank and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis. - Analysis of the tax strategy planned by the Bank for the recoverability of the deferred tax assets. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
Litigation provisions and contingencies	
The Bank is party to a range of tax and legal proceedings - administrative and judicial – of tax and legal nature which primarily arose in the ordinary course of its operations. Also, there are other situations not yet subject to any judicial process that, however, have required the registration of provisions, such as aspects of conduct with clients and their compensation. These procedures generally take a long period of time to run their course, giving rise to complex processes in accordance with the applicable legislation, therefore it has been considered one of the key audit matters. The Bank's 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.	We have obtained an understanding and evaluated the estimation process performed by management for litigation provisions and contingencies. With the respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following processes: • Additions, logs and updates over the completeness of the legal matters in the systems. • Accuracy of the key data, maintained in the systems, used in the calculation of the litigations provisions and contingencies.

Banco Santander, S.A.

Key audit matter	How our audit addressed the key audit matter
Among these provisions, some of 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. The amount of the litigation provisions and contingencies as of December 31, 2020 is 936 million euros. Please refer to Notes 2 and 23 of the annual accounts as at December 31, 2020.	• Assessment of the criteria used to estimate the expected losses from litigation provisions and contingencies and evaluation of the adequacy over the calculation of 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: • Analysis for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the tax obligations for all the years open to inspection, of the communications with the regulatory bodies, analysis of the ongoing regulatory inspections. • Obtaining confirmation letters from external and internal lawyers and external tax advisors who work with the Bank and performing alternative procedures. • Analysis of the recognition and reasonableness of the provisions recorded. In the procedures described above, no exceptions were identified outside of a reasonable range.
Impairment of investments in Company's subsidiaries As indicated in Note 13 of the accompanying 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 as at December 31, 2020 is 81,560 million euros, as indicated in Note 13 of the related notes to the accompanying annual accounts.	We have obtained an understanding of the valuation process of the investment in the Company's subsidiaries. In addition, where the valuation of investment requires the use of significant judgment, we have relied on the assistance of our valuation experts. With respect to internal controls, we have focused on the design and operating effectiveness of the controls in the valuation process and over the methodology, inputs and relevant assumptions use by management for the year-end estimates, including the controls in place to supervise the process and the related approvals.

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Banco Santander, S.A.

Key audit matter	How our audit addressed the key audit matter
Management performs an analysis of the potential losses in investments in the Company's subsidiaries that it has registered in its accounting records. This analysis is performed using different parameters such as the market price or the net equity adjusted for the unrealised gains existing at the valuation date, including goodwill net of its corresponding impairment. The valuation or analysis of the impairment of some of these investments require the use of significant judgments, principally for those investments measured using the net equity adjusted for the unrealised gains existing at the valuation date including its goodwill, including those measured using the net book value, therefore it has been considered one of the key audit matters. In this evaluation, the Bank's management is based on the analyses performed in the evaluation of goodwill, where using assumptions such as financial projections, discount rates, perpetual growth rates, market quotes (if available), market references (multiples). Such valuations, and some of these assumptions, are performed by management's experts. Management's assessment has considered the updated economic and business environment resulting from covid-19, the current market conditions and the existing economic uncertainty. As a result, during fiscal year 2020 the Bank has recognised an amount of 5,466 million euros of impairment of investments in Company's subsidiaries. Please refer to Note 13 of the annual accounts as at December 31, 2020.	Additionally, we have performed tests of details consisting of the following, with special attention to the covid-19 impact: • Verify the valuation performed by the Bank, using as a reference the recoverable balance of the investments in Company's subsidiaries. • Verify that management's valuation methodology is in line with the applicable accounting standards, market practice 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 test described above.
Information systems	
The Bank's financial information is highly dependent on information technology (IT) systems, therefore an adequate control of these systems is crucial to ensuring correct data processing.	We have evaluated, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support the Bank's financial reporting. For this purpose, we have performed procedures over internal control and test of details related to: • The function of the IT governance framework.

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Key audit matter	How our audit addressed the key audit matter
In this context, it is vital to evaluate aspects such as the organization of the Bank's Technology and Operations department, controls over software development and maintenance, physical and logical security controls, and controls over computer operations. In this respect, management continues working to reinforce the internal controls over IT systems, improving the access control and the cybersecurity model that support the Bank´s technology processes.	• Access and logical security controls over the applications, operating systems and databases that support the relevant financial information. • Application development and change management. • Maintenance of computer operations. In addition, considering the changes carried out by management to reinforce the internal controls over IT systems, our approach and audit plan focused on the following aspects: • Evaluation of the changes made as part of the enhancements implemented in the access control environment of the Bank. • Testing of the design and operating effectiveness of the controls implemented by management. In the procedures described above, no essential exceptions were identified related to this matter.

Other information: Director's report

Other information comprises only the management report for the 2020 financial year, the formulation of which is the responsibility of the Banks´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to:

a) Verify only that the statement of non-financial information and certain information included in the Annual Corporate Governance Report, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Bank obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this 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 verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2020 financial year, and its content and presentation are in accordance with applicable regulations.

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Banco Santander, S.A.

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 the Bank, 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 entity´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.

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Banco Santander, S.A.

- 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 entity´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 entity´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 entity´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

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Banco Santander, S.A. for the 2020 financial year that comprises an XHTML file of the annual accounts for the financial year, which will form part of the annual financial report.

The directors of Banco Santander, S.A. are responsible for presenting the annual financial report for the 2020 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation).

Our responsibility is to examine the digital files prepared by the Parent company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the annual accounts included in the aforementioned digital files completely agrees with that of the consolidated annual accounts that we have audited, and whether the format and markup of these accounts and of the aforementioned files has been effected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital file examined completely agrees with the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements established in the ESEF Regulation.

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 23, 2021.

Banco Santander, S.A.

Appointment period

The General Ordinary Shareholders' Meeting held on April 3, 2020 appointed us as auditors for a period of one year, as from the year ended December 31,2020.

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 Elorrieta (19930)

February 23, 2021

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

ASSETS	Note	2020	2019*
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**67,561**	**32,471**
FINANCIAL ASSETS HELD FOR TRADING		**81,437**	**86,583**
Derivatives	9	53,362	55,694
Equity instruments	8	9,758	11,697
Debt instruments	7	18,243	19,094
Loans and advances		74	98
Central banks	6	—	—
Credit institutions	6	3	—
Customers	10	71	98
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*8,540*	*21,192*
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**2,225**	**2,619**
Equity instruments	8	305	231
Debt instruments	7	671	1,099
Loans and advances		1,249	1,289
Central banks	6	—	—
Credit institutions	6	—	—
Customers	10	1,249	1,289
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*329*	*224*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**33,899**	**49,859**
Debt instruments	7	—	—
Loans and advances		33,899	49,859
Central banks	6	482	138
Credit institutions	6	9,888	18,543
Customers	10	23,529	31,178
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*3,642*	*4,783*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**22,623**	**32,027**
Equity instruments	8 & 25	1,942	1,856
Debt instruments	7 & 25	15,146	26,306
Loans and advances		5,535	3,865
Central banks	6	—	—
Credit institutions	6	—	—
Customers	10	5,535	3,865
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*2,293*	*5,329*

Santander

ASSETS	Note	2020	2019*
FINANCIAL ASSETS AT AMORTIZED COST		**311,020**	**289,295**
Debt instruments	7	11,413	14,528
Loans and advances		299,607	274,767
Central banks	6	21	22
Credit institutions	6	34,159	34,747
Customers	10	265,427	239,998
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*2,607*	*2,640*
HEDGING DERIVATIVES	**32**	**3,137**	**2,226**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**32**	**206**	**248**
INVESTMENTS		**84,890**	**87,330**
Group entities	13	81,560	82,223
Joint venture entities		248	247
Associated entities	13	3,082	4,860
TANGIBLE ASSETS	**15**	**6,680**	**7,131**
Property, plant and equipment		6,462	6,904
For own use		*5,715*	*6,253*
Leased out under an operating lease		*747*	*651*
Investment property		218	227
Of which, Leased out under an operating lease		*218*	*227*
Memorandum items: acquired in financial leasing		*2,879*	*3,167*
INTANGIBLE ASSETS	**16**	**948**	**685**
Goodwill		458	521
Other intangible assets		490	164
TAX ASSETS	**24**	**9,282**	**12,331**
Current tax assets		721	2,215
Deferred tax assets		8,561	10,116
OTHER ASSETS		**4,174**	**5,947**
Insurance contracts linked to pensions	14, 17 & 23	423	511
Inventories	17	—	—
Other	17	3,751	5,436
NON-CURRENT ASSETS HELD FOR SALE	**12**	**1,287**	**1,164**
TOTAL ASSETS		**629,369**	**609,916**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

LIABILITIES	Note	2020	2019*
FINANCIAL LIABILITIES HELD FOR TRADING		**61,014**	**64,356**
Derivatives	9	50,676	56,068
Short positions	9	10,338	8,288
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		**16,890**	**24,264**
Deposits		16,890	24,264
Central banks	18	1,469	7,596
Credit institutions	18	4,496	6,152
Customers	19	10,925	10,516
Marketable debt securities	20	—	—
Other financial liabilities	22	—	—
Memorandum items: subordinated liabilities		—	—
FINANCIAL LIABILITIES AT AMORTIZED COST		**474,619**	**437,018**
Deposits		376,837	338,597
Central banks	18	60,372	36,896
Credit institutions	18	40,725	51,180
Customers	19	275,740	250,521
Marketable debt securities	20	87,902	87,567
Other financial liabilities	22	9,880	10,854
Memorandum items: subordinated liabilities	*20 & 21*	*17,124*	*15,352*
HEDGING DERIVATIVES	**32**	**1,780**	**2,044**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		**—**	**—**
PROVISIONS	**23**	**5,007**	**6,490**
Pensions and similar obligations		1,849	3,918
Other long term employee benefits		1,581	1,220
Taxes and other legal contingencies		496	501
Contingent liabilities and commitments		157	180
Other provisions		924	671
TAX LIABILITIES	**24**	**1,555**	**1,591**
Current tax liabilities		45	—
Deferred tax liabilities		1,510	1,591
OTHER LIABILITIES	**17**	**3,567**	**3,931**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**—**	**—**
TOTAL LIABILITIES		**564,432**	**539,694**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

EQUITY	Note	2020	2019*
SHAREHOLDERS' EQUITY	**26**	**66,498**	**70,562**
CAPITAL		**8,670**	**8,309**
Called up paid capital	27	8,670	8,309
Unpaid capital which has been called up		—	—
Memorandum items: uncalled up capital		—	—
SHARE PREMIUM	**28**	**52,013**	**52,446**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**30**	**627**	**598**
Equity component of compound financial instruments		—	—
Other equity instruments issued		627	598
OTHER EQUITY INSTRUMENTS	**30**	**157**	**144**
ACCUMULATED RETAINED EARNINGS	**29**	**9,683**	**7,814**
REVALUATION RESERVES		**—**	**—**
OTHER RESERVES	**29**	**(1,095)**	**(617)**
(-) OWN SHARES		**—**	**—**
RESULTS FOR THE PERIOD	**4**	**(3,557)**	**3,530**
(-) DIVIDENDS	**4**	**—**	**(1,662)**
OTHER COMPREHENSIVE INCOME OR LOSS		**(1,561)**	**(340)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**25**	**(1,882)**	**(1,024)**
Actuarial gains or - losses in defined benefit pension plans		(1,351)	(1,197)
Non-current assets and disposal groups that have been classified as held for sale		—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		(537)	171
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 with changes in other comprehensive income [hedged item]		154	44
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income [hedging instrument]		(154)	(44)
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		6	2
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**25**	**321**	**684**
Hedge of net investments in foreign operations [effective part]		—	—
Currency conversion		—	—
Hedging derivatives. Cash flow hedge reserve [effective part]		(189)	(45)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		510	729
Hedging instruments [non-designated items]		—	—
Non-current assets and disposal groups that have been classified as held for sale		—	—
TOTAL EQUITY		**64,937**	**70,222**
TOTAL LIABILITIES AND EQUITY		**629,369**	**609,916**
MEMORANDUM ITEMS			
Financial guarantees granted	31	96,959	9,474
Loan commitments granted	31	10,135	85,840
Other commitments granted	31	50,686	52,460

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

		(Debit) Credit	
	Note	2020	2019*
Interest income	34	6,528	7,566
Financial assets at fair value through other comprehensive income		*256*	*384*
Financial assets at amortized cost		*5,078*	*5,800*
Other interest income		*1,194*	*1,382*
Interest expense	35	(3,160)	(4,107)
Expenses for capital stock repayable on demand		—	—
Net interest income		**3,368**	**3,459**
Dividend income	36	5,642	6,402
Commission income	37	2,811	2,780
Commission expense	38	(494)	(516)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	578	891
Financial assets at amortized cost	*39*	*10*	*296*
Other financial assets and liabilities	*39*	*568*	*595*
Gains or losses on financial assets and liabilities held for trading, net	39	(29)	(12)
Reclassification of financial assets at fair value through other comprehensive income		—	—
Reclassification of financial assets at amortized cost		—	—
Other gains (losses)		*(29)*	*(12)*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	39	(290)	35
Reclassification of financial assets at fair value through other comprehensive income		—	—
Reclassification of financial assets at amortized cost		—	—
Other gains (losses)	*39*	*(290)*	*35*
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	4	(54)
Gains or losses from hedge accounting, net	39	10	(50)
Exchange differences, net	40	372	(455)
Other operating income	41	404	374
Other operating expenses	41	(785)	(616)
Gross income		**11,591**	**12,238**
Administrative expenses		(4,602)	(5,023)
Staff costs	*42*	*(2,586)*	*(2,874)*
Other general administrative expenses	*43*	*(2,016)*	*(2,149)*
Depreciation and amortisation cost	15 & 16	(625)	(637)
Provisions or reversal of provisions	23	(1,133)	(1,192)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	7 &10	(2,559)	(1,246)
Financial assets at fair value through other comprehensive income		*(4)*	*(5)*
Financial assets at amortized cost		*(2,555)*	*(1,241)*

	(Debit) Credit		
	Note	2020	2019*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	44	(5,921)	(434)
Impairment on non-financial assets, net		(63)	—
Tangible assets	*15*	*(62)*	—
Intangible assets	*16*	*(1)*	—
Others		—	—
Gains or losses on non-financial assets and investments, net	45	1,142	52
Negative goodwill recognized in results		—	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	12 & 46	(77)	(179)
Profit or loss before tax from continuing operations		**(2,247)**	**3,579**
Tax expense or income from continuing operations	24	(1,310)	(49)
Profit or loss of the year from continuing operations		**(3,557)**	**3,530**
Profit or loss after tax from discontinued operations		—	—
Profit or loss for the year		**(3,557)**	**3,530**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the income statement the year ended as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF RECOGNIZED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Note	2020	2019*
PROFIT OR LOSS FOR THE YEAR		**(3,557)**	**3,530**
OTHER RECOGNIZED INCOME AND EXPENSES	**23**	**(1,221)**	**119**
Items that will not be reclassified to profit or loss		**(858)**	**(302)**
Actuarial gains and losses on defined benefit pension plans		(77)	(327)
Other recognized 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		(796)	(135)
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)		*4*	*44*
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)		*(4)*	*(44)*
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		4	2
Income tax relating to items that will not be reclassified to profit or loss	24	11	158
Items that may be reclassified to profit or loss		**(363)**	**421**
Hedges of net investments in foreign operations (Effective portion)		—	—
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 portion)		(206)	(117)
Revaluation gains or (losses)		*(239)*	*(205)*
Amounts transferred to income statement		*33*	*88*
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		(316)	723
Revaluation gains (losses)		*244*	*697*
Amounts transferred to income statement		*(560)*	*(592)*
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	159	(185)
Total recognized income and expenses for the year		**(4,778)**	**3,649**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of recognized income and expenses for the year ended as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance at 1 January 2020*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,557)**	**—**	**(1,221)**	**(4,778)**
Other changes in equity	**361**	**(433)**	**29**	**13**	**1,869**	**—**	**(478)**	**—**	**(3,530)**	**1,662**		**(507)**
Issuance of ordinary shares	361	(72)	—	—	—	—	70	—	—	—	—	359
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	(361)	—	—	—	—	—	—	—	—	—	(361)
Purchase of equity instruments	—	—	—	—	—	—	—	(615)	—	—	—	(615)
Disposal of equity instruments	—	—	—	—	—	—	—	615	—	—	—	615
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	(1)	1,869	—	—	—	(3,530)	1,662		—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	(53)	—	—	—	—	—	—	—	(53)
Others increases or (-) decreases of the equity	—	—	29	67	—	—	(548)	—	—	—	—	(452)
Of which, discretionary allocation to social funds (only savings banks and credit cooperatives)	—	—	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2020	**8,670**	**52,013**	**627**	**157**	**9,683**	**—**	**(1,095)**	**—**	**(3,557)**	**—**	**(1,561)**	**64,937**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of changes in total equity for the year ended as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Capital	Share premium	Other instruments	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance at 31 December 2018*	**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)
Opening balance at 1 January 2019*	**8,118**	**50,993**	**565**	**170**	**7,805**	**—**	**120**	**—**	**3,301**	**(2,237)**	**(459)**	**68,376**
Total recognized 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)
Other increases or (-) decreases of the equity	—	—	33	62	—	—	(765)	—	—	—	—	(670)
Of which, discretionary allocation to social funds (only savings banks and credit cooperatives)	—	—	—	—	—		—	—	—	—	—	—
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2020..

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Note	2020	2019*
A. CASH FLOWS FROM OPERATING ACTIVITIES		**37,842**	**(6,846)**
Profit or loss for the year	**4**	**(3,557)**	**3,530**
Adjustments made to obtain the cash flows from operating activities		**12,938**	**2,206**
Depreciation and amortization cost	*15 & 16*	*625*	*637*
Other adjustments		*12,313*	*1,569*
Net increase/(decrease) in operating assets		**(7,513)**	**13,370**
Financial assets held-for-trading		*(5,146)*	*15,758*
Non-trading financial assets mandatorily at fair value through profit or loss		*(394)*	*(1,132)*
Financial assets designated at fair value through profit or loss		*(15,962)*	*8,533*
Financial assets at fair value through other comprehensive income		*(9,299)*	*(3,883)*
Financial assets at amortized cost		*26,903*	*(6,119)*
Other operating assets		*(3,615)*	*213*
Net increase/(decrease) in operating liabilities		**21,199**	**45**
Financial liabilities held-for-trading		*(3,341)*	*6,335*
Financial liabilities designated at fair value through profit or loss		*(7,374)*	*(10,815)*
Financial liabilities at amortized cost		*35,268*	*7,527*
Other operating liabilities		*(3,354)*	*(3,002)*
Income tax recovered/(paid)		**(251)**	**743**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(3,263)**	**(5,142)**
Payments		**8,001**	**7,094**
Tangible assets	*15*	*489*	*3,025*
Intangible assets	*16*	*73*	*73*
Investments	*13*	*7,439*	*3,996*
Subsidiaries and other business units		*—*	*—*
Non-current assets held for sale and associated liabilities		*—*	*—*
Other payments related to investing activities		*—*	*—*
Proceeds		**4,738**	**1,952**
Tangible assets	*15*	*118*	*178*
Intangible assets	*16*	*—*	*—*
Investments	*13*	*4,398*	*645*
Subsidiaries and other business units		*—*	*—*
Non-current assets held for sale and associated liabilities		*222*	*1,129*
Other proceeds related to investing activities		*—*	*—*
C. CASH FLOW FROM FINANCING ACTIVITIES		**1,087**	**(7,677)**
Payments		**3,250**	**9,562**
Dividends	*4*	*—*	*3,773*
Subordinated liabilities	*21*	*2,348*	*4,578*
Redemption of own equity instruments		*—*	*—*
Acquisition of own equity instruments		*615*	*829*
Other payments related to financing activities		*287*	*382*
Proceeds		**4,337**	**1,885**
Subordinated liabilities	*21*	*3,722*	*1,056*
Issuance of own equity instruments		*—*	*—*
Disposal of own equity instruments		*615*	*829*
Other proceeds related to financing activities		*—*	*—*
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(576)**	**205**

	Note	2020	2019*
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**35,090**	**(19,460)**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**32,471**	**51,931**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**67,561**	**32,471**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash		*1,302*	*1,551*
Cash equivalents at central banks		*63,984*	*24,596*
Other financial assets		*2,275*	*6,324*
Less - Bank overdrafts refundable on demand			
TOTAL OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		**67,561**	**32,471**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of cash flows for the year ended as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). 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 2020.

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, where it was constituted and currently maintains its legal domicile, which is Paseo de Pereda, numbers 9 to 12 (39004, Santander, Spain).

The principal headquarters of Banco Santander are located in Ciudad Grupo Santander, avenida Cantabria s/n (28660, Boadilla del Monte, Madrid, Spain).

The corporate purpose of Banco Santander, S.A., mainly entails carrying out all kinds of activities, operations and services inherent to the banking business in general and permitted by current legislation, and the acquisition, holding, enjoyment and disposal of all kinds of securities.

In addition to the operations carried on directly by it, Banco Santander is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Grupo Santander ('the Group'). Therefore, Banco Santander is obliged to prepare, in addition to its own separate financial statements, Grupo Santander's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

Banco Santander annual accounts for the financial year 2019 were approved by Banco Santander general shareholders' meeting held on April 3, 2020. The Group's 2020 consolidated financial statements, the financial statements of Banco Santander and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, Banco Santander board of directors considers that the aforementioned financial statements will be approved without any significant changes.

Appendix IX includes 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)

Banco Santander annual accounts for the financial year 2020 have been formulated by Banco Santander directors (at the meeting of the Board of Directors of 22 February 2021) in accordance with Bank of Spain's Circular 4/2017, and subsequent amendments, as well as the commercial regulations applicable to the Bank, applying the accounting principles, policies and measurement criteria described in note 2, which faithfully represents of Banco Santander´s assets and financial position as at 31 December 2020 and 2019 of the results of its operations, recognized revenue and expenditure, changes in its net worth and flows cash that occurred in the financial year 2020 and 2019. These annual accounts have been drawn up from the accounting records maintained by Banco Santander.

The notes to the financial statements contain additional information to that presented in the balance sheet, income statement, statement of recognized 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 2020:

Bank of Spain Circular 1/2020 of 28 January, amending Circular 1/2013 of 24 May, on the Central for Risk Information. (Official Gazette of 5 February 2020)

On March 15, 2019, Law 5/2019, of 15 March, regulating real estate credit agreements, transposing into Spanish law Directive 2014/17/EU of the European Parliament and of the Council, of 4 February 2014, on credit agreements concluded with consumers for residential real estate. The Act amends, in its seventh final provision, Law 44/2002, of 22 November, on Financial System Reform Measures, with the aim of giving access to the Bank of Spain's Risk Information Central (CIR) to all real estate credit lenders. As a result of this amendment, the perimeter of reporting institutions is extended to include real estate lenders and credit institutions operating under the freedom to provide services and empowers real estate credit intermediaries to have access to reports on the risks of natural persons and legal entities registered with the CIR on an equal footing with the reporting entities. With regard to information on the declared data, the Banco de España is empowered to temporarily prevent a reporting entity from accessing CIR data when it fails to comply with its reporting obligations with the necessary quality and accuracy. In addition, Royal Decree 309/2019 of 26 April, which partially develops Law 5/2019, of 15 March, regulating real estate credit agreements and other financial measures are adopted, in its third additional provision, enables the Banco de España to establish technical standards regulating the form of access to the CIR which must be public, non-discriminatory and proportionate.

In addition, a certain period of time has elapsed since the entry into force of Regulation (EU) No 867/2016 of the European Central Bank of 18 May on the collection of granular credit and credit risk data (ECB/2016/13) (hereinafter Regulation (EU) 867/2016), and the amendment of Circular 1/2013 to collect through the CIR the information which the Bank of Spain has to request from the reporting entities in order to communicate it to the European Central Bank in accordance with that regulation, it has been considered necessary to make certain amendments to Circular 1/2013 in order to improve the consistency of the information collected through CIR with respect to that established under Regulation (EU) 867/2016.

Finally, with a view to updating the standard, some changes have been made to Circular 1/2013 to clarify the information to be submitted on certain operations, to reorganize the manner in which information is presented in some modules, and to introduce some additional dimension. In addition, some clarifications are provided with regard to the filing of claims to the CIR.

Therefore, this circular complies with the principles of necessity, effectiveness, proportionality, legal certainty, transparency and efficiency regulated in Article 129 of Law 39/2015, of 1 October, of the common administrative procedure of public administrations, given that it achieves the purposes pursued without impose unnecessary or ancillary burdens, regulating in a manner consistent with the rest of the system exclusively the essential aspects.

Bank of Spain Circular 2/2020 of 11 June, amending Circular 4/2017 of 27 November to credit institutions on public and reserved financial information rules and models of financial statements. (Official Gazette of 16 June 2020)

The main objective of this circular is to adapt Circular 4/2017, of 27 November, to credit institutions, on public and reserved financial information rules, and models of financial statements, to changes in the international order on information requirements for credit institutions.

This circular meets the principles of necessity, effectiveness, proportionality, legal certainty and efficiency required by Article 129.1 of Law 39/2015, of October 1, of the common administrative procedure of public administrations, since it undertakes changes necessary to maintain accounting regulations and requirements for financial information of credit institutions complete, integrated and harmonized with the rest of the legal system, both national and the European Union.

The principle of transparency is achieved through the prior public consultation of the potential affected, established by Article 133 of Law 39/2015, of 1 October, and the public hearing of interested parties, both forming part of the process of processing this circular.

The Bank of Spain's allotments to issue this circular are the same as those corresponding to the approval of Circular 4/2017, that is, those set out in the Order of 31 March 1989 empowering the Banco de España to establish and modify the accounting rules of credit institutions. In that regard, the Minister of Economy and Finance delegated to the Banco de España the entitlement to establish and modify the accounting standards and the models to which the financial statements, both individual and consolidated, of credit institutions must be subject.

Bank of Spain Circular 3/2020 of 11 June, amending Circular 4/2017 of 27 November to credit institutions on public and reserved financial information rules and models of financial statements. (Official Gazette of 16 June 2020).

The public health emergency created by the spread of covid-19 and the necessary containment measures are causing a major disruption for the Spanish economy, affecting businesses and households. Complementing extraordinary urgent measures to address the economic and social impact of covid-19, credit institutions need to continue to provide financial support to businesses and households adversely affected by this transitional and exceptional situation.

In this context, banking regulators and supervisors around the world are recommending adequate use of the flexibility implied in the regulatory framework, without prejudice to the proper identification of the deterioration of transactions and a reasonable estimate of their credit risk coverage. In particular, the European Banking Authority (EBA), in its Communication of 12 March 2020 on actions to mitigate the impact of COVID-19 on the banking sector of the European Union

(EU), recommends making full use of the flexibility implied in the regulatory framework and develops this recommendation on the aspects of the related to the accounting classification of credit risk transactions which are included, inter alia, in its Communication of 25 March 2020 on the implementation of the regulatory framework for default, restructuring or refinancing, and IFRS 9 in the light of covid-19 response measures.

Bank of Spain Circular 4/2020, of 26 June on advertising of banking products and services. (Official Gazette of 15 July 2020).

Advertising is a key element in the marketing of banking products and services. Generally, it is the first point of contact between an entity and its potential customer. Through advertising, entities disclose their offer of products and services, through the use of specialised techniques in order to encourage their contracting, so the information transmitted in advertising messages usually has a great impact on customer expectations and the consequent process of taking decisions. In this context, the regulation of financial advertising becomes an essential mechanism for the protection of banking clientele. It is therefore necessary to articulate regulatory and supervisory measures aimed at ensuring that advertising is clear, sufficient, objective and non-misleading, and that customer relations with their entities in the post-procurement stages are less conflicting.

Bank of Spain Circular 5/2020, of 25 November, to payment institutions and electronic money institutions, on public and reserved financial reporting rules and model financial statements, and amending Circular 6/2001 of 29 October on holders of currency exchange establishments and Circular 4/2017 of 27 November, to credit institutions, on public and reserved financial reporting rules, and model financial statements. (Official Gazette of 4 December 2020).

This circular lays down the accounting arrangements for payment institutions and electronic money institutions. This circular sets out the accounting documents that such entities and their groups have to draw up, including the model public and reserved financial statements. It also determines the rules for recognition, valuation, presentation, information to be included in the report and breakdown of information into the models of states to be applied in its preparation. This circular takes as the accounting regulations of credit institutions, either by setting criteria similar to those directly from credit institutions, or referring to the rules of Bank of Spain Circular 4/2017 of 27 November on credit rules on public and reserved financial information, and models of financial statements.

As a result of the application of the above-mentioned circulars, there have been no significant impact on the Bank's annual accounts.

c) Use of critical estimates

The results and the determination of equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of Banco Santander in preparing the financial statements.

The main accounting policies and measurement bases are set forth in note 2.

In the annual accounts for 2020, estimates made by Banco Santander senior management have occasionally been used to quantify some of the assets, liabilities, income, expenditure 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, 16 and 49).
- 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).
- Assessment of the impairment of investments in subsidiaries, joint ventures and associates (see note 13).
- The measurement of goodwill (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 and the income tax expense (see note 24).
- The fair value of identifiable assets acquired and liabilities assumed in business combinations (see note 3).

To update the estimates described above, Bank's Management has taken into account the current situation as a result of covid-19, classified as a pandemic by the World Health Organization, which significantly affects the economic activity worldwide and, as a result, Banco Santander operations and financial results, and which generates uncertainty in Banco Santander estimates. Therefore, the Bank's Management has made an assessment of the current situation according to the best information available to date, disclosing in the notes the main estimates made and the potential impacts of covid-19 on them for the period ended 31 December 2020 (see notes 16, 24 and 49).

Although these estimates have been made on the basis of the best information available at the end of the year 2020, and considering information updated at the date of preparation of these annual accounts, it is possible that events that may take place in the future may make it necessary to modify them (upwards or downwards) in the coming years, which would be done, if appropriate, in a prospective manner, recognising the effects of the change in estimate in the corresponding income statement.

d) Comparative information

The information contained in the 2020 annual accounts for the 2019 financial year is presented, solely and exclusively, for comparison with the information relating to 2020.

In addition to the above, the information in note 4.a relating to the shares outstanding in 2019 has been restated due to the capital increase described in note 27.a in accordance with IAS 33 Earnings per share.

e) Capital management

i. Regulatory and economic capital

The financial institutions must meet a set of minimum capital and liquidity requirements. These minimum requirements are regulated in the European capital requirements regulation, better known as CRR, and in the capital requirements directive, known as CRD. In June 2019 these regulations were significantly modified, so that CRR2 and CRDV will be understood as said regulations with the latest modifications incorporated.

Among the amendments to the CRR2, it is worth highlighting the introduction of the minimum requirement of TLAC (Total Loss Absorbing Capacity) applicable only to entities of global systemic importance (G-SIB). This requirement is a minimum requirement for own funds and eligible liabilities (currently 16% and, after the transitional period, 18%).

The CRDV, as a directive, must be transposed into the national legal system to be applicable in the member States. In Spain, the transposition is expected to be developed during 2021. The CRDV includes relevant amendments such as the regulation of Pillar 2 Guidance requirements.

Regarding to the Resolution regulations, the institutions must have an adequate financing structure that allows, in the event of financial difficulties, to recover their situation or to resolve it, ensuring the protection of depositors and the financial stability. The directive that regulates the aforementioned resolution framework is the Restructuring and Resolution Directive, BRRD. Like CRR2 and CRDV, BRRD was amended in June 2019, so BRRD2 refers to all of these amendments. The transposition of this directive in Spain is also planned for 2021.

The BRRD2 has introduced important modifications to the minimum requirement for own funds and eligible liabilities (MREL). Thus, for example, the aforementioned TLAC requirement is now considered a Pillar 1 resolution requirement for G-SIB. For large banks (which are defined as those whose total assets exceed EUR 100,000 million) or those that, without being large, the resolution authority considers that they may be systemic, the BRRD2 establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the exposure of the leverage ratio, whichever is higher. For the rest of the entities, the subordination requirement will be determined case by case by the resolution authority.

The severe economic disruption caused by the covid-19 pandemic in 2020 has revealed the importance of institutions' funding functions in contributing to recovery. The competent authorities (national, European and international) have acted by reducing the liquidity, capital and operational requirements so the financial institutions can continue to provide financing to the economy, while ensuring that institutions continue to act prudently because these can also be affected by the deterioration of the economic situation. As part of the measures of the European Central Bank, it was issued a recommendation in March 2020 urging European banks to refrain from paying dividends out of the 2019 and 2020 financial years. On 27 July, the ECB extended its recommendation until 1 January 2021.

The national governments have taken measures to address the economic and social impact of the vine population, in particular legislative moratoria that were aimed at containing NPLs and helping the population to meet liquidity needs. Throughout 2020, the EBA adopted a series of guidelines, including the Guidelines on legislative and non-legislative moratoria applied in the context of the covid-19 crisis on 2 April 2020 (EBA/GL/2020/08). These guidelines clarify the requirements for public and private moratoria to avoid classification of exposures affected by moratoria as forborne exposures.

Although these guidelines were initially going to apply to moratoria granted before 30 June 2020, the EBA decided on 2 December 2020 to reactivate the application of these guidelines (EBA/GL/2020/02) for moratoria requested before 31 March 2021.

Other measures adopted to provide flexibility in complying with the requirements have been the approval and entry into force of the 'quick fix' of the CRR (urgent and extraordinary regulatory measures aimed at making the regulatory framework more flexible in response to the covid-19), regulation by which modifies CRR2. Among the amendments introduced by the quick fix, it is worth highlighting the extension of the transitional period granted before the pandemic due to the entry into force of IFRS 9, due to the sudden and significant increase in provisions for expected credit losses that must be recognized. Additionally, the application of certain provisions of CRR2 has been delayed, such as those relating to the leverage ratio buffer (whose application date is postponed until 1 January 2023), and the possibility has been included to exclude from the calculation of said ratio exposures to central banks. In the same way, the date of application of other favourable provisions for entities such as the support factor for smes and the support factor for infrastructures has been brought forward, as well as the new treatment of software assets (applicable since the day following the publication of the Delegated Regulation where it is developed).

At 31 December 2020 Banco Santander 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

Banco Santander following the Group's policies, continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks. The commitment assumed before the supervisor still implies the adoption of advanced models within the ten key markets where Santander Group operates.

Accordingly, Banco Santander continued in 2020 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 Banco Santander units , all in the context of the current supervisory focus on the robustness and correct adaptation of the available models, as well as the simplification strategy recently agreed with the ECB, of which a practical example carried out is the recent supervisory approval for the reversion to the standard of the sovereign model in foreign currency.

Grupo Santander has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Banco Santander 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 2020, the authorization of the Atacado portfolio in Brazil was achieved for the use of the AIRB method.

As regards the other risks explicitly addressed under Basel Pillar I, Grupo Santander is authorized 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, Grupo y Banco Santander use the standardised approach provided for the CRR. On 2018 the European Central Bank authorized 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 Banco Santander, 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 2021 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

i. Deposit Guarantee Fund

Banco Santander 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 2020 has amounted to EUR 239 million (EUR 234 in the year 2019), which are recorded under 'Other operating expenses' in the profit and loss account attached (see note 41).

ii. National Resolution Fund

Law 11/2015 regulates the creation of the National Resolution Fund, whose financial resources should reach, by 31 December 2024, at least 1% of the amount of secured deposits, through contributions from credit institutions and investment firms established in Spain. The details of the calculation of contributions to this Fund is regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and is calculated by the Orderly Banking Resolution Fund, on the basis of the information provided by each entity.

iii. 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 expenditure incurred by the contribution made to the National Fund and the Single Resolution Fund amounted to EUR 262 million in 2020 (EUR 187 million in the year 2019), which are recognised under 'Other operating expenses' in the accompanying income statement (see note 41).

i) Merger by absorption

i. Merger by absorption between Banco Santander, S.A. (absorbing company) and Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. (as absorbed companies)

On 30 June 2020, the directors of Banco Santander, S.A., the joint administrators of Santander Global Property, S.L.U. and the respective solidary administrators of Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. approved and signed the joint merger project between Banco Santander, S.A. (as an absorbing company) and Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. (as absorbed companies).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the said transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Act with regard to merger is incorporated into this report (Annex VIII).

Once obtained the mandatory authorization of the Ministry of Economic Affairs and Digital Transformation (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions) on December 23, 2020, the corresponding merger deed was granted and, registered in the Commercial Register of Cantabria, with effect from December 23, 2020, the extinction without liquidation of Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U., respectively, and the bulk transfer of all of their respective assets to Banco Santander, S.A., which acquired them by succession universal and without continuity solution. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2020.

Since the companies acquired were wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, Banco Santander did not increase capital. The merger with effect from 23 December 2020 became effective, all the shares of the companies absorbed were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, those included in the annual accounts for the financial year ended 31 December 2019, formulated by the board of directors of each of the companies participating in the merger, were considered as merger balance sheets. The merger balance sheets of Banco Santander, S.A. and BPE Financiaciones, S.A.U. have been duly verified by their respective auditors. The merger balance sheets of the remaining companies absorbed have not been subject to auditor verification, as they were not required to audit their accounts.

In accordance with the provisions of the applicable accounting rules, for accounting purposes, the merger was fixed on 1 January 2020 as the date from which the transactions of the companies absorbed were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following are the balance sheets of companies absorbed as of December 31, 2019:

SANTANDER GLOBAL PROPERTY, S.L.U.

Balance at December 31, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	94	EQUITY	252,984
Deferred tax asset	94	SHAREHOLDERS EQUITY	252,984
		Capital	211,087
		Share premium	36,414
		Reserves	10,560
		Profit for previous periods	(5,071)
		Profit for the period	(6)
CURRENT ASSETS	252,893	CURRENT LIABILITIES	3
Other credits with Public Administrations	29	Short term debit	3
Investments in Group companies and Associates	2		
Cash and cash equivalent	252,862		
TOTAL ASSETS	**252,987**	**TOTAL EQUITY AND LIABILITIES**	**252,987**

INMOBILIARIA VIAGRACIA, S.A.U.

Balance at December 31, 2019

(EUR thousands)

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	37,295	EQUITY	92,554
Real Estate Investments	7,666	SHAREHOLDERS EQUITY	90,876
Long term investments in Group companies and Associates	26,634	Capital	4,688
Long term financial investments	2,990	Share premium	10,370
Deferred tax asset	5	Reserves	86,604
		Profit for previous periods	(12,237)
		Profit for the period	1,451
		ADJUSTMENTS FOR CHANGES IN VALUE	1,678
		Financial instruments HTC&S	1,678
		NON-CURRENT LIABILITIES	802
		Long term debts to Group companies and Associates	83
		Deferred tax liabilities	719
CURRENT ASSETS	56,513	CURRENT LIABILITIES	452
Cash and cash equivalent	56,513	Short term debts with Group companies and Associates	428
		Commercial creditors and other accounts payable	24
TOTAL ASSETS	**93,808**	**TOTAL EQUITY AND LIABILITIES**	**93,808**

BPE FINANCIACIONES, S.A.U.

Balance at December 31, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	—	EQUITY	880
		SHAREHOLDERS EQUITY	880
		Capital	100
		Reserves	840
		Profit for the period	(60)
CURRENT ASSETS	662,680	CURRENT LIABILITIES	661,800
Short term investments in Group companies and Associates	661,797	Short term debit	500,916
Cash and cash equivalent	883	Short term debts with Group companies and Associates	160,772
		Commercial creditors and other accounts payable	11
		Accruals in the short term	101
TOTAL ASSETS	**662,680**	**TOTAL EQUITY AND LIABILITIES**	**662,680**

Pursuant to the provisions of the applicable legislation, as a result of the accounting record of the above-mentioned merger by absorption by Banco Santander in the financial year 2020, Banco Santander's voluntary reserves have been reduced by EUR 1 million due to the decrease in the financial year participation of the absorbed companies (see note 29).

ii. 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 managers of each of the remaining absorbed companies drafted, approved and signed the joint merger project between Banco Santander, S.A. (as an 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 Stock Exchange, Sociedad de Valores, S.A.U. (as absorbed companies).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Law in respect of each of the two mergers is incorporated into this report (Appendix VIII).

After obtaining the mandatory authorization of the Ministry of Economy and Business (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions) on December 12, 2019, the corresponding merger deed was granted and, registered in the Mercantile Register of Cantabria, occurred , with effect from December 24, 2019, the extinction without liquidation of 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., respectively, and the transmission in bulk of their respective assets to Banco Santander, which acquired them by universal succession and without continuity solution. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2019.

Since the companies acquired were wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, Banco Santander did not increase capital. The merger with effect from 24 December 2019 became effective, all the shares of the companies absorbed were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, those included in the annual accounts for the financial year ended 31 December 2018, formulated by the management bodies of each of the companies participating in the merger, were considered as merger balance sheets. The merger balance sheets of Banco Santander and Popular Bolsa, Sociedad de Valores, S.A.U. have been duly verified by their respective auditors. The merger balance sheets of the remaining companies absorbed have not been subject to auditor verification, as they were not required to audit their accounts.

In accordance with the provisions of the applicable accounting rules, for accounting purposes, the merger was fixed on 1 January 2019 as the date from which the transactions of the companies absorbed were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following are the balance sheets of companies absorbed as of December 31, 2018:

MANBEROR, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	37,576	EQUITY	(90,057)
Deferred Tax Assets	37,576	SHAREHOLDERS EQUITY	(90,057)
		Capital	60
		Profit for previous periods	(90,061)
		Profit for the period	(56)
		NON-CURRENT LIABILITIES	126,998
		Long term debts	126,998
CURRENT ASSETS	65	CURRENT LIABILITIES	700
Cash and cash equivalent	65	Commercial creditors and other accounts payable	700
TOTAL ASSETS	**37,641**	**TOTAL EQUITY AND LIABILITIES**	**37,641**

POPULAR CAPITAL, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	—	EQUITY	(1,833)
		SHAREHOLDERS EQUITY	(1,833)
		Capital	90
		Reserves	452
		Profit 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 cash equivalent	595	Commercial creditor and other accounts payable	428
TOTAL ASSETS	**595**	**TOTAL EQUITY AND LIABILITIES**	**595**

INVERSIONES INMOBILIARIAS GERCEBIO, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	—	EQUITY	(11,481)
		SHAREHOLDERS EQUITY	(11,481)
		Capital	60
		Reserves	5
		Profit 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 cash equivalent	13,015	Commercial creditor and other accounts payable	—
TOTAL ASSETS	**13,015**	**TOTAL EQUITY AND LIABILITIES**	**13,015**

INVERSIONES INMOBILIARIAS CEDACEROS, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	282	EQUITY	(29,435)
Deferred tax asset	282	SHAREHOLDERS EQUITY	(29,435)
		Capital	38,000
		Reserves	(271)
		Profit 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
Inventory	1	Commercial creditor and other accounts payable	1
Investments in group companies and associates	700		
Cash and cash equivalent	43,689		
TOTAL ASSETS	**44,672**	**TOTAL EQUITY AND LIABILITIES**	**44,672**

POPULAR BOLSA, SOCIEDAD DE VALORES, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
ASSETS	7,481	EQUITY	6,871
Financial assets HTC&S	1	SHAREHOLDERS EQUITY	6,871
Credit investments	7,358	Capital	4,515
Insurance contracts linked to pensions	67	Reserves	1,414
Tangible assets	2	Profit for the year	942
Intangible assets	18	LIABILITIES	610
Tax assets	12	Provisions	67
Other assets	23	Tax liabilities	408
		Other equity	135
TOTAL ASSETS	**7,481**	**TOTAL EQUITY AND LIABILITIES**	**7,481**

In application of the provisions of the applicable regulations, as a consequence of the accounting record of this aforementioned merger by absorption operation performed carried out by the Bank in 2019, has manifested an increase in the voluntary reserves of the Bank in that year of EUR 2 million for the cancellation of the participation of the absorbed companies (see note 29).

iii. Merger by absorption between Banco Santander, S.A. (absorbing company) and Sorlinda Investments, S.L. Unipersonal (as absorbed company)

On July 29, 2019, the directors of Banco Santander, S.A. and the solidary administrators of Sorlinda Investments, S.L.U. drafted, approved and signed the joint merger project between Banco Santander, S.A. (as an absorbing company) and Sorlinda Investments, S.L.U. (as an absorbed company).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to the not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the said transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Law in respect of each of the two mergers is incorporated into this report (Appendix VIII).

After obtaining the mandatory authorization of the Ministry of Economy and Business (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions), the Corresponding merger deed was granted on 3 December 2019 and, registered in the Mercantile Register of Cantabria, it occurred, with effect on December 13, 2019, the extinction without liquidation of Sorlinda Investments, S.L.U. and the bulk transfer of all their respective assets to Banco Santander, which acquired them by universal succession and without a solution of continuity. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2019.

Since the company acquired was wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, the Bank did not increase capital. The merger with effect on 13 December 2019 became effective, the total shares of the company acquired were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, the merger balance sheet was considered as the balance sheet 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 applicable accounting regulations, for accounting purposes, the merger was fixed on 27 June 2019 as the date from which the transactions of the absorbed company were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following is the balance sheet of the company absorbed as of 30 June 2019:

SORLINDA INVESTMENTS, S.L. UNIPERSONAL

Balance at June 30, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	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	CURRENT LIABILITIES	20,750
Inventory	1	Short term debt	750
Commercial debtors	130	Debt to group companies and associates	20,000
Short term investments	20,000		
Cash and cash equivalent	2		
TOTAL ASSETS	**20,133**	**TOTAL EQUITY AND LIABILITIES**	**20,133**

Pursuant to the provisions of the applicable legislation, as a result of the accounting record of the aforementioned absorption merger operation carried out by Banco Santander in the financial year 2019, no change in the Bank's voluntary reserves in that year was disclosed due to the withdrawal of the participation in the company absorbed (see note 29).

j) Events after the reporting period

No significant events occurred from 1 January 2021 to the date on which these financial statements were authorized for issue.

k) Other information

The UK's withdrawal from the European Union could have a material adverse effect on our operations, financial condition and prospects

On 31 January 2020 the UK ceased to be a member of the EU, on withdrawal terms which established a transition period until 31 December 2020, during which the UK continued to be treated as an EU member state and applicable EU legislation continued to be in force. A trade deal was agreed between the UK and the EU prior to the end of the transition period and the new regulations came into force on 1 January 2021.

The trade deal, however, did not include agreements on certain areas, such as financial services and data adequacy, although a further transitional period has been agreed with respect to rules on the transfer of personal data between the EU and the UK until the end of June 2021. Without equivalence decisions or other agreements that provide market access on a stable and widespread basis, Santander UK has, and will continue to have, a limited ability to provide cross-border services to EU customers and to trade with EU counterparties. It is uncertain whether equivalence decisions will be granted or whether a trade agreement with respect to financial services between the EU and the UK will be reached. The impact of any such trade agreement, equivalence decisions or any other cooperation mechanisms on financial markets generally, the extent of legislative and regulatory convergence and regulatory cooperation that would be required between the UK and the EU member states, as well as the level of access that may be granted to financial services firms across EU and UK markets is uncertain. The wider impact of Brexit on financial markets through market fragmentation, reduced access to finance and funding, and lack of access to certain financial market infrastructure, may affect our operations, financial condition and prospects and those of our customers and clients.

Uncertainty also remains around the effect of the current trade deal on economic growth in the UK given that it does not address services. The effect of the additional non-tariff trade barriers imposed on products is equally unknown. It is likely that growth will initially be disrupted as businesses adapt to the new cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers and suppliers.

While the longer term effects of the UK's withdrawal from the EU are difficult to predict, there is ongoing political and economic uncertainty, which is likely to continue in the medium term and which could negatively impact Santander UK's customers and clients and counterparties.

There are also other potential longer term impacts resulting from Brexit which could impact the UK economy and Santander's business in the UK such as:

- Increased calls for a second referendum on Scottish independence from the UK; and
- Instability in Northern Ireland, if the current arrangements regarding the borders between the Republic of Ireland, Northern Ireland and Great Britain are called into further question.

If one or more of these risks were to materialise it could have a material adverse effect on our operations, financial condition and prospects.

Grupo and Banco Santander have considered these circumstances in the review of the deterioration of Santander UK's share during 2020 and 2019 (see note 13).

2. Accounting policies

The following accounting principles, policies and measurement criteria have been applied in the preparation of the annual accounts:

a) Foreign currency transactions

The functional currency of Banco Santander 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.

In general, balances denominated in foreign currency, including those of branches in non-Monetary Union countries, have been converted to euros using the official average exchange rates of the Spanish spot currency market (through the US dollar's quotation on local markets, for non-monetary currencies. listed on the Spanish market) at the end of each financial year.

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 those over which Banco Santander has the capacity to exercise control; capacity which is generally but not only manifested by the direct or indirect ownership of at least 50% of the political rights of the investee entities, or even if this percentage is less or zero if, as in the case of agreements with shareholders thereof, Banco Santander is granted such control. Control means the power to direct the financial and operational policies, by statutory, statutory or agreement, of an entity for the purpose of obtaining profit from its activities.

Joint ventures are those which, not being dependent entities, are jointly controlled by two or more unrelated entities. This is evidenced by contractual agreements under which two or more entities (participants) participate in entities or carry out operations or maintain assets in a manner that any strategic financial or operational decision affecting them requires the unanimous consent of all stakeholders.

Associated entities are those over which Banco Santander has the capacity to exert significant influence, but not joint control or control. This capacity is usually manifested in a participation equal to or greater than 20% of the voting rights of the investee.

The shareholdings in group, multi-group and associated entities are presented on the balance sheet at their acquisition cost, net of any deterioration that, where appropriate, those shares may have suffered.

Where there is evidence of impairment of these shares, the amount of such impairment is equivalent to the difference between their recoverable amount and their book value. Impairment losses are recorded under the heading 'Impairment or reversal of impairment of investments in joint ventures or associates' in the profit and loss account.

Appendices I and II contain significant information on these companies. In addition, note 13 provides information on the most significant acquisitions and disposals in 2020 and 2019.

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 Banco Santander or its consolidated group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognized for accounting purposes by Banco Santander 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, Banco Santander 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 (CPPS), with the possibility of purchase by the issuer in certain circumstances, whose remuneration is discretionary, and which will be amortized permanently, totally or partially, in the event that Banco Santander 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 Banco Santander 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.

Banco Santander business models refer to the way in which it manages its financial assets to generate cash flows. In defining these models, Banco Santander 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.

Banco Santander contractual cash flows that are only principal payments and interest on the outstanding principal amount meet this requirement. Banco Santander 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 Banco Santander 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. 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.

Banco Santander 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 Bank of Spain Circular 4/2017, with changes in profit or loss, unless Banco Santander, decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) at initial recognition.

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, with the exception of securities, the copper right of financial leasing operations and other debtor balances of a financial nature in favour of Banco Santander 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 organized 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 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 remains substantially unchanged (see note 2.c). In most cases, changes in the fair value of financial liabilities designated at fair value through profit or loss, caused by the entity's credit risk, are recognized in 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 Banco Santander's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

  Liabilities may only be included in this portfolio at the date of issue or origination.
- 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 Banco Santander, 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.

On 6 June 2019 the European Central Bank announced a new programme of Targeted Longer-Term Refinancing Operations (TLTRO III), additionally, the conditions of the initial programme were amended on 30 April 2020, reducing the interest rate by 25 bp to -0.5% from June 2020 to June 2021 and providing that for banks meeting a certain eligible lending volume, the interest rate may be -1% for the period from June 2020 to June 2021. These conditions were extended on 10 December 2020 for operations contracted between 1 October 2020 and 31 December 2021, including the option to cancel or reduce the amount of financing before maturity in windows that coincide with the interest rate review and adjustment periods.

The accounting policy states that in recording amortized cost an entity "*shall use a shorter period when fees, basis points paid or received, transaction costs, premiums or discounts relate to it, which is the case when the variable to which the fees, basis points paid or received, transaction costs, discounts or premiums relate is adjusted to market rates before the expected maturity of the financial instrument. In this case, the appropriate amortisation period is the period to the next reset date*"

In this case, the applicable interest rate of -1% from June 2020 to June 2021 (arising from the March 2020 programme amendment) and from June 2021 to June 2022 (arising from the December 2020 programme amendment) corresponds to a specific period after which the funding is adjusted to market rates (namely the average rate applied in the Eurosystem's MROs) and should therefore be accrued until the next adjustment date. The early amortisation windows of this funding programme are substantive conditions, given that at that moment of adjustment of the cost of the funding to the market, the entity can choose to renew or cancel it and obtain new funding at more favourable conditions.

Banco Santander has opted to accrue interest in accordance with the specific periods of adjustment to market rates, so that interest for the period from June 2020 to June 2022 will be recorded in the income statement, the interest corresponding to that period, -1% assuming compliance with the threshold of eligible loans that gives rise to the extra rate, which takes as a reference the budget for 2021 and the entity's historical information.

- 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, 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 Bank of Spain Circular 2/2018 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 2020, 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 derivatives.

The fair value of 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, 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, as long as they comply with the 'SPPI' (Solely Payments of Principal and Interest) test, 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 maximum exposure to credit risk at each reporting date. Also, Grupo Santander 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 2020 and 2019 of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by Banco Santander S.A., to determine their fair value:

EUR million

	2020			2019		
	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	27,514	53,923	81,437	30,858	55,725	86,583
Non-trading financial assets mandatorily at fair value through profit or loss	48	2,177	2,225	45	2,574	2,619
Financial assets designated at fair value through profit or loss	—	33,899	33,899	—	49,859	49,859
Financial assets at fair value through other comprehensive income	14,315	8,308	22,623	26,512	5,515	32,027
Hedging derivatives (assets)	—	3,137	3,137	—	2,226	2,226
Financial liabilities held for trading	10,562	50,452	61,014	9,190	55,166	64,356
Financial liabilities designated at fair value through profit or loss	—	16,890	16,890	—	24,264	24,264
Hedging derivatives (liabilities)	—	1,780	1,780	—	2,044	2,044

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.

Banco Santander has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Bank'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 over the counter (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.

- Severity: 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 Grupo Santander's own risk assumed by its counterparties in OTC derivatives.

The CVA at 31 December 2020 amounted to EUR 408 million (resulting in an increase of 49.8% compared to 31 December 2019) and DVA amounted to EUR 233 million (resulting in an increase of 36% compared to 31 December 2019). These impacts are due to the fact that credit spread levels are at levels above 25% compared to 2019 due to the covid-19 pandemic. During the last semester there has been a significant drop in spreads, however the markets continue to reflect levels higher than those existing prior to the start of the pandemic.

The CVA at 31 December 2019 amounted to EUR 272 million (decrease of 22.5% compared to 31 December 2018) and DVA amounted EUR 171 million (decrease of 34.6% compared to 31 December 2018). The decrease is mainly due to improvements in the credit quality of counterparties, which has led to reductions in credit spreads in percentages of around 40% in the most liquid maturities.

With regard to Banco Santander, S.A., at the end of December 2020, has recorded CVA adjustments of EUR 252 million (a reduction of 25.5% compared to 31 December 2019) and DVA adjustments of EUR 69 million (a reduction of 25.45% as at 31 December 2019). The variations are due to the reduction of credit spreads by percentages exceeding 25% in more liquid terms.

At the end of December 2019, CVA adjustment of EUR 200 million (a reduction of 22.5% compared to 31 December 2018) and DVA adjustment of EUR 55 million (a reduction of 34.6% compared to 31 December 2018) were recorded. Variations are due to the reduction of credit spreads by percentages exceeding 40% in more liquid terms.

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 2020, and 2019.

Grupo Santander has not carried out significant reclassifications of financial instruments between levels other than those disclosed in level 3 movement table during 2020.

In 2019, Grupo Santander reclassified between levels 2 and 3 financial instruments for a net amount of EUR 708 million (mainly due to reclassifications to level 2 of positions, both derivatives as debt instruments, with maturities for that there were already observable assessment inputs or on which new sources of information have been recurring prices, and at level 3 certain bonds in Brazil that, based on the criteria of observability of the Group, did not meet the requirements to be considered as observable inputs).

The amount reclassified to Level 3 by Banco Santander, S.A., is EUR 523 million. They are mainly due to reclassifications to level 3 of loan positions for which there has been less access to price contributors and actual market transactions with which to demonstrate their observability, and to a lesser extent to certain debt instruments which, based on the Bank's criteria, do not qualify as observable instruments.

As of December 31, 2020, financial instruments classified in Level 3 in Banco Santander, S.A. amount to EUR 6,986 million.

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 stock 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 Consumer Price Index (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.

The financial instruments at Grupo Santander at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2020 and 2019:

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**146,468**	**8,543**		
Financial assets held for trading	**67,826**	**740**		
Credit institutions	3	—	Present value method	Yield curves, FX market prices
Customers**	296	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	1,453	10	Present value method	Yield curves, FX market prices
Derivatives	66,074	730		
Swaps	*54,488*	*272*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*696*	*22*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,129*	*241*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*1,069*	—	Present value method	Yield curves, FX market prices
Index and securities options	*554*	*94*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*6,138*	*101*	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	**8,325**	**—**		
Swaps	*6,998*	—	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*25*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*1,302*	—	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	**1,796**	**934**		
Equity instruments	984	505	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	555	134	Present value method	Yield curves
Loans and receivables**	257	295	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**45,559**	**649**		
Central banks	9,481	—	Present value method	Yield curves, FX market prices
Credit institutions	11,973	163	Present value method	Yield curves, FX market prices
Customers****	24,102	19	Present value method	Yield curves, FX market prices, HPI
Debt instruments	3	467	Present value method	Yield curves, FX market prices
Equity instruments	—	—		
Financial assets at fair value through other comprehensive income	**22,962**	**6,220**		
Equity instruments	75	1,223	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	18,410	206	Present value method	Yield curves, FX market prices
Loans and receivables	4,477	4,791	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**124,098**	**905**		
Financial liabilities held for trading	**71,009**	**295**		
Derivatives	63,920	295		
Swaps	*51,584*	*81*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Interest rate options	*4,226*	*49*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*456*	*97*	Black-Scholes Model	Yield curves, FX market prices
Exchange rate options	*724*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate and equity futures	*1,054*	*2*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*5,876*	*65*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	*7,089*	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,869**	**—**		
Swaps	*5,821*	—	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*13*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*1,035*	—	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	**45,310**	**610**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**910**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

EUR million

	Fair values calculated using internal models at 2019*		
	Level 2	Level 3	Valuation techniques
ASSETS	**149,711**	**6,651**	
Financial assets held for trading	**63,051**	**598**	
Credit institutions	—	—	Present Value method
Customers**	355	—	Present Value method
Debt and equity instruments	760	65	Present Value method
Derivatives	61,936	533	
Swaps	*51,594*	*182*	Present Value method, Gaussian Copula***
Exchange rate options	*469*	*8*	Black-Scholes Model
Interest rate options	*3,073*	*177*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	*190*	—	Present Value method
Index and securities options	*1,164*	*95*	Black-Scholes Model
Other	*5,446*	*71*	Present Value method, Monte Carlo simulation and others
Hedging derivatives	**7,216**	**—**	
Swaps	*6,485*	—	Present Value method
Interest rate options	*25*	—	Black's Model
Other	*706*	—	N/A
Non-trading financial assets mandatorily at fair value through profit or loss	**1,780**	**1,601**	
Equity instruments	*1,272*	*550*	Present Value method
Debt securities issued	*498*	*675*	Present Value method
*Loans and receivables***	*10*	*376*	Present Value method, swap asset model & CDS
Financial assets designated at fair value through profit or loss	**58,833**	**664**	
Central banks	6,474	—	Present Value method
Credit institutions	21,598	50	Present Value method
Customers****	30,729	32	Present Value method
Debt instruments	32	582	Present Value method
Financial assets at fair value through other comprehensive income	**18,831**	**3,788**	
Equity instruments	98	407	Present Value method
Debt instruments	17,486	188	Present Value method
Loans and receivables	1,247	3,193	Present Value method

EUR million

	Fair values calculated using internal models at 2019*		
	Level 2	Level 3	Valuation techniques
LIABILITIES	**132,582**	**1,074**	
Financial liabilities held for trading	**67,068**	**290**	
Central banks	—	—	Present Value method
Credit institutions	—	—	Present Value method
Customers	—	—	Present Value method
Derivatives	61,789	290	
Swaps	*49,927*	*115*	Present Value method, Gaussian Copula***
Exchange rate options	*658*	*1*	Black-Scholes Model
Interest rate options	*4,291*	*34*	Black's Model, Heath-Jarrow- Morton Model
Index and securities options	*1,309*	*88*	Black-Scholes Model
Interest rate and equity futures	*20*	*2*	Present Value method
Other	*5,584*	*50*	Present Value method, Monte Carlo simulation and others
Short positions	5,279	—	Present Value method
Hedging derivatives	**6,048**	**—**	
Swaps	*4,737*	—	Present Value method
Interest rate options	*10*	—	Black's Model
Other	*1,301*	—	Present Value method, Advanced stochastic volatility models and other
Financial liabilities designated at fair value through profit or loss	**58,727**	**784**	Present Value method
Liabilities under insurance contracts	**739**	**—**	Present Value method with actuarial techniques

* 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 $-4 at 31 December 2020 (31 December 2019: net fair value of EUR 6 million). 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:

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**94,940**	**6,504**		
Financial assets held for trading	**53,331**	**592**		
Credit institutions	—	—	Present value method	Yield curves, FX market prices
Customers**	74	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	781	—	Present value method	Yield curves, FX market prices
Derivatives	52,476	592		
Swaps	*44,123*	*326*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*5,692*	*19*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*1,708*	*241*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*56*	—	Present value method	Yield curves, FX market prices
Index and securities options	*820*	*6*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*77*	—	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	**3,137**	**—**		
Swaps	*2,429*	—	Present value method	Yield curves, FX market prices, Basis
Exchange rate options	*688*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*20*	—	Black´s Model	Yield curves, FX market prices, Volatility surfaces
Other	—	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX marketprices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,835**	**342**		
Equity instruments	82	185	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	530	131	Present value method	Yield curves
Loans and receivables**	1,223	26	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**33,736**	**163**		
Central banks	482	—	Present value method	Interest rates curves, FX market prices
Credit institutions	9,725	163	Present value method	Interest rates curves, FX market prices
Customers****	23,529	—	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	**2,901**	**5,407**		
Equity instruments	—	1,002	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	1,771	—	Present value method	Yield curves, FX market prices
Loans and receivables	1,130	4,405	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**68,640**	**482**		
Financial liabilities held for trading	**50,258**	**194**		
Derivatives	50,258	194		
Swaps	*40,047*	*127*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*5,224*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,825*	*50*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*45*	*14*	Black-Scholes Model	Yield curves, FX market prices, Volatility surfaces, Liquidity
Interest rate and equity futures	*424*	*—*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*693*	*2*	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	**1,780**	**—**		
Swaps	*1,051*	*—*	Present value method	Yield curves ,FX & EQ market prices, Basis
Exchange rate options	*386*	*—*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*81*	*—*	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*262*	*—*	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	**16,602**	**288**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**—**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

EUR Million

	Fair values calculated using internal models at 2019*			
	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-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*10*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*40*	—	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	**1,954**	**620**		
Equity instruments	62	137	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	629	457	Present value method	Yield curves
Loans and receivables**	1,263	26	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**49,809**	**50**		
Central banks	138	—	Present value method	Yield curves, FX market prices
Credit institutions	18,493	50	Present value method	Yield curves, FX market prices
Customers	31,178		Present value method	Yield curves, FX market prices, HPI
Debt instruments	—	—	Present value method	Yield 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, Yield curves, Dividends and Others
Debt instruments	1,502	—	Present value method	Yield curves, FX market prices
Loans and receivables	1,089	2,776	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2019*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**80,827**	**647**		
Financial liabilities held for trading	**54,811**	**355**		
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's 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*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*313*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*54*	—	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	**23,976**	**288**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**—**	**—**	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 $-4 at 31 December 2020 (31 December 2019: net fair value of EUR 6 million). 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.

Financial Instruments (level 3)

Set forth below are Grupo and Banco Santander 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.
- Derivatives on long-term interest rate and FX in some Latam units (mainly Brazil), where for certain underlyings it is not possible to demonstrate observability to these terms.
- Debt instruments in Latam units linked to certain illiquid interest rates, for which there is no reasonable market observability.
- Illiquid equity in non-trading portfolios, classified at fair value through profit or loss and at fair value through equity.
- 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 net amount recorded in the 2020 financial year results derived from valuation models whose significant inputs are non-observable market data (level 3) amounts to EUR 186 million profit for Banco Santander (EUR 52 million profit in 2019).

The table below shows the effect, at 31 December 2020 on the fair value of the main financial instruments classified of Grupo Santander, 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 (EUR million) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	31.55%	(0.07)	0.05
CCS	Discounted Cash Flows	Interest rate	(0.30)% - 0.66%	0.66%	—	0.20
Convertibility curve - NDFs Offshore	Forward estimation	Price	0% - 2%	0.61%	(0.72)	0.31
EQ Options	EQ option pricing model	Volatility	7.86% - 93.67%	48.37%	(1.46)	1.81
FRAs	Asset Swap model	Interest rate	0% - 5%	2.22%	(0.78)	0.63
FX Forward	Discounted Cash Flows	Swap Rate	(0.02)% - 0.30%	0.11%	—	—
FX Options	FX option pricing model	Volatility	0% - 50%	32.14%	(0.39)	0.70
Inflation Derivatives	Asset Swap model	Inflation Swap Rate	(100)% - 50%	83.33%	(0.63)	0.31
Inflation Derivatives	Volatility option model	Volatility	0% - 50%	16.67%	(0.47)	0.23
IR Futures	Asset Swap model	Interest rate	0% - 15%	0.94%	(0.94)	0.06
IR Options	IR option pricing model	Volatility	0% - 100%	19.05%	(0.27)	0.06
IRS	Asset Swap model	Interest rate	(6)% - 12.50%	10%	(0.08)	0.13
IRS	Discounted Cash Flows	Swap Rate	5.90% - 6.31%	2.26%	(0.01)	0.02
IRS	Discounted Cash Flows	Credit spread	78.97bps - 202.37bps	9.82bps	(2.81)	1.29
IRS	Prepayment modelling	Prepayment rate	2.47% - 6.22%	0.06%	(0.12)	0.05
Property derivatives	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(17.82)	17.82
Swaptions	IR option pricing model	Volatility	0% - 50%	33.33%	(0.16)	0.31
Financial assets designated at fair value through profit or loss						
Loans and advances to customers						
Repos / Reverse repos	Asset Swap Repo Model	Long-term repo spread	n/a	n/a	(0.18)	0.23
Mortgage portfolio	Black Scholes model	HPI Forward growth rate	0% - 5%	2.50%	(2.23)	2.23
Other loans	Present value method	Credit spreads	0.07% - 1.55%	0.74%	(0.35)	0.35
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	0% - 10%	8.33%	(0.78)	3.91
Other debt securities	Price based	Market Price	90% - 110%	10%	(0.15)	0.15
Property securities	Probability weighting	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(7.24)	7.24
Non-trading financial assets mandatorily at fair value through profit or loss						
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(50.47)	50.47
Financial assets at fair value through other comprehensive income						
Loans and advances to customers						
Loans	Discounted Cash Flows	Credit spread	n/a	n/a	(6.72)	—
Loans	Discounted Cash Flows	Interest rate curve	(0.15)% - 0.15%	0.15%	(0.09)	0.09

Portfolio/ Instrument					Impacts (EUR million)	
(Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Unfavourable scenario	Favourable scenario
Other loans	Present value method	Credit spreads	0.15% - 0.53%	0.19%	(0.04)	0.04
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	1.10% - 1.30%	0.10%	—	—
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(122.14)	122.14
Financial liabilities held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	34.61%	(0.02)	0.01
EQ Options	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(6.35)	6.35

Lastly, the changes in the financial instruments classified as Level 3, at Grupo Santander, in 2020:

	01/01/20	Changes						31/12/2020
EUR million	Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognized in profit or loss	Changes in fair value recognized in equity	Level reclassific ations	Other	Fair value calculated using internal models (level 3)
Financial assets held for trading	**598**	**52**	**(98)**	**330**	**—**	**(45)**	**(97)**	**740**
Debt instruments	65	7	(27)	1	—	—	(39)	7
Equity instruments	—	3	—	—	—	—	—	3
Trading derivatives	533	42	(71)	329	—	(45)	(58)	730
Swaps	*182*	—	*(8)*	*116*	—	*(8)*	*(10)*	*272*
Exchange rate options	*8*	—	—	*15*	—	—	*(1)*	*22*
Interest rate options	*177*	*15*	*(12)*	*61*	—	—	—	*241*
Index and securities options	*95*	*25*	*(43)*	*85*	—	*(38)*	*(30)*	*94*
Other	*71*	*2*	*(8)*	*52*	—	*1*	*(17)*	*101*
Financial assets at fair value through profit or loss	**664**	**280**	**(45)**	**17**	**—**	**(91)**	**(176)**	**649**
Credit entities	50	164	—	(1)	—	(50)	—	163
Loans and advances to customers	32	—	(15)	3	—	—	(1)	19
Debt instruments	582	116	(30)	15	—	(41)	(175)	467
Non-trading financial assets mandatorily at fair value through profit or loss	**1,601**	**120**	**(292)**	**(36)**	**—**	**(119)**	**(340)**	**934**
Loans and advances to customers	376	104	(136)	12	—	(30)	(31)	295
Debt instruments	675	—	(144)	(63)	—	2	(336)	134
Equity instruments	550	16	(12)	15	—	(91)	27	505
Financial assets at fair value through other comprehensive income	**3,788**	**8,795**	**(7,616)**	**—**	**(390)**	**571**	**1,072**	**6,220**
TOTAL ASSETS	**6,651**	**9,247**	**(8,051)**	**311**	**(390)**	**316**	**459**	**8,543**
Financial liabilities held for trading	**290**	**40**	**(14)**	**130**	**—**	**(96)**	**(55)**	**295**
Trading derivatives	290	40	(14)	130	—	(96)	(55)	295
Swaps	*115*	*8*	—	*(7)*	—	*(26)*	*(9)*	*81*
Exchange rate options	*1*	—	—	*2*	—	—	*(2)*	*1*
Interest rate options	*34*	*11*	*(2)*	*6*	—	—	—	*49*
Index and securities options	*88*	*21*	*(8)*	*95*	—	*(70)*	*(29)*	*97*
Securities and interest rate futures	*2*	—	—	—	—	—	—	*2*
Others	*50*	—	*(4)*	*34*	—	—	*(15)*	*65*
Financial liabilities designated at fair value through profit or loss	**784**	**4**	**(3)**	**(12)**	**—**	**(32)**	**(131)**	**610**
TOTAL LIABILITIES	**1,074**	**44**	**(17)**	**118**	**—**	**(128)**	**(186)**	**905**

The same information on the movement of financial instruments classified in Level 3, but referred to Banco Santander, S.A., is presented below:

EUR million	01/01/2020 Fair value calculated using internal models (level 3)	Changes Purchases /Issuances	Sales/Settlements	Changes in fair value recognized in profit or loss	Changes in fair value recognized in equity	Level reclassifications	Other	31/12/2020 Fair value calculated using internal models (level 3)
Financial assets held for trading	**449**	**21**	**(33)**	**200**	**—**	**11**	**(56)**	**592**
Debt instruments and equity instruments	36	7	(11)	—	—	—	(32)	—
Trading derivatives	413	14	(22)	200	—	11	(24)	592
Swaps	*209*	—	*(10)*	*123*	—	*8*	*(4)*	*326*
Exchange rate options	*5*	—	—	*15*	—	—	*(1)*	*19*
Interest rate options	*197*	*14*	*(12)*	*61*	—	—	*(19)*	*241*
Index and securities options	*2*	—	—	*1*	—	*3*	—	*6*
Other	—	—	—	—	—	—	—	—
Hedging derivatives (Assets)	**4**	**—**	**—**	**—**	**—**	**—**	**(4)**	**—**
Swaps	*4*	—	—	—	—	—	*(4)*	—
Financial assets at fair value through profit or loss	**50**	**164**	**—**	**(1)**	**—**	**(50)**	**—**	**163**
Credit entities	50	164	—	(1)	—	(50)	—	163
Loans and advances to customers	—	—	—	—	—	—	—	—
Debt instruments	—	—	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	**620**	**18**	**(13)**	**1**	**—**	**—**	**(284)**	**342**
Loans and advances to customers	26	2	(2)	—	—	—	—	26
Debt instruments	457	—	(9)	(2)	—	—	(315)	131
Equity instruments	137	16	(2)	3	—	—	31	185
Financial assets at fair value through other comprehensive income	**2,924**	**8,356**	**(7,280)**	**—**	**(378)**	**558**	**1,227**	**5,407**
TOTAL ASSETS	**4,047**	**8,559**	**(7,326)**	**200**	**(378)**	**519**	**883**	**6,504**
Financial liabilities held for trading	**355**	**19**	**(12)**	**13**	**—**	**4**	**(185)**	**194**
Trading derivatives	355	19	(12)	13	—	4	(185)	194
Swaps	*127*	*8*	*(2)*	*(3)*	—	*2*	*(5)*	*127*
Exchange rate options	*1*	—	—	*2*	—	—	*(2)*	*1*
Interest rate options	*218*	*11*	*(6)*	*6*	—	—	*(179)*	*50*
Index and securities options	*3*	—	*(1)*	*9*	—	*2*	*1*	*14*
Securities and interest rate futures	—	—	—	—	—	—	—	—
Others	*6*	—	*(3)*	*(1)*	—	—	—	*2*
Hedging derivatives (Liabilities)	**4**	**—**	**—**	**—**	**—**	**—**	**(4)**	**—**
Swaps	*4*	—	—	—	—	—	*(4)*	—
Financial liabilities designated at fair value through profit or loss	**287**	**2**	**(1)**	**1**	**—**	**—**	**(1)**	**288**
TOTAL LIABILITIES	**646**	**21**	**(13)**	**14**	**—**	**4**	**(190)**	**482**

Santander

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognized in the income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, (which are recognized under 'Interest income' or 'Interest expense', as appropriate), and those arising for other reasons, which are recognized 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 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 derecognized, at which time they are recognized 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

Banco Santander 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, Banco Santander 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 Banco Santander'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 Banco Santander 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 Banco Santander 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 Banco Santander 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.

Regarding contractual modifications of financial assets, Banco Santander has differentiated them into two main categories in relation to the conditions under which a modification leads to a derecognition or disposal of the financial asset (and the recognition of a new financial asset) and those under which the accounting of the original financial instrument with the modified terms is maintained:

- Contractual modifications for commercial or market reasons, which are generally carried out at the request of the debtor to apply current market conditions to the debt. The new contract is considered a new transaction and, consequently, it is necessary to derecognize the original financial asset and recognize a new financial asset subject to the classification and measurement requirements established by Bank of Spain Circular 4/2017 subsequent modifications. Also, the new financial asset will be recorded at fair value and, if applicable, the difference between the carrying amount of the asset derecognized and the fair value of the new asset will be recognized in profit or loss.

- Modifications due to refinancing or restructuring, in which the payment conditions are modified to allow a customer that is experiencing financial difficulties (current or foreseeable) to meet its payment obligations and that, if such modification had not been made, it would be reasonably certain that it would not be able to meet such payment obligations. In this case, the modification does not result in the derecognition of the financial asset, but rather the original financial asset is maintained and does not require a new assessment of its classification and measurement. When assessing credit impairment, the current credit risk (considering the modified cash flows) should be compared with the credit risk at initial recognition. Finally, the gross carrying amount of the financial asset (the present value of the renegotiated or modified contractual cash flows that are discounted at the original effective interest rate of the financial asset) should be recalculated, with a gain or loss recognized in profit or loss for the difference.

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 Banco Santander 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 2020 and 2019:

	2020		
	EUR million		
Assets	Gross amount of financial assets	Gross amount of financial assets offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	114,555	(58,056)	56,499
Repos	39,935	(8,856)	31,079
	154,490	**(66,912)**	**87,578**

Assets	Gross amount of financial assets	Gross amount of financial assets offset in the balance sheet	Net amount of financial assets presented in the balance sheet
	2019		
	EUR million		
Derivatives	111,629	(53,709)	57,920
Repos	49,047	(3,198)	45,849
	160,676	**(56,907)**	**103,769**

Liabilities	Gross amount of financial liabilities	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
	2020		
	EUR million		
Derivatives	110,512	(58,056)	52,456
Repos	19,447	(8,856)	10,591
	129,959	**(66,912)**	**63,047**

Liabilities	Gross amount of financial liabilities	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
	2019		
	EUR million		
Derivatives	111,821	(53,709)	58,112
Repos	20,084	(3,198)	16,886
	131,905	**(56,907)**	**74,998**

Also, most of the derivatives and temporary acquisition of assets not compensated in balance sheet are subject to netting and collateral agreements.

At December 31, 2020 the balance sheet amounts EUR 85.714 million on derivatives and temporary acquisition of assets and EUR 61.252 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements (EUR 91,250 million and EUR 66,501 million in 2019, respectively).

g) Impairment of financial assets

i. Definition

Banco Santander 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 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 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 Bank 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 Bank 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 Bank considers the following criteria:

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analyzed 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 the Bank 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 49, 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 Bank in the normal management of credit risk. Irregular positions of more than 30 days and renewals are common 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 (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.

  Banco Santander 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 collateral transactions covering more than 10% of the amount of the transaction, Banco Santander generally considers as remote recovery: transactions of holders in the liquidation stage of the bankruptcy proceedings, doubtful transactions on account of delinquency which have an age in this category exceeding 4 years and doubtful transactions due to delinquency whose part not covered by collateral has been maintained with 100% credit risk coverage for more than two years.

  Balances relating to a financial asset are kept on balance sheet until they are considered as a 'failed risk', either the whole or part thereof, and is taken off on the balance sheet.

  In the case of transactions which have only been partially derogated from the asset, by reason of removal or because part of the total amount is considered irrecoverable, the remaining amount shall be classified entirely under the category of 'doubtful risk', subject to duly justified exceptions.

  Classification of a financial asset, or part thereof, as "failed risk" does not imply the interruption of negotiations and legal proceedings to recover its amount.

iii. Impairment valuation assessment

Banco Santander 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 Bank of Spain Circular 4/2017 applies to financial instruments measured at amortized cost and fair value through other comprehensive income, to lease charges, as well as commitments and guarantees granted 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 Banco Santander 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, Banco Santander 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.

Banco Santander 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.).

The estimation of expected losses requires expert judgment and the support of historical, current and future information. The probability of loss is measured considering past events, the present situation and future trends of macroeconomic factors.

Banco Santander uses forward-looking information in both internal risk management and prudential regulation processes, so that for the calculation of the impairment loss allowance, various scenarios are incorporated that take advantage of the experience with such information, thus ensuring consistency in obtaining the expected loss.

The challenge of the exercise has focused on the uncertainty of the economic outlook caused by the covid-19 crisis, coupled with a complex environment for value creation.

Banco Santander has internally ensured the criteria to be followed for guarantees received from government bodies, both through credit lines and other public guarantees, so that when they are adequately reflected in each of the contracts, they are recognized as mitigating factors of the potential expected losses, and therefore of the provisions to be recognized, based on the provisions of the applicable standard. Furthermore, where applicable, these guarantees are appropriately reflected in the mitigation of the significant increase in risk, considering their nature as personal guarantees.

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 Bank of Spain 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 by 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 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, Banco Santander 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. The volume rebutted does not exceed 0.1% of the Bank total exposure.
- 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 individual estimate of impairment

For the individual estimate of the assessment 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 the collateral guaranteeing the operations (going concern approach).

Going concern approach:

a. Evaluation of the effectiveness of guarantees

Banco Santander assesses the effectiveness of all the guarantees associated considering the following:

- The time required to execute these guarantees.
- The Bank'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 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 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

Banco Santander 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.

Banco Santander, 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 Banco Santander 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, Banco Santander 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 assessment for impairment

Banco Santander determines the perimeter over which it makes an estimate of the assessment 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 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 regardless of the stage in which their operations are located, a relational risk management model is applied for customers who do not receive standardised treatment and monitoring by the assigned risk analyst. Within this relational management model, in addition to wholesale customers (Santander Corporate & Investment Banking or SCIB) and large companies, other segments of smaller companies are also included for which there is information and ability to perform more personalised analysis and tracking. expert. As indicated in the Bank's wholesale credit model, the customer's individualised and personalised treatment facilitates the continuous updating of the customer's specific rating, which determines the appropriate parameters for the calculation of the expected loss, so that it is the rating itself that initially modulates the coverage necessary, adjusting the severity of the possible loss to any warranties and other mitigating that the customer may have. Additionally, if as a result of this individualised customer monitoring, the analyst finally considers that their coverage is not sufficient, he has the necessary mechanisms to adjust it under his expert judgment, always under the government.

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 Banco Santander 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.

Banco Santander 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 Banco Santander 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 Banco Santander worked in Spain in 2020 are as follows: Gloval Valuation, S.A.U.,Tinsa Tasaciones Inmobiliarias, S.A.U., Gesvalt Sociedad de Tasación, S.A. and Sociedad de tasación, S.A.

'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 2020 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 198 million (EUR 151 million in 2019); however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

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, and further modifications, 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 Bank´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, 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

[1] The assets in a situation of "stopped development" are included under "land".

provided by a third party external to Banco 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, the Bank 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, the Bank 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 Bank 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.

  – Visible easements.

  – Visible state of occupation, possession, use and exploitation.

  – Protection regime.

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

- 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 Banco Santander 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.

Banco Santander 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 Banco Santander 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 recognized 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 recognized in the income statement up to an amount equal to the impairment losses previously recognized.

j) 'Assets under insurance or reinsurance contracts' and 'Liabilities under insurance or reinsurance contracts'

Insurance contracts linked to pensions on the asset side of the balance sheet, included in the section 'Other assets' (see note 2.n) includes the amounts that Banco Santander 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 Banco Santander 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 recognized in the income statement and the assets are written down.

The liability linked to pension-related insurance contracts, included under the heading of 'Other liabilities' (see note 2.ñ), reflects the technical provisions registered to cover claims arising from insurance contracts that remain in effect at the end of the year.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the Bank 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 recognised 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):

	Average annual rate
Buildings for own use	2.0%
Furniture	10.0%
Fixtures	5.0%
Computer equipment	25.0%
Vehicles	16.0%
Other	5.0%
Lease usage rights	Less than the lease term or the useful life of the underlying asset

At the end of each reporting period, Banco Santander, assess whether there is any indication that the carrying amount of an asset exceeds its recoverable amount, in which case they write down the carrying amount of the asset to its recoverable amount and adjust future depreciation charges in proportion to its adjusted carrying amount and to its new remaining useful life, if the useful life needs to be re-estimated.

Similarly, if there is an indication of a recovery in the value of a tangible asset, Banco Santander 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 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 Banco Santander 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 Banco Santander 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

As of January 1, 2019, with the entry into force of Bank of Spain Circular 2/2018, when the Bank acts as a lessee, an asset by right of use is recognized, representing its right to use the leased asset and 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 liability and financial expenditure. Financial expenditure is charged to profit or loss during the lease period in a manner that produces a constant periodic interest rate on the remaining liability balance for each financial year. The right of use asset is amortized over the useful life of the asset or the lease term, the smallest of the two, on a linear basis. If Banco Santander is reasonably certain of exercising 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 valued on the basis of present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including inflation-related payments), minus any lease incentive receivable.
- Variable lease payments that depend on an index or rate.
- The amounts expected to be paid by the lessee as residual value collateral.
- The exercise price of a purchase option if the lessee is reasonably certain that he will exercise that option.
- Termination penalty payments, if the term of the lease reflects the tenant's exercise of that option.

Lease payments are discounted using the interest rate implied in the lease.

Since in certain situations this interest rate cannot be obtained, the discount rate used in such cases is the tenant's incremental borrowing interest rate to date. For this purpose, the institution has calculated this incremental interest rate on the basis of the quoted debt instruments issued by Banco Santander; in this regard, the Bank has estimated different rate curves depending on the currency and economic environment in which the contracts are located.

The incremental 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, funds necessary to obtain an asset of similar value to the asset by right of use in a similar economic environment.

Assets by right of use are valued at cost that includes the following:

- The amount of the initial valuation of the lease liability.
- Many lease payment made on or before the start date minus any lease incentive received.
- Any initial direct costs.
- Restoration costs.

Payments associated with short-term leases and leases of low value assets are recognized on a linear basis as an income expenditure.

Short-term leases are leases with a lease term of less than or equal to 12 months (a lease with a purchase option does not constitute a short-term lease).

When Banco Santander acts as a landlord:

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 Banks 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 balance sheet.

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 Banco Santander act as the lessors, they present 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.

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 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 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 amortized 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 amortized in accordance with the criteria established for the tangible assets (a maximum period of 10 years). Banco Santander 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 in the income statement.

In both cases the Bank 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 income statement.

The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets (see note 2.k).

Software developed by the entity itself

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 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, Other Assets at 31 December 2019 included the right of collection acquired from Enagás Transporte 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 Royal Decree 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 Royal Decree 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 Royal Decree 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 Royal Decree 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.

Due to the termination of the payment of the collection right and the obligation to reimburse the amounts received as a result of the declaration of unconstitutionality of the Royal DL, Banco Santander initiated in 2018 the administrative and judicial proceedings that considered appropriate to defend its rights. Regarding the claim for liability of the legislating State (the most relevant by amount) was resolved favourably for the Bank by Supreme Court Ruling of 27 October 2020. In execution of this sentence, on 31 December 2020, a payment of EUR 740.7 million was received from the Public Treasury (comprising the principal amount of the claim plus the appropriate legal interest), while proceedings for an aggregate amount of nearly EUR 56 million corresponding to interest collected by Banco Santander and returned to the administration, and which, in view of the decision of the Supreme Court, is expected to be resolved in an equally favourable manner for Banco Santander.

This compensation 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 financial statements of the entities, Banco Santander'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. Banco Santander 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.

  Santander UK plc is cooperating with an FCA civil regulatory investigation which commenced in July 2017 into its compliance with the Money Laundering Regulations 2007 and potential breaches of FCA principles and rules relating to anti-money laundering and financial crime systems and controls. The FCA's investigation focuses primarily on the period 2012 to 2017 and includes consideration of high risk customers including Money Service Businesses. It is not currently possible to make a reliable assessment of any liability resulting from the investigation including any financial penalty.
- 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.

Banco Santander`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, liabilities must not be recognized 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 provisions established for the coverage of post-employment definite benefit remuneration, including commitments made to pre-retired staff and similar obligations (see note 2.u).
- Other long-term employee remuneration: includes other commitments made to pre-retired staff as detailed in note 2.v.
- Commitments and guarantees granted: includes the amount of provisions created for the hedging of contingent risks, understood as transactions in which the entity secures obligations of a third party arising from financial guarantees granted or other contracts, and contingent commitments; understood as irrevocable commitments that may result in the recognition of financial assets.
- Provisions for pending tax litigation and procedural matters: Includes the amount of provisions constituted for the coverage of contingencies of a tax, legal nature, litigation and the other provisions constituted by the Bank.
- Remaining provisions: includes the remaining provisions constituted by Banco Santander. Among other concepts, this heading covers provisions for restructuring and environmental actions, where appropriate.

p) Court proceedings and/or claims in process

At the end of 2020 certain court proceedings and claims were in process against Banco Santander 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 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 recognized 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, Banco Santander 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 Banco Santander 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 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 recognized 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 recognized. 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.

Banco Santander 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 recognized under 'Provisions - Provisions for 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 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 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.

Banco Santander'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 Bank 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

The 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 recognized, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet.

Defined benefit plans

Banco Santander 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 Banco Santander 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.

Banco Santander will recognise the following items in the income statement:

- 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 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).

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 recognized in the income statement, except when they arise from a transaction whose results are recognised directly 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' 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 Banco Santander 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 recognized for temporary differences to the extent that it is considered probable that it is probable that Banco Santander 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 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 (see note 24).

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 recognised 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.
- Banco Santander classifies as cash and cash equivalents the balances recognized 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 2020, Banco Santander received interest amounting to EUR 6,510 million and paid interest amount to EUR 3,447 million (EUR 7,597 and 4,554 million euro, respectively in 2019).

Likewise, the dividends received and paid Banco Santander are detailed in notes 4 and 36.

3. Santander Group

a) Banco Santander, S.A. and international Group structure.

The growth of Grupo Santander in the last decades has led Banco Santander 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 Banco Santander, 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 a significant stake in Ebury

On 28 April 2020, the investment in Ebury, a payments and currencies platform for SMEs, announced on 4 November 2019, was completed. The transaction involved a total outlay of GBP 357 million (EUR 409 million) of which GBP 70 million (approximately EUR 80 million) was for new shares. At 2019 year-end the Group had already acquired 6.4% of the company for GBP 40 million (approximately EUR 45 million). Following the disbursement made in April 2020, the Group is entitled to receive 50.38% of the dividends distributed by the company.

ii. 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 (IIC), and pension plans through the Banco Popular network (the 'Agreement'). Under this Agreement, the Group held a 40% stake in the capital of Popular Spain Holding de Inversiones, S.L.U., classified as investments in joint ventures and associated entities for an overall amount of EUR 409 million on 31 December 2019.

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) and the acquisition of the remaining 60% of the capital of Popular Spain Holding de Inversiones, S.L.U.

On 10 July, 51% of the life-risk insurance business held by Banco Santander and the 51% of the new General Insurance business from Banco Popular's network not transferred to Mapfre (in accordance with the agreement indicated below) was acquired by Aegon, valuing these businesses at a total of approximately EUR 557 million.

The total amount of the life-savings business, collective investment institutions and pension plans is EUR 711 million and has resulted in the recognition of EUR 271 million of goodwill.

In addition, under the agreement reached between Banco Santander and Mapfre on 21 January 2019, 50.01% of the car, commercial multi-risk, SME multi-risk and corporate liability insurance business in the whole network of Banco Santander in Spain was acquired by Mapfre on 25 June 2019 amounting to EUR 82 million.

iii. 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 consisted 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% remained 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 Crédit 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 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 was recorded under the heading of 'Investments - Associates' of the consolidated balance sheet for an amount of EUR 1,010 million.

iv. 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 became 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 EUR 191 million in Capital, EUR 1,491 million in issue premium and a decrease of EUR 670 million in Reserves and EUR 1,012 million in minority interests.

c) Offshore entities

According to current Spanish regulation (Royal Decree 1080/1991, of 5 July), Santander has two subsidiaries and three branches in the offshore territories of Jersey, the Isle of Man and the Cayman Islands. Santander also has three other offshore subsidiaries that are tax resident in the UK and subject to British tax law.

i. Offshore subsidiaries

A subsidiary resident in Jersey was liquidated in 2020 so at the reporting date, Grupo Santander has two subsidiaries resident in these territories: Abbey National International Limited in Jersey and ALIL Services Limited (in liquidation) on the Isle of Man. In 2020, those subsidiaries' contribution to Santander's consolidated profit was insubstantial.

ii. Offshore branches

Grupo Santander also has three operative offshore branches. One is found in the Cayman Islands, one is on the Isle of Man and another is in Jersey. They report to, and consolidate balance sheets and income statements with, their foreign headquarters. They are taxed either with their headquarters (the Cayman Islands branch in Brazil) or in the territories they are located in (the Jersey and Isle of Man branches pertain to the UK). There was a fourth branch in the Cayman Islands, pertain to the US, which was closed in 2020.

The entities mentioned in Sections I and II had 141 employees as of December 2020.

iii. Offshore subsidiaries that are tax resident in other jurisdictions

Grupo Santander also has three subsidiaries that were incorporated in offshore territories but are not deemed offshore entities. They only operate from, and are tax resident in, the UK and, thus, are subject to British tax law (one is expected to be wound up in 2021). In 2020, a subsidiary incorporated in Jersey but tax resident in Spain transferred legal residence to Spain.

iv. Other offshore holdings

From Brazil, Grupo Santander manages Santander Brazil Global Investment Fund SPC, a segregated portfolio company located in the Cayman Islands. From the UK, it manages Guaranteed Investment Products 1 PCC Limited, a protected cell company found in Guernsey. It also has two small holdings in entities located in the Cayman Islands.

Organization for Economic Cooperation and Development (OECD)

Grupo Santander is not in any of the uncooperative tax havens the OECD released in December 2020. Furthermore, Jersey, the Isle of Man and the Cayman Islands satisfy OECD standards on transparency and exchange of information for tax purposes.

The European Union (EU)

As of October 2020, the EU's blacklist comprises 12 jurisdictions where Santander is not present. Santander is also not present in the 10 jurisdictions on the EU's grey list, which have sufficiently committed to adapt legislation to international standards, subject to monitoring by the EU.

The Group's presence in offshore territories at the end of 2020 is as follows:

Presence of the Group in Tax Havens/ Non-cooperative jurisdictions	Spanish legislation		OECD		European Commission Blacklist	
	Sub.	Branch	Sub.	Branch	Sub.	Branch
Jersey	1	1				
Isle of Man	1	1				
Guernsey*						
Bermuda*						
Cayman Islands		1				
2020	**2**	**3**	**—**	**—**	**—**	**—**
2019**	**3**	**4**	**—**	**—**	**1**	**2**

* Additionally, there are 2 entities constituted in Guernsey and 1 in Bermuda, but resident for tax purposes in the United Kingdom.

**Since December 31st 2019, the number of subsidiaries has been decreased in Jersey (1) and Panama (1), this last territory is currently included in the EU blacklist. Additionally, the Cayman Islands (1 operative branch and 1 branch closed in 2020) left the EU blacklist in October 2020.

Forthcoming changes to Spain's tax law

On 23 October 2020, the Draft Law on measures to prevent and fight against tax fraud was published in the *Official Bulletin of the Spanish Parliament*. The law expands the meaning of tax havens, which it renames "non-cooperative jurisdictions". It also allows government to update the non-cooperative jurisdictions list. Nonetheless, until that list conforms to the new criteria, the former list set out in Royal Decree 1080/1991 of 5 July will remain in effect.

Grupo Santander has the right mechanisms (risk management, supervision, verification and review plans, and regular reporting) to prevent reputational, tax and legal risk with those entities. Grupo Santander also maintains its policy of reducing the number of these units.

PwC (PricewaterhouseCoopers) member firms audited the financial statements of Grupo Santander's offshore units in 2020 and 2019.

d) Consolidated balance sheet, income statement, statement of recognized income and expenses, statement of changes in total equity and cash-flow statement

The Group's consolidated balance sheets at December 31, 2020 and 2019 and the consolidated income statements, consolidated statements of recognized income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

ASSETS	2020	2019*
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND	**153,839**	**101,067**
FINANCIAL ASSETS HELD FOR TRADING	**114,945**	**108,230**
Derivatives	67,137	63,397
Equity instruments	9,615	12,437
Debt instruments	37,894	32,041
Loans and advances	299	355
Central banks	—	—
Credit institutions	3	—
Customers	296	355
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	**4,486**	**4,911**
Equity instruments	3,234	3,350
Debt instruments	700	1,175
Loans and advances	552	386
Central banks	—	—
Credit institutions	—	—
Customers	552	386
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**48,717**	**62,069**
Debt instruments	2,979	3,186
Loans and advances	45,738	58,883
Central banks	9,481	6,473
Credit institutions	12,136	21,649
Customers	24,121	30,761
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**120,953**	**125,708**
Equity instruments	2,783	2,863
Debt instruments	108,903	118,405
Loans and advances	9,267	4,440
Central banks	—	—
Credit institutions	—	—
Customers	9,267	4,440
FINANCIAL ASSETS AT AMORTIZED COST	**958,378**	**995,482**
Debt instruments	26,078	29,789
Loans and advances	932,300	965,693
Central banks	12,499	18,474
Credit institutions	37,838	40,943
Customers	881,963	906,276
HEDGING DERIVATIVES	**8,325**	**7,216**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**1,980**	**1,702**
INVESTMENTS	**7,622**	**8,772**
Joint venture entities	1,492	1,325
Associated entities	6,130	7,447
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	**261**	**292**
TANGIBLE ASSETS	**32,735**	**35,235**
Property, plant and equipment	31,772	34,262

ASSETS	2020	2019*
For own-use	13,213	15,041
Leased out under an operating lease	18,559	19,221
Investment properties	963	973
Of which leased out under an operating lease	*793*	*823*
INTANGIBLE ASSETS	**15,908**	**27,687**
Goodwill	12,471	24,246
Other intangible assets	3,437	3,441
TAX ASSETS	**24,586**	**29,585**
Current tax assets	5,340	6,827
Deferred tax assets	19,246	22,758
OTHER ASSETS	**11,070**	**10,138**
Insurance contracts linked to pensions	174	192
Inventories	5	5
Other	10,891	9,941
NON-CURRENT ASSETS HELD FOR SALE	**4,445**	**4,601**
TOTAL ASSETS	**1,508,250**	**1,522,695**

* Presented for comparison purposes only.

Santander

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

LIABILITIES	2020	2019*
FINANCIAL LIABILITIES HELD FOR TRADING	**81,167**	**77,139**
Derivatives	64,469	63,016
Short positions	16,698	14,123
Deposits	—	—
Central banks	—	—
Credit institutions	—	—
Customers	—	—
Marketable debt securities	—	—
Other financial liabilities	—	—
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**48,038**	**60,995**
Deposits	43,598	57,111
Central banks	2,490	12,854
Credit institutions	6,765	9,340
Customers	34,343	34,917
Marketable debt securities	4,440	3,758
Other financial liabilities	—	126
Memorandum items: subordinated liabilities	—	—
FINANCIAL LIABILITIES AT AMORTIZED COST	**1,248,188**	**1,230,745**
Deposits	990,391	942,417
Central banks	112,804	62,468
Credit institutions	62,620	90,501
Customers	814,967	789,448
Marketable debt securities	230,829	258,219
Other financial liabilities	26,968	30,109
Memorandum items: subordinated liabilities	*21,880*	*21,062*
HEDGING DERIVATIVES	**6,869**	**6,048**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**286**	**269**
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	**910**	**739**
PROVISIONS	**10,852**	**13,987**
Pensions and other post-retirement obligations	3,976	6,358
Other long term employee benefits	1,751	1,382
Taxes and other legal contingencies	2,200	3,057
Contingent liabilities and commitments	700	739
Other provisions	2,225	2,451
TAX LIABILITIES	**8,282**	**9,322**
Current tax liabilities	2,349	2,800
Deferred tax liabilities	5,933	6,522
OTHER LIABILITIES	**12,336**	**12,792**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**—**	**—**
TOTAL LIABILITIES	**1,416,928**	**1,412,036**

* Presented for comparison purposes only.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR million

EQUITY	2020	2019*
SHAREHOLDERS´ EQUITY	**114,620**	**124,239**
CAPITAL	**8,670**	**8,309**
Called up paid capital	8,670	8,309
Unpaid capital which has been called up	—	—
SHARE PREMIUM	**52,013**	**52,446**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**627**	**598**
Equity component of the compound financial instrument	—	—
Other equity instruments issued	627	598
OTHER EQUITY	**163**	**146**
ACCUMULATED RETAINED EARNINGS	**65,583**	**61,028**
REVALUATION RESERVES	**—**	**—**
OTHER RESERVES	**(3,596)**	**(3,110)**
Reserves or accumulated losses in joint venture investments	1,504	1,210
Others	(5,100)	(4,320)
(-) OWN SHARES	**(69)**	**(31)**
PROFIT OR LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**(8,771)**	**6,515**
(-) INTERIM DIVIDENDS	**—**	**(1,662)**
OTHER COMPREHENSIVE INCOME OR LOSS	**(33,144)**	**(24,168)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(5,328)**	**(4,288)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(27,816)**	**(19,880)**
NON-CONTROLLING INTEREST	**9,846**	**10,588**
Other comprehensive income or loss	(1,800)	(982)
Other items	11,646	11,570
TOTAL EQUITY	**91,322**	**110,659**
TOTAL LIABILITIES AND EQUITY	**1,508,250**	**1,522,695**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS		
Loan commitments granted	241,230	241,179
Financial guarantees granted	12,377	13,650
Other commitments granted	64,538	68,895

* Presented for comparison purposes only.

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CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	(Debit) Credit	
	2020	2019*
Interest income	45,741	56,785
Financial assets at fair value through other comprehensive income	*2,840*	*3,571*
Financial assets at amortized cost	*40,365*	*48,552*
Other interest income	*2,536*	*4,662*
Interest expense	(13,747)	(21,502)
Interest income/(charges)	**31,994**	**35,283**
Dividend income	391	533
Income from companies accounted for using the equity method	(96)	324
Commission income	13,024	15,349
Commission expense	(3,009)	(3,570)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	1,107	1,136
Financial assets at amortized cost	*(31)*	*308*
Other financial assets and liabilities	*1,138*	*828*
Gain or losses on financial assets and liabilities held for trading, net	3,211	1,349
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets at amortized cost	—	—
Other gains (losses)	*3,211*	*1,349*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	82	292
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets at amortized cost	—	—
Other gains (losses)	*82*	*292*
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	(171)	(286)
Gain or losses from hedge accounting, net	51	(28)
Exchange differences, net	(2,093)	(932)
Other operating income	1,920	1,797
Other operating expenses	(2,342)	(2,138)
Income from assets under insurance and reinsurance contracts	1,452	2,534
Expenses from liabilities under insurance and reinsurance contracts	(1,242)	(2,414)
Total income	**44,279**	**49,229**
Administrative expenses	(18,320)	(20,279)
Staff costs	*(10,783)*	*(12,141)*
Other general administrative expenses	*(7,537)*	*(8,138)*
Depreciation and amortisation cost	(2,810)	(3,001)
Provisions or reversal of provisions, net	(2,378)	(3,490)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	(12,382)	(9,352)
Financial assets at fair value through other comprehensive income	*(19)*	*(12)*
Financial assets at amortized cost	*(12,363)*	*(9,340)*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	—	—
Impairment or reversal of impairment on non-financial assets, net	(10,416)	(1,623)
Tangible assets	*(174)*	*(45)*
Intangible assets	*(10,242)*	*(1,564)*
Others	—	*(14)*
Gain or losses on non-financial assets and investments, net	114	1,291

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	(Debit) Credit	
	2020	2019*
Negative goodwill recognized in results	8	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	(171)	(232)
Operating profit/(loss) before tax	**(2,076)**	**12,543**
Tax expense or income from continuing operations	(5,632)	(4,427)
Profit/(loss) from continuing operations	**(7,708)**	**8,116**
Profit/(loss) after tax from discontinued operations	—	—
Profit/(loss) for the year	**(7,708)**	**8,116**
Profit/(loss) attributable to non-controlling interests	1,063	1,601
Profit/(loss) attributable to the parent	(8,771)	6,515
Earnings/(losses) per share		
Basic	(0.538)	0.347
Diluted	(0.538)	0.346

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	2020	2019*
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**(7,708)**	**8,116**
OTHER RECOGNIZED INCOME AND EXPENSE	**(9,794)**	**267**
Items that will not be reclassified to profit or loss	**(1,018)**	**(1,351)**
Actuarial gains and losses on defined benefit pension plans	(25)	(1,677)
Non-current assets held for sale	—	—
Other recognized income and expense of investments in subsidiaries, joint ventures and associates	(4)	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(917)	(29)
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)	*4*	*44*
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	*(4)*	*(44)*
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	31	(156)
Income tax relating to items that will not be reclassified	(103)	510
Items that may be reclassified to profit or loss	**(8,776)**	**1,618**
Hedges of net investments in foreign operations (effective portion)	2,340	(1,151)
Revaluation gains (losses)	*2,340*	*(1,151)*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Exchanges differences	(11,040)	1,232
Revaluation gains (losses)	*(11,040)*	*1,232*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Cash flow hedges (effective portion)	(53)	8
Revaluation gains (losses)	*799*	*(1,104)*
Amounts transferred to income statement	*(852)*	*1,112*
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	(100)	2,414
Revaluation gains (losses)	*692*	*2,588*
Amounts transferred to income statement	*(1,165)*	*(792)*
Other reclassifications	*373*	*618*
Non-current assets held for sale	—	—
Revaluation gains (losses)	—	—
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Share of other recognized income and expense of investments	(151)	(15)
Income tax relating to items that may be reclassified to profit or loss	228	(870)
Total recognized income and expenses for the year	**(17,502)**	**8,383**
Attributable to non-controlling interests	245	1,911
Attributable to the parent	(17,747)	6,472

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

												Non-controlling interest		
	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	Other comprehensive income	Others items	Total
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**146**	**61,028**	**—**	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance at 1 January 2020*	**8,309**	**52,446**	**598**	**146**	**61,028**	**—**	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(8,771)**	**—**	**(8,976)**	**(818)**	**1,063**	**(17,502)**
Other changes in equity	**361**	**(433)**	**29**	**17**	**4,555**	**—**	**(486)**	**(38)**	**(6,515)**	**1,662**	**—**	**—**	**(987)**	**(1,835)**
Issuance of ordinary shares	361	(72)	—	—	—	—	70	—	—	—	—	—	5	364
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	(361)	—	—	—	—	—	—	—	—	—	—	(465)	(826)
Purchase of equity instruments	—	—	—	—	—	—	—	(758)	—	—	—	—	—	(758)
Disposal of equity instruments	—	—	—	—	—	—	1	720	—	—	—	—	—	721
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	4,555	—	298	—	(6,515)	1,662	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	(54)	(54)
Share-based payment	—	—	—	(53)	—	—	—	—	—	—	—	—	—	(53)
Others increases or (-) decreases of the equity	—	—	29	70	—	—	(855)	—	—	—	—	—	(473)	(1,229)
Balance at 31 December 2020	**8,670**	**52,013**	**627**	**163**	**65,583**	**—**	**(3,596)**	**(69)**	**(8,771)**	**—**	**(33,144)**	**(1,800)**	**11,646**	**91,322**

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

												Non-controlling interest		
	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	Other comprehensive income	Others items	Total
Balance at 31 December 2018*	**8,118**	**50,993**	**565**	**234**	**56,756**	**—**	**(1,583)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**107,361**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	(391)	—	—	—	—	—	—	(391)
Opening balance at 1 January 2019*	**8,118**	**50,993**	**565**	**234**	**56,756**	**—**	**(1,974)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**106,970**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,515**	**—**	**(43)**	**310**	**1,601**	**8,383**
Other changes in equity	**191**	**1,453**	**33**	**(88)**	**4,272**	**—**	**(1,136)**	**28**	**(7,810)**	**575**	**—**	**—**	**(2,212)**	**(4,694)**
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	—	—	—	(1,404)	—	—	—	—	—	(1,426)	(2,797)
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**146**	**61,028**	**—**	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**

* Presented for comparison purposes only.

Santander

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 2020 AND 2019

EUR Million

	2020	2019*
A. CASH FLOWS FROM OPERATING ACTIVITIES	**66,153**	**3,389**
Profit or loss for the year	**(7,708)**	**8,116**
Adjustments made to obtain the cash flows from operating activities	**37,836**	**23,990**
Depreciation and amortisation cost	*2,810*	*3,001*
Other adjustments	*35,026*	*20,989*
Net increase/(decrease) in operating assets	**51,385**	**64,593**
Financial assets held-for-trading	*12,390*	*15,450*
Non-trading financial assets mandatorily at fair value through profit or loss	*(275)*	*(6,098)*
Financial assets at fair value through profit or loss	*(10,314)*	*4,464*
Financial assets at fair value through other comprehensive income	*6,549*	*1,693*
Financial assets at amortized cost	*43,541*	*49,541*
Other operating assets	*(506)*	*(457)*
Net increase/(decrease) in operating liabilities	**90,356**	**38,469**
Financial liabilities held-for-trading	*7,880*	*6,968*
Financial liabilities designated at fair value through profit or loss	*(10,907)*	*(8,858)*
Financial liabilities at amortized cost	*96,561*	*47,622*
Other operating liabilities	*(3,178)*	*(7,263)*
Income tax recovered/(paid)	**(2,946)**	**(2,593)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**(7,220)**	**(7,229)**
Payments	**11,976**	**14,289**
Tangible assets	*7,386*	*12,766*
Intangible assets	*1,134*	*1,377*
Investments	*525*	*63*
Subsidiaries and other business units	*2,931*	*83*
Non-current assets held for sale and associated liabilities	—	—
Other payments related to investing activities	—	—
Proceeds	**4,756**	**7,060**
Tangible assets	*2,014*	*4,091*
Intangible assets	—	—
Investments	*182*	*686*
Subsidiaries and other business units	*1,775*	*218*
Non-current assets held for sale and associated liabilities	*785*	*2,065*
Other proceeds related to investing activities	—	—
C. CASH FLOW FROM FINANCING ACTIVITIES	**(1,909)**	**(10,122)**
Payments	**6,978**	**12,159**
Dividends	—	*3,773*
Subordinated liabilities	*3,780*	*5,123*
Redemption of own equity instruments	—	—
Acquisition of own equity instruments	*758*	*928*
Other payments related to financing activities	*2,440*	*2,335*
Proceeds	**5,069**	**2,037**
Subordinated liabilities	*4,095*	*1,090*
Issuance of own equity instruments	—	—
Disposal of own equity instruments	*721*	*947*
Other proceeds related to financing activities	*253*	—
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES	**(4,252)**	**1,366**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**52,772**	**(12,596)**

	2020	2019*
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**101,067**	**113,663**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**153,839**	**101,067**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash	*7,817*	*8,764*
Cash equivalents at central banks	*137,047*	*75,353*
Other financial assets	*8,975*	*16,950*
Less, bank overdrafts refundable on demand	—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**153,839**	**101,067**
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 board of directors proposes to the shareholders to approve at the 2021 general shareholders' meeting the application of the results of Banco Santander, S.A., for 2020, which consisted in losses amounting to EUR 3,557 million, by charging them against:

i) To share premium account to the extent that the indicated charge against the share premium reserve is approved by the European Central Bank under Articles 77 and 78 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

ii) The voluntary reserve account, to the amount by which the referred losses are not applied in accordance with the provisions of paragraph (i) above.

- In September 2019, the board of directors approved an interim cash dividend against 2019 results in the amount of 0.10 euros per share (EUR 1,662 million), which was paid on 1 November.

- On 27 March 2020, the ECB issued a recommendation urging all European banks under its supervision to abstain from paying dividends out of 2019 and 2020 results at least until 1 October 2020 in order to preserve capital (ECB Recommendation I).

  Taking into consideration ECB Recommendation I and in line with Santander's mission to help people and companies to progress, on 2 April 2020 the Board of Directors decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, to withdraw the proposals relating to the Final Cash Dividend and the SDE Program from the agenda of the aforementioned General Meeting of April 2020, which had already been convened, and to postpone the decision on the application of the results obtained in the financial year 2019 to a meeting to be held no later than 31 October 2020.

- On 27 July 2020, the ECB issued a second recommendation in which it extended the effects of ECB Recommendation I requiring all European credit institutions under its supervision to abstain, until 1 January 2021, from distributing dividends out of the results of the financial years 2019 and 2020 or from entering into irrevocable commitments to distribute them (ECB Recommendation II).

In September 2020, the board of directors convened the general shareholders' meeting of October 2020, at which it proposed (a) in compliance with ECB Recommendation II, to allocate all of the profit obtained by Banco Santander in 2019 to increase the Voluntary Reserve, except for the amount already allocated to the payment of the interim dividend that had been paid prior to the issuance of ECB Recommendation I, and (b) to increase the capital charged to reserves to allow the payment of a total remuneration for the 2019 financial year, in addition to the interim dividend, for an amount equivalent to 0.10 euros per share through the delivery of new shares and with no cash alternative.

Both proposals were approved at the general shareholders' meeting in October 2020.

- Following the ECB Recommendation II extending the effects of the previous recommendation until 1 January 2021, the board of directors decided to propose to the annual general meeting in October 2020 a resolution allowing the payment in 2021 of up to 0.10 per share as remuneration out of the results of the financial year 2020 from the share premium reserve and conditional on the ECB's recommendations permitting it and obtaining its authorization, on the condition that after the payment the CET 1 capital ratio remains within the target of 11—12% or above and on the condition that the payment does not exceed 50% of the consolidated ordinary (underlying) profit.

  The proposal was approved at the general shareholders' meeting in October 2020.

- On 15 December 2020, the ECB recommended that banks under its supervision limit shareholder remuneration until 30 September 2021 to an amount not exceeding either 15% of adjusted profits earned in 2020 (and in 2019, but only for those banks that, unlike Banco Santander, S.A., had not paid dividends in 2019) or the equivalent of 20 basis points of the CET 1 ratio.

- On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of EUR 2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation. This payment will be made in execution of the share premium distribution agreement approved at the aforementioned October 2020 general meeting.

The board aims to restore a payout ratio of 40—50% of underlying profit, in cash, in the medium term. With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the ECB recommendations so allow. The ECB has said it intends to repeal the recommendation in September 2021 in the absence of materially adverse developments. In the meantime, and in line with the announcement of April 2020, the dividend policy will remain suspended.

b) Earnings/loss per share from continuing and discontinued operations

i. Basic earnings / loss per share

Basic earnings/loss 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 that period, excluding the average number of own shares held through that period.

Accordingly:

	2020	2019
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515
Remuneration of contingently convertible preference shares (CCP) (EUR million) (note 21)	(552)	(595)
	(9,323)	5,920
Of which:		
Profit (Loss) from discontinued operations (non controlling interest net) (EUR million)	—	—
Profit (Loss) from continuing operations (PPC net) (EUR million)	*(9,323)*	*5,920*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883
Impact factor correction*	No applicable	710,800,691
Adjusted number of shares	17,316,288,908	17,059,216,574
Basic earnings (Loss) per share (euros)	**(0.538)**	**0.347**
Of which, from discounted operations (euros)	**—**	**—**
Basic earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.347**

* Correction factor for the capital increase released on 3 December 2020 (see note 1.d and 27).

ii. Diluted earnings / loss per share

Diluted earnings/loss 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/loss per share were determined as follows:

	2020	2019
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515
Remuneration of contingently convertible preference shares (CCP) (EUR million) (note 21)	(552)	(595)
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	—	—
	(9,323)	5,920
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (EUR million)	—	—
Profit (Loss) from continuing operations (net of non-controlling interests and CCP) (EUR million)	*(9,323)*	*5,920*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883
Dilutive effect of options/ rights on shares	Not applicable	35,891,644
Impact factor correction*	Not applicable	712,361,197
Adjusted number of shares	17,316,288,908	17,096,668,724
Diluted earnings (Loss) per share (euros)	**(0.538)**	**0.346**
Of which, from discounted operations (euros)	**—**	**—**
Diluted earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.346**

* Correction factor for the capital increase released on 3 December 2020 (see note 1.d and 27).

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 2020 and 2019:

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 2020 (same amount as in 2019), with two components: (a) an annual emolument and (b) attendance fees.

As a gesture of responsibility in view of the situation created by the health emergency the board of directors agreed on 5 May 2020 to reduce their allotments by 20% for the balance of 2020, with effect from 1 April 2020, and propose that amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

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 2020 amounted to EUR 4.1 million (4.9 million in 2019).

Annual emolument

The annual amounts received individually by the directors in 2020 and 2019 based on the positions held by them on the board and their membership of the board committees were as follows:

Amount per director in euros	2020 1 Apr to 31 Dec	2020 1 Jan to 31 Mar	2019
Members of the board of directors	49,500	22,500	90,000
Members of the executive committee	93,500	42,500	170,000
Members of the audit committee	22,000	10,000	40,000
Members of the appointments committee	13,750	6,250	25,000
Members of the remuneration committee	13,750	6,250	25,000
Members of the risk supervision, regulation and compliance oversight committee	22,000	10,000	40,000
Members of the responsible banking, sustainability and culture committee	8,250	3,750	15,000
Chairman of the audit committee	38,500	17,500	70,000
Chairman of the appointments committee	27,500	12,500	50,000
Chairman of the remuneration committee	27,500	12,500	50,000
Chairman of the risk, regulation and compliance oversight committee	38,500	17,500	70,000
Chairman of the responsible banking, sustainability and culture committee	27,500	12,500	50,000
Lead director*	60,500	27,500	110,000
Non-executive deputy chairman	16,500	7,500	30,000

* Mr. Bruce Carnegie-Brown, in view of the positions held on the board and its committees, in particular as chairman of the appointments and remuneration committees and as coordinating director, and the time and dedication required to properly perform such positions, has been assigned a minimum total annual remuneration of €700,000 since 2015, including the annual allowance for the items corresponding to him of those indicated above and attendance fees. However, in line with the decision taken by the board of directors to reduce his fees by 20% with effect from April 1, 2020, he has requested that the same reduction be applied to this amount, so that the figure to be applied in 2020 will be €595,000.

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 mentioned above, executive committee meetings— for 2020 were set at the same amounts as in 2019.

However, on 5 May 2020, as a gesture of responsibility in view of the situation created by the health emergency, the board of directors agreed to reduce their attendance fees by 20% for the balance of 2020, with effect from 1 April 2020, and propose that the amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

The fees for 2019 and 2020 are as follows:

Meeting attendance fees

	2020		2019
	1 Apr to 31 Dec	1 Jan to 31 Mar	
Board of directors	2,080	2,600	2,600
Audit committee and risk supervision, regulation and compliance oversight committee	1,360	1,700	1,700
Other committees (except the executive committee)	1,200	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 2022 and 2023) will be conditional on none of the malus clauses being triggered.
  - The accrual of the third, fourth, and fifth portion (payment in 2024, 2025 and 2026), is linked to objectives related to the period 2020—2022 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 2020, 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.

In the case of Sergio Rial, who was appointed director on April 2020, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020, but he qualifies as an executive director pursuant to section 529 duodecymes of the Spanish Companies Act (Corporate Enteprise Act), because of his role as CEO and vice-president of Banco Santander (Brasil) S.A., the principles herein are the same for his remuneration as CEO and vice-president of Banco Santander (Brasil) S.A.

The same policy and principles above apply to Sergio Rial's remuneration as CEO in Santander Brasil.

Voluntary Reduction of Executive Remuneration (Chairman and CEO)

On 23 March 2020, given the health crisis created by the covid-19 pandemic, Ana Botín and José Antonio Álvarez proposed to reduce their 2020 total compensation (salary and bonus) by 50% and use the amounts saved to finance the Santander covid-19 relief fund. This proposal was supported by the remuneration committee and approved by the board of directors.

To achieve the 50% reduction compared to 2019, the board of directors decided to apply an additional adjustment to Ana Botín's and José Antonio Alvarez's variable compensation, reducing the variable compensation by 74% in the case of Ana Botín and 79% in the case of José Antonio Álvarez.

Ana Botín's total salary and bonus for 2019 was EUR 9,688 thousand, with EUR 3,176 thousand salary and EUR 6,512 thousand bonus (of which EUR 4,168 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 2,344 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of her salary and bonus for 2020 has been established at EUR 4,844 thousand, with EUR 3,176 thousand salary and EUR 1,668 thousand bonus (of which EUR 1,068 thousand is the sum immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 600 thousand is deferred variable remuneration linked to long-term objectives at face value).

José Antonio Álvarez's total salary and bonus for 2019 was EUR 6,893 thousand, with EUR 2,541 thousand salary and EUR 4,352 thousand bonus (of which EUR 2,786 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 1,566 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of his salary and bonus for 2020 has been established at EUR 3,446.5 thousand, with EUR 2,541 thousand salary and EUR 906 thousand bonus (of which EUR 580 thousand is immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 326 thousand is deferred variable remuneration linked to long-term objectives at face value).

The chart below shows the comparison between the amounts received in 2019 and those received in 2020:

	2019			2020			% Var. 2020 vs 2019
	Salary	Bonus	Total	Salary	Bonus	Total	
Chairman	3,176,00	6,512,00	9,688,00	3,176,00	1,668,00	4,844,00	(50)%
CEO	2,541,00	4,352,00	6,893,00	2,541,00	906,000	3,447,00	(50)%

Additionally, Ana Botin has made a personal decision to donate the full amount of the cash bonus paid this year for 2020 to *Empieza por Educar* (EXE), the Spanish affiliate of Teach for All, and to Santander's charity initiative "*euros de tu nómina*".

iii. Detail by director

The detail, by bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2020 and 2019 is provided below:

EUR thousand

	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors									2020	2019
	Annual emolument									Variable-immediate payment		Deferred variable						
	Board[N]	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	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	77	145	—	—	—	—	13	55	3,176	333	334	200	200	4,243	1,155	1,131	6,819	9,954
Mr José Antonio Álvarez Álvarez	77	145	—	—	—	—	—	49	2,541	181	181	108	109	3,120	864	1,764	6,019	8,270
Mr Bruce Carnegie-Brown	326	145	—	21	21	—	—	82	—	—	—	—	—	—	—	—	595	700
Ms Homaira Akbari	77	—	34	—	—	—	13	79	—	—	—	—	—	—	—	—	203	226
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A]	77	—	—	—	—	—	—	45	—	—	—	—	—	—	—	—	122	137
Mr Álvaro Antonio Cardoso de Souza[B]	136	—	—	—	—	34	13	60	—	—	—	—	—	—	—	—	243	276
Mr Ramón Martín Chávez Márquez[C]	8	—	—	1	5	8	—	15	—	—	—	—	—	—	—	—	37	—
Ms Sol Daurella Comadrán	77	—	—	21	21	—	13	82	—	—	—	—	—	—	—	—	214	240
Mr Henrique Manuel Drummond Borges Cirne de Castro[D]	77	—	34	—	21	—	—	85	—	—	—	—	—	—	—	—	217	86
Ms Gina Diez Barroso[E]	2	—	—	—	—	—	—	2	—	—	—	—	—	—	—	—	4	—
Mr Luis Isasi Fernández de Bobadilla[F]	44	84	—	—	12	20	—	43	—	—	—	—	—	—	—	740	943	—
Mr Ramiro Mato García-Ansorena	119	145	34	—	—	34	13	86	—	—	—	—	—	—	—	—	431	500
Mr Sergio Rial[G]	42	—	—	—	—	—	—	21	—	—	—	—	—	—	—	—	63	—
Ms Belén Romana García	98	145	34	—	—	34	13	94	—	—	—	—	—	—	—	—	418	525
Mrs Pamela Ann Walkden[H]	114	—	34	—	—	—	—	66	—	—	—	—	—	—	—	—	214	34
Mr Rodrigo Echenique Gordillo[I]	75	—	—	21	—	—	—	60	—	—	—	—	—	—	—	1,800	1,956	4,874
Mr Ignacio Benjumea Cabeza de Vaca[J]	35	65	—	—	10	15	6	43	—	—	—	—	—	—	—	102	276	524
Mr Guillermo de la Dehesa Romero[K]	23	44	—	6	6	—	—	28	—	—	—	—	—	—	—	—	107	399
Ms Esther Giménez-Salinas i Colomer[L]	64	—	—	18	—	28	11	71	—	—	—	—	—	—	—	—	192	228
Mr Carlos Fernández González[M]	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	214
Total 2020	**1,548**	**918**	**170**	**88**	**96**	**173**	**95**	**1,066**	**5,717**	**514**	**515**	**308**	**309**	**7,363**	**2,019**	**5,537**	**19,073**	**—**
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**

A. All amounts received were reimbursed to Fundación Botín.
B. Director since 1 April 2018.
C. Director since 27 October 2020.
D. Director since 17 July 2019.
E. Director since 22 December 2020.
F. Director since 19 May 2020.
G. Executive director since 30 May 2020.
H. Director since 29 October 2019.
I. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.

J. Stepped down as director on 5 May 2020.
K. Stepped down as director on 3 April 2020.
L. Stepped down as director on 27 October 2020.
M. Stepped down as director on 28 October 2019.
N Includes emoluments for chairing committees and other roles.

Following is the detail, by executive director, of the salaries linked to multi-year 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 42.

EUR thousand

	2020			2019
	Variable subject to Long-term objectives[1]			
	In cash	In shares	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	210	210	420	1,642
Mr José Antonio Álvarez Álvarez	114	114	228	1,096
Mr Rodrigo Echenique Gordillo	—	—	—	504
Total	**324**	**324**	**648**	**3,242**

1. Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2024, 2025 and 2026, 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 2020 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 2020 and 2019 variable remuneration plans.

In the case of Sergio Rial, as mentioned above, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020. The remuneration he has received in his role as CEO and vice-president of Banco Santander (Brasil) (Santander Brasil) is:

2020	BRL thousand	EUR thousand
Base salary	12,645	2,175
Other fixed benefits	39	7
Pensions	5,041	867
Variable remuneration	30,240	5,201
Total	**47,965**	**8,250**

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 2020 and 2019 the Bank's directors did not receive any remuneration in respect of these representative duties.

On the other hand, Mr. Álvaro Cardoso de Souza, in his role as non-executive Chairman of Banco Santander (Brasil) S.A., received a remuneration in 2020 of 1,947 thousand Brazilian reales (EUR 335 thousand),Ms. Homaira Akbari was paid USD 190 thousand (EUR 156) as member of the board of Santander Consumer USA (SCUSA) and EUR 17,200 as member of the Board of PagoNxt), and Mr. Henrique Manuel Drummond Borges Cirne de Castro and Mr. Ramón Martín Chávez Márquez, were also each paid paid EUR 17,200 as members of the board of PagoNxt.

Likewise, Luis Isasi was paid EUR 740 thousand as chairman of the board of Santander Spain (amount included in the chart below as "other remuneration" as it is paid by Banco Santander, S.A.)

c) Post-employment and other long-term benefits

In 2012, the contracts of Ms. Ana Botín and Mr. José Antonio Alvarez (and other members of the Bank's senior management) with defined benefit pension commitments were modified to transform these commitments into a defined contribution system, which covers the contingencies of retirement, disability and death. From that moment on, the Bank makes annual contributions to their pension system for their benefit.

This system gives them 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,

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Ms Ana Botín and Mr José Antonio Alvarez, have the right to receive an annual allotment.

The initial balance for each of them 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 Grupo Santander or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement).

The benefit plan system 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 claw back 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 recognized in 2020 and 2019 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

EUR thousand	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,155	1,145
Mr José Antonio Álvarez Álvarez	864	858
Total	**2,019**	**2,003**

Following is a detail of the balances relating to each of the executive directors under the welfare system as of 31 December 2020 and 2019:

EUR thousand	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	49,444	48,104
Mr José Antonio Álvarez Álvarez	18,082	17,404
Mr Rodrigo Echenique Gordillo[1]	—	13,268
Total	**67,526**	**78,776**

1. Mr Rodrigo Echenique has not participated in the defined contribution pension scheme described in the preceding paragraphs. However, for reference purposes, this year's table details his rights before he was named an executive director. Mr. Rodrigo Echenique's accrued obligation as of December 2020 is zero, since he received the benefit in the form of capital in 2020. Therefore, there is no pending commitment in this regard in respect of Rodrigo Echenique.

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

EUR thousands	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	21,984	22,475
Mr José Antonio Álvarez Álvarez	18,703	19,373
Mr Rodrigo Echenique Gordillo	—	5,400
Total	**40,687**	**47,248**

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 2020 and 2019, the Group has disbursed a total amount of EUR 19.5 million and EUR 11.6 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 2020 and 2019, 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 2020 and 2019 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2020 and prior years, as well as on the deliveries, in shares or in cash, made to them in 2020 and 2019 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 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.

In the case of Sergio Rial, who does not receive any remuneration for executive duties in Banco Santander, S.A., the same policy principles, deferrals, multi year targets linked to the payment of deferred amounts and malus and clawback principles described herein apply to his variable remuneration in the subsidiary where he is the CEO.

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 2020 has been approved by the Board of Directors and implemented through the fifth 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 2022 and 2023) is conditional on none of the *malus* clauses being triggered.
- The accrual of the third, fourth and fifth parts (instalments in 2024, 2025 and 2026) is linked to the fulfilment of certain objectives related to the2020-2022 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 2022 compared to 2019;
  - the relative performance of the Bank's total shareholder return (RTA) in the 2020-2022 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 2022

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 2020when the total variable remuneration is approved.

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.

In the case of Mr. Sergio Rial, although as stated above he does not receive any remuneration for executive duties in Banco Santander, S.A. he is included as CEO of Santander Brasil in the deferred variable compensation plan linked to multiannual objectives and thus subject to the same conditions and principles of deferral, multiannual objectives, deferrals and malus and clawback herein in respect of the remuneration he receives in his role as CEO of this subsidiary.

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 2019, 31 December 2019 and 31 December 2020, as well as the gross shares that were delivered to them in 2019 and 2020, either in the form of an immediate payment or a deferred payment. In this case after having been appraized by the board, at the proposal of the remuneration committee, that the corresponding one-fifth of each plan had accrued. They come from each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2015 and of the deferred conditional and linked to multiannual objectives in 2016, 2017, 2018, 2019 and 2020.

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Share-based variable remuneration

	Maximum number of shares to be delivered at January 1,2019	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)	Maximum number of shares to be delivered at December 31, 2019	Instruments matured but not consolidated at January 1, 2020	Shares delivered in 2020 (immediate payment 2019 variable remuneration)	Shares delivered in 2020 (deferred payment 2018 variable remuneration)	Shares delivered in 2020 (deferred payment 2017 variable remuneration)	Shares delivered in 2020 (deferred payment 2016 variable remuneration)	Shares delivered in 2020 (deferred payment 2015 variable remuneration)	Variable remuneration 2020 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2020
2015 variable remuneration[4]															
Ms Ana Botín-Sanz de Sautuola y O'Shea	193,213	—	—	—	(64,404)	—	128,809	—	—	—	—	—	(64,404)	—	64,405
Mr José Antonio Álvarez Álvarez	128,431	—	—	—	(42,811)	—	85,620	—	—	—	—	—	(42,811)	—	42,809
Mr Rodrigo Echenique Gordillo[3]	95,134	—	—	—	(31,712)	—	63,422	—	—	—	—	—	(31,712)	—	31,710
	416,778				(138,927)		277,851						(138,927)		138,924
2016 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	288,410	—	—	(72,102)	—	—	216,308	(51,265)	—	—	—	(55,014)	—	—	110,029
Mr José Antonio Álvarez Álvarez	194,665	—	—	(48,667)	—	—	145,998	(34,602)	—	—	—	(37,133)	—	—	74,263
Mr Rodrigo Echenique Gordillo[3]	144,180	—	—	(36,046)	—	—	108,134	(25,628)	—	—	—	(27,503)	—	—	55,003
	627,255			(156,815)			470,440	(111,495)				(119,650)			239,295
2017 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	344,625	—	(68,925)	—	—	—	275,700	—	—	—	(68,925)	—	—	—	206,775
Mr José Antonio Álvarez Álvarez	230,471	—	(46,094)	—	—	—	184,377	—	—	—	(46,094)	—	—	—	138,283
Mr Rodrigo Echenique Gordillo[3]	179,608	—	(35,922)	—	—	—	143,686	—	—	—	(35,922)	—	—	—	107,764
	754,704		(150,941)				603,763				(150,941)				452,822
2018 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	860,865	(344,346)	—	—	—	—	516,519	—	—	(103,304)	—	—	—	—	413,215
Mr José Antonio Álvarez Álvarez	575,268	(230,107)	—	—	—	—	345,161	—	—	(69,032)	—	—	—	—	276,129
Mr Rodrigo Echenique Gordillo[3]	456,840	(182,736)	—	—	—	—	274,104	—	—	(54,821)	—	—	—	—	219,283
	1,892,973	(757,189)					1,135,784			(227,157)					908,627

Santander

Share-based variable remuneration

	Maximum number of shares to be delivered at January 1,2019	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)	Maximum number of shares to be delivered at December 31, 2019	Instruments matured but not consolidated at January 1, 2020	Shares delivered in 2020 (immediate payment 2019 variable remuneration)	Shares delivered in 2020 (deferred payment 2018 variable remuneration)	Shares delivered in 2020 (deferred payment 2017 variable remuneration)	Shares delivered in 2020 (deferred payment 2016 variable remuneration)	Shares delivered in 2020 (deferred payment 2015 variable remuneration)	Variable remuneration 2020 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2020
2019 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	887,193	887,193	—	(354,877)	—	—	—	—	—	532,316
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	592,915	592,915	—	(237,166)	—	—	—	—	—	355,749
Mr Rodrigo Echenique Gordillo[3]	—	—	—	—	—	272,480	272,480	—	(108,992)	—	—	—	—	—	163,488
						1,752,588	1,752,588		(701,035)						1,051,553
2020 variable remuneration[1]															
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	—	—	—	—	—	—	—	—	310,615	310,615
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	—	—	—	—	—	—	—	—	168,715	168,715
Mr Sergio Rial[2]	—	—	—	—	—	—	—	—	—	—	—	—	—	355,263	355,263
														834,593	834,593

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. Mr. Sergio Rial's share-based variable remuneration awarded in shares of Banco Santander (Brasil). He has the right to a maximum of 51,483 Santander shares and 269,148 options over Santander shares for his participation in the 2019 Digital Transformation Award.
3. Mr. Rodrigo Echenique stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.
4. In addition, Mr. Ignacio Benjumea Cabeza de Vaca received 35,372 shares during 2020 and maintains the right to a maximum of 35,369 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 2020 and 2019, 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:

EUR thousands

	2020		2019	
	Cash paid (immediate payment 2019 variable remuneration)	Cash paid (deferred payments from 2018, 2017, 2016 and 2015 variable remuneration)	Cash paid (immediate payment 2018 variable remuneration)	Cash paid (deferred payments from 2017, 2016 and 2015 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,302	1,383	1,480	1,025
Mr. José Antonio Álvarez Álvarez	870	925	989	686
Mr. Rodrigo Echenique Gordillo	400	712	785	519
	2,572	**3,020**	**3,254**	**2,230**

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 2019 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 2020 and 2019 to former board members, upon achievement of the conditions for the receipt thereof (see note 42):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	60,847	121,694
Deferred conditional variable remuneration plan and linked to objectives (2016)	65,502	98,253
Deferred conditional variable remuneration plan and linked to objectives (2017)	47,956	140,531

Number of shares delivered

	2020	2019
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)	32,751	42,924
Deferred conditional variable remuneration plan and linked to objectives (2017)	35,132	35,132

In addition, EUR 612 thousand and EUR 663 thousand relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2020 and 2019.

f) Loans

Grupo Santander'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 recognized:

EUR thousand

	2020			2019		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Mrs. Ana Patricia Botín	14	—	14	18	—	18
Mr. José Antonio Álvarez Álvarez	5	—	5	27	—	27
Mr. Bruce Carnegie-Brown	—	—	—	—	—	—
Mr. Rodrigo Echenique Gordillo**	—	—	—	33	—	33
Mr. Javier Botín-Sáenz de Sautuola	2	—	2	21	—	21
Mrs. Sol Daurella Comadrán	22	—	22	55	—	55
Mrs. Esther Gimenéz-Salinas i Colomer****	—	—	—	1	—	1
Mr. Ignacio Benjumea Cabeza de Vaca*	—	—	—	1	—	1
Mrs. Belén Romana García	—	—	—	21	—	21
Mr. Guillermo de la Dehesa Romero***	—	—	—	56	—	56
Mr. Ramiro Mato García-Ansorena	—	—	—	—	—	—
Mrs. Homaira Akbari	—	—	—	—	—	—
Mr. Álvaro Antonio Cardoso de Souza	—	—	—	—	—	—
Mr. Henrique Manuel Drummond Borges Cirne de Castro	—	—	—	—	—	—
Mrs. Pamela Ann Walkden	—	—	—	—	—	—
Mr. Luis Isasi Fernández de Bobadilla	—	—	—	—	—	—
Mr. Sergio Agapito Lires Rial	—	—	—	—	—	—
Mr. R. Martín Chávez	—	—	—	—	—	—
Mrs. Gina Lorenza Díez Barroso Arcárraga	6	—	6	—	—	—
	49	**—**	**49**	**233**	**—**	**233**

* Mr. Ignacio Benjumea Cabeza de Vaca resigns as a member of the Board in June 2020.
** Mr. Rodrigo Echenique Gordillo resigns as a member of the Board in December 2020.
*** Mr. Guillermo de la Dehesa resigns as a member of the Board in June 2020.
**** Ms. Esther Gimenez-Salinas i Colomer resigns as a member of the Board in December 2020.

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2020 and those at 31 December 2019, excluding the remuneration of the executive directors, which is detailed above:

EUR thousand

			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]
2020	18	21,642	5,739	5,740	2,470	2,471	6,039	6,312	50,413
2019	18	22,904	7,668	7,669	3,336	3,337	6,282	15,337	66,532

1. Includes other remuneration items such as life and medical insurance premiums and localization aids.
2. The amount of immediate payment in shares for 2020 is 2,135,700 shares (2,090,536 Santander shares in 2019).
3. The deferred amount in shares not linked to long-term objectives for 2020 is 919,308 shares (909,534 Santander shares in 2019).

At the annual general meeting on 3 April 2020, shareholders approved the 2020 Digital Transformation Incentive, a variable remuneration scheme that delivers Santander shares and share options if the group hits major milestones on its digital roadmap.

Three senior executives are included within this plan (aimed at a group of up to 250 employees whose functions are deemed essential to Santander Group's growth and digital transformation) and, thus, can receive a total of EUR 1,700 thousand to be paid in thirds on the third, fourth and fifth anniversary of the authorisation date (2024, 2025 and 2026). This amount is implemented in 316,574 Santander shares and 944,445 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (EUR 0.90).

Of the EUR 30,000 thousand approved by the 2020 general meeting as maximum amount for the 2020 Digital Transformation Award, a total overall cost of EUR 17,800 thousand has been approved, based on the final number of participants and the level of achievement of milestones.

The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries.

The 2019 Digital Transformation Incentive, which terms are substantially the same as those of the 2020 one, included three senior executives, who may receive up to a total of EUR 2,100 thousand.

See note 42 to the 2020 Group's consolidated financial statements for further information on the Digital Transformation Incentive.

In 2020, the ratio of variable to fixed pay components was 80% of the total for senior managers, well within the maximum limit of 200% set by shareholders.

Also, the detail of the breakdown of the remuneration linked to long-term objectives of the members of senior management at 31 December 2020 and 31 December 2019 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).

EUR thousand

		Variable remuneration subject to long-term objectives [1]		
Year	Number of people	Cash payment	Share payment	Total
2020	18	2,594	2,594	5,188
2019	18	3,503	3,504	7,007

1.Relates to the fair value of the maximum annual amounts for years 2024, 2025 and 2026 of the fifth cycle of the deferred conditional variable remuneration plan (2022, 2024 and 2025 for the fourth cycle of the deferred variable compensation plan linked to annual objectives for the year 2019).

Senior executive vice presidents who retired in 2020 and, therefore, were not members of senior management at year-end, received in 2020 salaries and other remuneration relating to their termination amounting to EUR 5,984 (EUR 6,789 thousand in 2019). 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 EUR

133 thousand (this right has been generated in 2019 for a total amount of EUR 615 thousand).

The average total remuneration awarded to women who were part of the senior management during 2020, excluding executive directors, is 37% lower 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 31 December 2020 and 31 December 2019 relating to the deferred portion under the various plans then in force is the following(see note 42):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,617	391,074
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	417,818	660,205
Deferred conditional variable remuneration plan and linked to objectives (2017)	791,360	1,115,570
Deferred conditional variable remuneration plan and linked to objectives (2018)	1,512,992	1,986,754
Deferred conditional variable remuneration plan and linked to objectives (2019)	2,154,312	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 2020 and 2019 to the senior management, in addition to the payment of the related cash amounts:

Number of shares delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,614	257,187
Performance shares plan ILP (2015)	—	515,456
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan (2018)	3,474	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	170,185	215,868
Deferred conditional variable remuneration plan and linked to objectives (2017)	219,363	245,575
Deferred conditional variable remuneration plan and linked to objectives (2018)	342,884	—

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. Banco Santander 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 Banco Santander 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 that 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.

The contracts of some senior executives were modified at the beginning of 2018 with the same objective and changes indicated in section *c* of this note for Ms Ana Botín and Mr José Antonio Álvarez. The modifications, which are aimed at aligning the annual contributions with the practices of comparable institutions and reducing the risk of future obligations by eliminating the supplementary scheme for death (widowhood and orphanhood) and permanent disability in service without increasing the costs to the bank, are as follows:

- 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 31 December 2020 in the pension system for those who were part of senior management during the year amounted to EUR: $59,400,000.00 (EUR 69.8 million at 31 December, 2019).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR $6,400,000.00 in 2020 (EUR 6.3 million in 31 December 2019).

In 2020 and 2019 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 31 December 2020 of this group amounts to EUR $135,100,000.00 (EUR 134.1 million at 31 December 2019).

h) Post-employment benefits to former Directors and former executive vice presidents

The post-employment benefits and settlements paid in 2020 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 11.2 million and EUR 6.3 million in 2019, respectively. Also, the post-employment benefits and settlements paid in 2020 to former executive vice presidents amounted to EUR 10.26 million and EUR 6.5 million in 2019, respectively.

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 0.17 million in 2020 (EUR 0.2 million in 2019). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous senior managers amounted to EUR 5.8 million in 2020 (EUR 5.5 million in 2019).

During the 2020 financial year, a release of EUR 5 million was recorded in the consolidated income statement for pension commitments and similar obligations held by the Group with previous former members of the bank's board of directors (in 2019, no provisions/releases were recorded), and no provisions/releases has been recorded in respect of former senior managers in 2020 and 2019.

In addition, 'Provisions - Pension Fund and similar obligations' in the consolidated balance sheet as at 31 December 2020 included EUR 52 million in respect of the post-employment benefit obligations to former Directors of the Bank (EUR 65.7 million at 31 December 2019) and EUR 159 million corresponding to former senior managers (EUR 172 million at 31 December 2019).

i) Pre-retirement and retirement

The board of directors has approved, subject to the condition that the remuneration policy be approved at the annual general shareholders' meeting, an amendment to the contracts of the executive directors whereby:

- Ms Ana Botín ceases to have the right to pre-retire if she leaves the Bank out of her own volition, keeping this right in case of termination by the Bank until 1 September 2022. After this date, she does not have the right to pre-retire. While she keeps this right 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 is subject to the *malus* and *clawback* provisions in place for a period of five years.
- Mr. José Antonio Álvarez ceases to have the right to pre-retire in case of termination of his contract.

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 Banco Santander 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 Banco Santander were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at Banco Santander's disposal for a period of 4 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 have declared that they or persons related to them may have a direct or indirect conflict of interest with the interests of Banco Santander, S.A., as set forth in Article 229 of the Corporate Enterprises Act.

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:

EUR million	2020	2019
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	482	138
Financial assets designated at fair value through other comprehensive income	—	—
Financial assets at amortized cost	21	22
	503	**160**
Breeakdown by product		
Reverse repurchase agreements	482	138
Other term loans	20	20
Advances different from loans	1	2
Of which, impaired assets	—	—
Of which, valuation adjustments for impairment	—	—
	503	**160**
Currency		
Euro	502	160
US Dollars	1	—
	503	**160**
CREDIT INSTITUTIONS		
Classification		
Financial assets held for trading	3	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	9,888	18,543
Financial assets designated at fair value through other comprehensive income	—	—
Financial assets at amortized cost	34,159	34,747
	44,050	**53,290**
Breakdown by product		
Credit card Debt	—	—
Commercial credit	931	1,044
Finance leases	7	8
Reverse repurchase agreements	15,897	24,667
Other term loans	16,733	14,324
Advances different from loans	10,482	13,247
Of which, impaired assets	—	—
Of which, valuation adjustments for impairment	*(6)*	*(7)*
	44,050	**53,290**
Currency		
Euro	30,815	40,069
Pound sterling	1,555	1,539
US dollar	10,632	10,555
Chilean pesos	741	747
Brazilian real	—	237
Other currencies	307	143
	44,050	**53,290**
TOTAL	**44,553**	**53,450**

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.

Deposits in credit institutions classified as 'Financial assets at amortized cost' (Circular 4/2017 of Banco de España) are mainly term accounts and bonds given in cash to credit institutions.

The loans and advances to credit institutions classified under 'Financial assets at amortized' are mainly time accounts and deposits. In addition, at December 31, 2020, there were outstanding balances with central banks and credit institutions for EUR 63.984 million and EUR 2.275 million, respectively (2019: EUR 24,596 million and EUR 6,324 million, respectively). These balances are included under 'Cash, cash balances at central banks and other deposits on demand'.

Note 48 shows the details of the maturity terms of financial assets at amortized cost (Bank of Spain Circular 4/2017), as well as its average interest rate.

The breakdown as of December 31, 2020 of the exposure and of the provision fund by phase of impairment of the 'Financial assets at amortized cost' accounted is EUR 34,187 million and EUR 6 million in stage 1 (EUR 34,776 million and EUR 7 million in phase 1, in 2019).

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

EUR millon

	2020	2019
Classification		
Financial assets held for trading	18,243	19,094
Non-trading financial assets mandatorily at fair value through profit or loss	671	1,099
Financial assets designated at fair value through profit or loss	—	—
Financial assets designated at fair value through other comprehensive income	15,146	26,306
Financial assets at amortized cost	11,413	14,528
	45,473	**61,027**
Type		
Central banks	362	322
Public sector	23,681	36,252
Credit institutions	10,123	10,651
Other financial institutions	10,169	12,327
Non-financial institutions	1,138	1,475
Of which, impaired assets	*134*	—
Of which, value adjustments for impairment	*(74)*	*(11)*
	45,473	**61,027**
Currency		
Euro	32,431	44,556
US dollar	6,105	7,699
Pound sterling	3,903	5,693
Brazilian real	1,491	1,834
Other currencies	1,543	1,245
	45,473	**61,027**

At 31 December 2020, the nominal amount of debt instruments assigned to Banco Santander's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 9,495 million (EUR 18,373 million in 2019), of which EUR 5,512 million related to Spanish government debt (EUR 11,553 million in 2019).

The breakdown at 31 December 2020 of the exposure by impairment phase of impairment assets is EUR 26.5 billion in phase 1 and EUR 134 million in phase 3. In 2019 the entire exhibition (EUR 40.845 million) was in Phase 1.

Note 25 e) shows the details of 'Other comprehensive income accumulated in Equity for the Financial Assets designated at fair value' through other comprehensive income' (Bank of Spain Circular 4/2017) and impairment corrections.

Note 48 shows the details of the maturity periods of 'Loans and Advances and Financial Assets designated at fair value through other comprehensive income' and 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:

EUR millon

	2020	2019
Classification		
Financial assets held for trading	9,758	11,697
Non-trading financial assets mandatorily at fair value through profit or loss	305	231
Financial assets designated at fair value through other comprehensive income	1,942	1,856
	12,005	**13,784**
Listing status		
Listed	10,819	13,439
Unlisted	1,186	345
	12,005	**13,784**
Currency		
Euros	8,527	8,751
Pound sterling	1,938	2,737
Chinese yuan	908	1,127
Brazilian real	426	451
US Dollar	151	126
Other currencies	55	592
	12,005	**13,784**
Type		
Shares of Spanish companies	3,276	3,555
Shares of foreign companies	8,396	9,668
Investment fund units and shares	333	561
	12,005	**13,784**

Note 25 contains a detail of the 'Other comprehensive income, recognized 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:

EUR million

	2020	2019
Balance at December 31 of the previous year	**1,856**	**1,751**
Purchases and capital increases	1,433	749
Of which		
Saudi British Bank	*—*	*632*
Project Quasar Investments 2017, S.L.	*956*	*—*
Disposals and capital reductions	(372)	(550)
Of which		
RFS Holdings, B.V.	*—*	*(540)*
Saudi British Bank	*(326)*	*—*
Valuation adjustment and other items*	(975)	(94)
Balance at end of the year	**1,942**	**1,856**

* Significant changes in value occurred during the year 2020, due to the fall in prices of listed companies covered under this heading.

In September 2020, on the occasion of the loss of control over Project Quasar Investments 2017, S.L., Banco Santander's holding in the portfolio, until then registered under the heading 'Associated Entities' (see note 13 a.ii), amounting to EUR 956 million, was reclassified to this portfolio.

Also, on September 7, 2020 and on December 1, 2020, Banco Santander has proceeded to sell its shares owned by Saudi British Bank, which has resulted in the total reduction of its share valued at that time EUR 326 million.

Under the 'Share Premiun Contribution Agreement' dated June 13, 2019 and on July 7, 2020, Banco Santander has contributed EUR 53 million to RFS Holding B.V. and that entity has distributed assets and liabilities between each of the holding's shareholders, then proceeding to the sale of the holding company.

As a result of the distribution referred to in the preceding subparagraph,Banco Santander has received shares in Saudi British Bank equivalent to 3.01% of that institution's capital for a market value of EUR 632 million and has declined its stake in RFS Holding B.V.

c) Notifications of acquisitions of investments

The notifications made by Banco Santander in 2020, 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 Banco Santander at 31 December 2020 and 2019 is as follows.

EUR million

	2020		2019	
	Debit balance	Credit balance	Debit balance	Credit
Interest rate	35,280	31,484	37,828	35,305
Equity instruments	1,873	918	2,233	1,816
Currency and Gold	16,062	17,986	15,324	18,562
Credit	77	223	206	286
Commodities	—	—	—	—
Others	70	65	103	99
	53,262	**50,676**	**55,694**	**56,068**

b) Short positions

Following is a breakdown of the short positions:

EUR million

	2020	2019
Securities lending		
Equity instruments	289	308
Uncovered on assignments		
Debt instruments	10,049	7,980
Total	**10,338**	**8,288**

10. Loans and advances to customers

a) Detail

The detail, by classification, of 'Loans and advances to customers' in the balance sheets is as follows:

EUR million

	2020	2019
Financial assets held for trading	71	98
Non-trading financial assets mandatorily at fair value through profit or loss	1,249	1,289
Financial assets designated at fair value through profit or loss	23,529	31,178
Financial assets at fair value through other comprehensive income	5,535	3,865
Financial assets at amortized cost	265,427	239,998
Loans and advances to customers	**295,811**	**276,428**
Of which		
Impairment losses	*(6,981)*	*(6,245)*
Loans and advances to customers disregarding impairment losses	**302,792**	**282,673**

Note 48 shows the details of the maturity periods of financial assets at amortized cost, as well as their average interest rates.

At 31 December 2020 and 2019, 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 Banco Santander´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:

EUR million

	2020	2019
Loan type and status		
On demand and with a short prior period	2,473	1,967
Credit cards receivables	1,264	1,597
Commercial credit	15,920	17,277
Finance leases	2,951	3,471
Reverse repurchase agreements	14,700	21,043
Other term loans	246,679	220,829
Non loans advances	11,824	10,244
Of which		
Impaired assets	*13,524*	*13,994*
Mortgage loans	*89,763*	*94,758*
Other secured loans	*35,068*	*41,845*
Impairment losses	*(6,981)*	*(6,245)*
Book value	**295,811**	**276,428**
Gross book value	**302,792**	**282,673**
By sector		
Public sector	13,458	13,287
Other financial institutions	63,742	57,143
Non-financial institutions	141,657	125,907
Households	83,935	86,336
	302,792	**282,673**
Geographical area		
Spain	213,407	199,878
European Union (excluding Spain)*	27,949	41,129
United States of America and Puerto Rico	22,624	17,082
Other OECD countries*	20,224	7,814
Latin America (non-OECD)	7,704	7,373
Rest of the world	10,884	9,397
	302,792	**282,673**
Interest rate:		
Fixed rate	137,397	113,223
Floating rate	165,395	169,450
	302,792	**282,673**

* Changes are mainly due to the reclassification of United Kingdom balances due to their 2020 exit from the European Union.

At December 31, 2020 and 2019 Banco Santander had EUR 11,767 and 9,691 million, respectively, of loans and advances granted to Spanish public administrations whose rating at December 31, 2020 is A (rating at December 31, 2019 was A) and with EUR 1,691 and 3,596 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: 1% AAA, 20% AA, 18% A, 4% BBB and 257% lower than BBB).

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by Banco Santander (see note 49) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Without considering the 'Public Administrations', the amount of loans and advances as of December 31, 2020 amounts to EUR 289,334 million, of which EUR 275,810 million are in no doubt situation.

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Following is a detail, by activity, of the loans to customers at 31 December 2020, net of impairment losses:

EUR million

	Total*	Without collateral	Secured loans						
			Net exposure		Loan-to-value ratio (a)				
			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	12,099	11,569	194	336	69	75	36	342	8
Other financial institutions and individual traders (business financial activity)	53,953	35,869	940	17,144	537	606	226	16,388	327
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	143,683	100,491	24,410	18,782	9,404	8,099	5,531	15,124	5,034
Of which									
Construction and property development (including land)	2,692	14	2,670	8	1,048	882	518	152	78
Civil engineering construction	2,076	1,149	103	824	16	198	13	676	24
Large companies	86,374	65,974	6,791	13,609	2,862	2,390	2,180	10,247	2,721
SMEs and individual traders	52,541	33,354	14,846	4,341	5,478	4,629	2,820	4,049	2,211
Other households (broken down by purpose)	74,251	8,680	64,163	1,408	17,713	19,455	18,959	5,943	3,501
Of which									
Residential	59,100	663	58,254	183	15,822	17,943	17,490	4,743	2,439
Consumer loans	7,896	7,149	439	308	200	144	164	148	91
Other purposes	7,255	868	5,470	917	1,691	1,368	1,305	1,052	971
Total*	**283,986**	**156,609**	**89,707**	**37,670**	**27,723**	**28,235**	**24,752**	**37,797**	**8,870**
Memorandum item									
Refinanced and restructured transactions	10,091	1,257	7,917	917	1,463	1,395	1,371	1,667	2,938

* Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2020 to the latest available appraisal value of the collateral.

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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 recognized 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 2020:

EUR million

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	**226,826**	**9,288**	**13,994**	**250,108**
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(6,288)	6,288		—
Transfer to Stage 3 from Stage 1	(812)		812	—
Transfer to Stage 3 from Stage 2		(1,910)	1,910	—
Transfer to Stage 1 from Stage 2	1,818	(1,818)		—
Transfer to Stage 2 from Stage 3		301	(301)	—
Transfer to Stage 1 from Stage 3	259		(259)	—
Net changes on financial assets	30,585	(118)	(702)	29,765
Failed	—	—	(1,930)	(1,930)
Differences in change and other movements				
Balance at end of the year	**252,388**	**12,031**	**13,524**	**277,943**

As of December 31, 2020, the total net exposure of loans and advances to Banco Santander customers is EUR 270,962 million, of which EUR 251,904 million correspond to phase 1, EUR 11,316 million to phase 2 and EUR 7,742 million with phase 3. The Bank presents EUR 284 million (EUR 444 million as of December 31, 2019) in impaired assets purchased with impairment, which correspond mainly to the business combinations that Banco Santander has carried out.

c) Impairment losses on loans and advances to customers at amortized 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 amortized cost and at fair value through other comprehensive income 'Loans and advances - Customers':

EUR million

	2020	2019
Balance at beginning of the year	**6,245**	**7,300**
Net impairment losses charged to income for the year	2,577	1,423
Of which		
Impairment losses charged to income	*4,075*	*3,972*
Impairment losses reversed with a credit to income	*(1,498)*	*(2,549)*
Decreases due to amounts used against value adjustments	(1,930)	(2,480)
Exchange differences and other changes	89	2
Balance at end of the year	**6,981**	**6,245**
Of which		
By status of the asset		
Impaired assets	*5,782*	*5,397*
Of which, due to country risk	*—*	*5*
Other assets	*1,199*	*848*
Balance at end of the year	**6,981**	**6,245**
Of which		
Individually calculated	*909*	*1,083*
Collective calculated	*6,072*	*5,162*

The suspended assets recovered during the financial year 2020 amount to EUR 82 million (EUR 179 million as at 31 December 2019). In addition, EUR 38 million has been recognized for losses due to renegotiation or contractual modification as at 31 December 2020 (no amount recognised as at 31 December 2019).

Including recovered suspended assets such as impairment of Credit Institutions (see notes 6 and 7) the amount recorded under the heading 'Impairment of impairment of financial assets not measured at fair value through profit or loss and net modification gains or losses' amounts to EUR 2,559 million in the financial year 2020. The amount amounted to EUR 1,246 million in 2019.

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers, under Bank of Spain Circular 4/2017, aligned with IFRS 9 during 2020:

EUR million

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	**335**	**513**	**5,397**	**6,245**
Transfers				
Transfer to Stage 2 from Stage 1	(138)	242		104
Transfer to Stage 3 from Stage 1	(94)		382	288
Transfer to Stage 3 from Stage 2		(122)	288	166
Transfer to Stage 1 from Stage 2	10	(82)		(72)
Transfer to Stage 2 from Stage 3		22	(65)	(43)
Transfer to Stage 1 from Stage 3	6		(19)	(13)
Net changes of the exposure and modifications in the credit risk	359	131	1,657	2,147
Changes due to update in the methodology of estimates of the entity				
Write-offs	7	10	72	(1,930)
FX and other movements				
Gross carrying amount end of the year	**485**	**714**	**5,782**	**6,981**

d) Impaired assets and assets with unpaid past-due amounts

The detail of the movement produced in the balance of financial assets classified as 'Loans and receivables - Customers' and considered to be impaired by reason of their credit risk:

EUR million

	2020	2019
Balance at beginning of the year	**13,994**	**15,695**
Net additions	1,460	779
Written-off assets	(1,930)	(2,480)
Other changes	—	—
Balance at end of the year	**13,524**	**13,994**

This amount, once the corresponding provisions have been deducted, is Banco Santander´s best estimate of the discounted value of the flows that are expected to be recovered from impaired assets.

At 31 December 2020, the balance of the assets written-off amounted to EUR 8,660 million. (December 2019: EUR 8,296 million).

Details of those financial assets classified in the 'Financial assets at amortized 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:

EUR million

	2020				
	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	4	—	—	9	13
Other financial institutions	13	1	141	52	207
Non-financial institutions	2,895	332	442	4,859	8,528
Households	1,252	273	445	2,806	4,776
	4,164	**606**	**1,028**	**7,726**	**13,524**

EUR million

	2019				
	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**

The following are the credit impaired financial assets and related guarantees maintained to mitigate potential losses as at 31 December 2020:

EUR million

	Gross amount	Allowance recognized	Estimated collateral value*
Without associated real collateral	3,186	2,919	—
With associated real collateral	9,591	2,623	5,397
With other collateral	747	240	175
Total	**13,524**	**5,782**	**5,572**

* Collects the estimated value of the collateral associated with each loan. Consequently, it does not include any other cash flow that could be obtained, such as those from the personal guarantees of the accredited.

When classifying assets in the previous table, the main factors considered by Banco Santander 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 2020, there are 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:

EUR million

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	809	31	17
Of which Public Sector	1	—	—
Total	**809**	**31**	**17**

e) Transferred credits

The heading 'Loans and Advances to customers' includes, among others, those loans transferred to third parties by securitisation on which risks and profits are maintained, albeit partially, which is why and in accordance with the accounting regulations that apply, they cannot be removed from the balance sheet. Securitisation loans are mainly mortgage loans, business loans and consumer loans. The breakdown of securitised loans held on the balance sheet, taking into account the nature of the financial instrument from which they originate, is shown below. Liabilities associated with securitisation transactions are reported in note 19.

EUR million

	2020	2019
Retained on the balance sheet	**20,113**	**18,769**
Of which, mortgage assets are securitized through:		
Mortgage transfer certificates	*17,610*	*14,569*
	20,113	**18,769**

The evolution of this activity responds to its use as a regulatory capital management tool and as a resource for the diversification of the liquidity sources of Banco Santander. During the years 2020 and 2019, the Bank has not discharged any of the securitisations carried out therein, corresponding the derestrated balance at those dates to securitisations carried out in previous years..

As of December 31, 2020, Banco Santander has derogated credits from the balance sheet and on which the administration maintains in the amount of EUR 1,778 million (EUR 415 million as at 31 December 2019). In addition, as of December 31, 2020, there are EUR 1,005 million (EUR 1,130 million in 2019) of securitised off-balance sheet assets.

f) Guarantee

Following is a detail of the accounting amount of mortgage-backed bonds and securitized bonds, excluding treasury shares at 31 December 2020 and 2019:

EUR million

	2020	2019
Guarantee:		
Mortgage-backed bonds	23,522	23,594
Asset-backed securities	368	116
	23,890	**23,710**

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 unsecuritized mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.

- Transactions exceeding 80% of the appraized 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 Banco Santander (financial and non-financial assets) which the Bank is authorized 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 Banco Santander in 2020 and 2019 is as follows:

EUR million

	2020		2019	
	Notional value	Market value	Notional value	Market value
Held for trading:				
Interest rate	4,423,110	3,795	4,638,109	2,523
Options	247,858	(441)	302,937	(533)
Other	4,175,252	4,236	4,335,172	3,056
Equity instruments	50,733	955	54,880	417
Options	39,270	4	35,402	(301)
Other	11,463	951	19,478	718
Currency	618,977	(1,925)	634,016	(3,239)
Options	39,842	41	39,205	13
Other	579,135	(1,966)	594,811	(3,252)
Credit	11,652	(146)	23,190	(80)
Hedging default derivative and total through out	11,652	(146)	23,190	(80)
Securities and commodities derivatives and other	6,067	7	5,677	4
	5,110,539	**2,686**	**5,355,872**	**(375)**

12. Non-current assets held for sale

The balance detail under this heading of the attached balance sheets is shown below:

EUR million

	2020	2019
Foreclosed assets	1,001	1,089
Other assets leased out under an operating lease	231	33
Investment property	55	42
Total	**1,287**	**1,164**

At 31 December 2020, 'Non-current assets' held for sale was reduced by impairment losses amounting to EUR 626 million (2019: EUR 598 million), of which EUR 68 million were recognized in 2020 (2019: EUR 70 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, 2020 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 Banco Santander`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 2020 there were no capital increases in progress at any associated company.

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:

EUR million

	2020	2019
Currency:		
Euro	3,082	4,860
Foreign Currency	—	—
	3,082	**4,860**
Listing status:		
Listed	1,978	1,938
Unlisted	1,104	2,922
	3,082	**4,860**

ii. Changes

The changes in 2020 and 2019 in 'Investments - Associates'', disregarding impairment losses, were as follows:

EUR million

	2020	2019
Balance at the beginning of the year	**5,432**	**5,446**
Purchases, capital increases and mergers	512	83
Of which		
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*414*	—
Merlín Properties, SOCIMI, S.A.	*87*	—
Promontoria Manzana, S.A.	*3*	*72*
Disposals, reductions and mergers:	(9)	(116)
Of which		
Promontoria Manzana, S.A.	*4*	—
Merlin Properties, SOCIMI, S.A.	—	*(8)*
Grupo Financiero Ve por Más, S.A. de C.V.	—	*(86)*
Transfers	(2,535)	—
Of which		
Project Quasar Investment 2017, S.L.	*(1,701)*	—
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*(834)*	—
Other changes (net)	(37)	19
Balance at end of the year	**3,363**	**5,432**

On January 31, 2020, Banco Santander proceeded to repurchase 60% of the stake in Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.) for an amount of EUR 414 million, reaching a 100% stake in this company. The total cost of this participation after this acquisition has been fixed at EUR 834 million, and then reclassify it to the heading of 'Group Entities' (see note 12.b.ii).

In addition, during the year 2020, Banco Santander acquired shares of Merlín Properties, SOCIMI, S.A. through various purchases on the stock market for a net total of EUR 87 million.

Also, in September 2020, on the occasion of the loss of control over the entity Proyecto Quasar Inversiones 2017, S.L., Banco Santander's share in the same, amounting to EUR 1,701 million (EUR 956 million net impairment fund), was reclassified to the portfolio of Equity Instruments (see note 8.b.ii).

In March 2019, as part of a project with the sale of properties awarded by several companies of Grupo Santander, Banco Santander acquired 20% of the company Promontoria Manzana, S.A., subsequently making a contribution of real estate. As a result of the partner contribution made and the capital increase, the next cost of this participation amounted to EUR 72 million.

In addition, on July 1, 2019, it proceeded to the sale of its stake in the Mexican company Grupo Financiero Ve por Más, S.A. de C.V. of EUR 85 million, registering a profit from this operation of EUR 12 million.

iii. Impairment losses

The changes in the balance of this item were as follows:

EUR million

	2020	2019
Balance at the beginning of the year	**572**	**346**
Net impairment losses (reversals) (note 44)	460	250
Other changes	(751)	(24)
Balance at end of the year	**281**	**572**

b) Subsidiaries

'Investments - Subsidiaries' includes the equity instruments owned by Banco Santander 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 2020 and 2019 is as follows:

EUR million	2020	2019
Currency:		
Euro	44,346	38,212
Pound Sterling	12,163	15,383
Other currencies	25,051	28,628
	81,560	**82,223**
Listing status:		
Listed	5,968	8,787
Unlisted	75,592	73,436
	81,560	**82,223**

ii. Changes

The changes in 2020 and 2019 in 'Investments - Subsidiaries', disregarding impairment losses, were as follows:

EUR million	2020	2019
Balance at beginning of the year	**89,318**	**83,309**
Acquisitions, contributions, capital increase payments and mergers	7,108	6,026
Of which		
Santander Totta, SGPS, S.A.	*4,949*	*-*
PagoNxt, S.L. (before Santander Digital Businesses, S.L.)	*1,030*	*-*
Sam Investment Holding Limited	*292*	*—*
Uro Property Holding, SOCIMI, S.A.	*179*	*—*
Landmark Iberica, S.L. (now Landcompany 2020, S.L.)	*33*	*272*
Santander Consumer Finance, S.A.	*—*	*3,193*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*—*	*1,683*
Disposals, capital reductions and mergers	(3,725)	(770)
Of which		
Banco Santander (Brasil) S.A.	*(2,478)*	*—*
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*(292)*	*—*
Santander Global Property, S.L.U.	*(255)*	*—*
Santander Merchant Platform Solutions, S.L.	*(150)*	*—*
Inmobiliaria Viagracia, S.A.U.	*(109)*	*—*
Inversiones Capital Global, S.A.	*(67)*	*(197)*
BPE Financiaciones, S.A.U.	*(1)*	*—*
Transfers	1,013	3
Of which		
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*834*	*—*
FX and other movements*	204	750
Balance at end of the year	**93,918**	**89,318**

* In 2020 it includes EUR 2,507 million corresponding to the contingently convertible debt instruments (AT1) transferred under this heading.

On January 31, 2020, Banco Santander proceeded to transfer to this heading 100% of its stake in Popular Spain Holding de Inversiones, S.L.U. (formerly Allianz Popular, S.L.) for an amount of EUR 834 million (see note 13.a.ii). Next, on 28 April 2020, Popular Spain Holding de Inversiones, S.L.U. approves a refund of the issuance premium of EUR 292 million to Banco Santander by transferring a credit right derived from the deferred price of two contracts for the sale of shares and the Bank makes a contribution to the own funds of SAM

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Investment Holding Limited for the same amount, by assignment of the said right.

On May 8, 2020, Banco Santander signed two successive capital increases by Landcompany 2020, S.L. (before Landmark Iberia, S.L.) through non-cash contributions of land totaling EUR 33 million, reaching a share rate of 17.22%.

On 30 June 2020, the sole partner of Investments Capital Global, S.A.U. approved a partial distribution of the issue premium, which has meant to derogate Banco Santander share in the company of EUR 67 million.

In September 2020, Banco Santander acquired 85.03% of the shares of Uro Property Holdings, SOCIMI, S.A. reaching a total share of 99.99%. As a result of this acquisition, this stake has been enforced under this heading at a total cost of EUR 179 million.

On December 22, 2020, in the context of the reorganization of the shareholder of Banco Santander (Brasil) S.A. within the Group, Banco Santander has sold 13.89% of its stake in that entity to Grupo Empresarial Santander, S.L. for EUR 3.605 million. As a result of this sale, the Bank has recorded a profit of EUR 1,127 million (see note 45).

Also, on December 23, 2020, the deeds of merger by absorption by Banco Santander of the entities Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. have been raised to the public. The amount discharged under this heading for this operation was EUR 365 million.

In addition, on December 28, 2020, Banco Santander acquired 99.85% of Santander Totta, SGPS, S.A. shares from Santusa Holding, S.A. for an amount of EUR 4.949 million.

In addition, during the year 2020, Banco Santander has made various monetary contributions to the own funds of the company PagoNxt, S.L. (formerly Santander Digital Businesses, S.L.) totaling EUR 754 million. In addition, it has also signed capital increases during 2020 and made non-cash contributions to this company totaling EUR 276 million, by contributing its participation in the following companies: EUR 45 million by Ebury Partners Limited, EUR 31 million by Moneybit, S.L., EUR 150 million for Santander Merchant Solutions, S.L. (before Santander Merchant Platform Solutions, S.L.) and EUR 50 million for PagoFX Holdco, S.L.

On 22 January 2019, Banco Santander established Landcompany 2020 S.L. (before Landmark Iberia, S.L.). Subsequently, on 29 April 2019, the Bank made a shareholder contribution of EUR 1 million and on November 8, 2019, together with other companies in the Group, signed a non-cash capital increase with an emission premium by means of a soil-contributing emission premium, with a value of EUR 271 million. After these operations, it reached a 16.20% stake in that company.

On September 10, 2019, on the occasion of the Public Offer for Acquisition of Shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, the Bank acquired 16.68% of the shares of that company, for this purpose, carried out a capital increase of 381,540,640 shares with an issue premium, totaling EUR 1,683 million, which were delivered to the shareholders of the aforementioned entity who went to the offer.

In addition, on September 26, 2019, the company Inversiones Capital Global, S.A.U. made a refund of reserves of EUR 197 million, which Banco Santander recorded reducing the net cost of the participation for that amount.

On December 20, 2019, Banco Santander purchased from Holneth B.V. its stake in Santander Consumer Finance, S.A. for EUR 3.193 million, reaching 99.99% in that company with this acquisition.

iii. Impairment losses

The changes in the balance of this item were as follows:

EUR million

	2020	2019
Balance at beginning of the year	**7,095**	**6,985**
Net impairment losses (reversals) (note 44)	5,466	207
Other changes	(203)	(97)
Balance at end of the year	**12,358**	**7,095**

The Management conducts an analysis of the potential loss of value of investments in subsidiaries, joint ventures and associates that are registered with respect to their book value. This analysis is performed using different parameters, such as equity value, quotation value and recoverable value, which is obtained from estimates of expected cash flows or net worth corrected by tacit capital gains existing at the valuation date, including goodwill registered at that date.

Bank of Spain Circular 4/2027 requires that a Cash-Generating Unit ('UGE') to which goodwill has been assigned to be subject to an impairment test annually, and provided there is evidence of impairment.

The Group's impairment test for goodwill allocated to each UGE is carried out annually. However, a review of the indicators of impairment is made in each reporting period. Considering the reasons explained below, a impairment test was carried out as of 31 December 2020 for all UGES.

The standard sets a minimum number of indicators for assessing whether there is any indication, so despite the great uncertainty as to how the covid-19 crisis will affect the economies of some of our subsidiaries, the Panel considers the circumstances described below as situations in which the deterioration, in this regard:

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- Current changes in the economic environment in which GDP is expected to decline in most countries and their recovery will end within two to three years. The evolution planned for the coming months, by the different national and international agencies for magnitudes such as GDP, unemployment, growth of credit portfolios, etc., is negative and the recovery of these economies will be less pronounced and at a slower rate than their fall.
- Uncertainty about the macroeconomic situation also leads to a lower expectation of profitability, and market premiums will increase considerably. As a result of a higher cost of capital, discount rates applied to cash flows are higher (rates reflect the risk associated with the current environment), resulting in lower value in use.

In addition, the Group is already seeing budgetary deviations in most subsidiaries due to current macroeconomic prospects, which also adversely affect future cash flows.

Taking into account the reasons described above, in December 2020, Banco Santander carried out the evaluation of its investees. Impairment appropriations made by Banco Santander during the financial year 2020 include EUR 4.313 million corresponding to the deterioration of the holding held in Santander UK Group Holding PLC.

c) Jointly controlled entities

The cost of the investee entities registered under this heading as of 31 of December 2020 amounts to EUR 420 million, while impairment provisions recorded at that date are EUR 172 million.

In March 2019, Banco Santander proceeded to sell 34.18% of its stake in Inbond Invesiones 2014, S.L. for an amount of EUR 146 million, registering a capital gain for this operation of EUR 57.3 million.

During the year 2020, Banco Santander releazed provisions of EUR 5 million by entities registered under this heading corresponding to UCI, S.A, while in 2019 it releazed provisions of EUR 23 million for the same company.

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

EUR million

	2020	2019
Assets relating to insurance contracts covering post-employment benefit plan obligations (notes 17 and 23)	423	511
	423	**511**

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15. Tangible assets

a) Changes

The movement under this heading of the balance sheet during the financial year 2020 and 2019 was as follows:

EUR million

	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								
Opening 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 other	(112)	—	(105)	(217)	—	—	—	—
Balance at 31 December 2019	**8,597**	**850**	**337**	**9,784**	**2,946**	**—**	**—**	**2,946**
Additions/disposals (net)	174	126	—	300	8	—	—	8
Transfers and others	(455)	—	(10)	(465)	—	—	—	—
Balance at 31 December 2020	**8,316**	**976**	**327**	**9,619**	**2,954**	**—**	**—**	**2,954**
Accumulated depreciation								
Opening 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 others	(2)	(11)	2	(11)	—	—	—	—
Balance at 31 December 2019	**(2,298)**	**(199)**	**(21)**	**(2,518)**	**(268)**	**—**	**—**	**(268)**
Charge for the year	(453)	(99)	(2)	(554)	(262)	—	—	(262)
Disposals	43	69	—	112	28	—	—	28
Transfers and others	195	—	7	202		—	—	—
Balance at 31 December 2020	**(2,513)**	**(229)**	**(16)**	**(2,758)**	**(502)**	**—**	**—**	**(502)**
Impairment losses								
Opening balance at 1 January 2019	(22)	—	(153)	(175)	—	—	—	—
Charge for the year	—	—		—	—	—	—	—
Disposals	—	—		—	—	—	—	—
Transfers and others	(24)	—	64	40	—	—	—	—
Balance at 31 December 2019	**(46)**	**—**	**(89)**	**(135)**	**—**	**—**	**—**	**—**
Charge for the year	(62)	—	—	(62)	—	—	—	—
Disposals	—	—	—	—	—	—	—	—
Transfers and others	20	—	(4)	16	—	—	—	—
Balance at 31 December 2020	**(88)**	**—**	**(93)**	**(181)**	**—**	**—**	**—**	**—**
Tangible assets, net								
Balance at 31 December 2019	**6,253**	**651**	**227**	**7,131**	**2,678**	**—**	**—**	**2,678**
Balance at 31 December 2020	**5,715**	**747**	**218**	**6,680**	**2,452**	**—**	**—**	**2,452**

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 2020 and 2019 sheets is as follows:

EUR million

	Cost	Accumulated depreciation	Impairment losses	Carrying amount	Of which, right-of-use for operating lease
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	—
Balance at 31 December 2019	**8,597**	**(2,298)**	**(46)**	**6,253**	**2,678**
Land and buildings	5,514	(644)	(88)	4,782	2,452
Furniture, fixtures and vehicles	2,130	(1,322)	—	808	—
Computer hardware	634	(547)	—	87	—
Other	38	—	—	38	—
Balance at 31 December 2020	**8,316**	**(2,513)**	**(88)**	**5,715**	**2,452**

The carrying amount at 31 December 2020 in the table above includes the following approximate amounts:

- EUR 2 million (31 December 2019: EUR 2 million) relating to property, plant and equipment owned by Banco Santander's branches located abroad.
- EUR 549 million (31 December 2019: EUR 627 million) relating to property, plant and equipment held under finance leases by Banco Santander, of which EUR 427 million related to leases in force at 31 December 2020 (31 December 2019: EUR 513 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:

EUR million

	2020	2019
Santander España	623	623
Amortization charge	(165)	(102)
Balance at end of year	**458**	**521**

The movement during the years 2020 and 2019 has been as follows:

EUR million

	2020	2019
Balance at beginning of the year	**521**	**583**
Additions (note 3)	—	—
Of which		
Santander España	—	—
Amortization charge	(63)	(62)
Impairment losses	—	—
Disposals or changes in scope	—	—
Balance at end of year	**458**	**521**

Neither in 2020, nor in 2019 has goodwill been generated.

In 2018, Banco Santander registered goodwill generated in the following corporate operations:

- Merger by absorption of Banco Popular Español, S.A.U.: on 7 June 2017 Banco Santander acquired 100% of the share capital of Banco Popular Español, S.A.U., arising as a result of the business combination, a goodwill of EUR 248 million recorded in consolidated books. Subsequently, on 28 September 2018, the merger deed for absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A., was registered in the Mercantile Registry of Cantabria, with accounting effects January 1, 2018, transferring to individual books the goodwill pending amortizing at that date, EUR 236 million.

- Repurchase of the credit and debit card business marketed by Grupo Banco Popular in Spain and Portugal generating the business combination a goodwill of EUR 375 million.

According to the provisions of Banco de España's circular 4/2017, goodwill will be amortized within ten years. In addition, the Bank periodically reviews the term and method of amortization and, if it considers that they are not appropriate, the impact will be treated as a change in accounting estimates.

As at 31 December 2020 and 31 December 2019, the amount of goodwill recorded by Banco Santander, net of accumulated depreciation, amounts to EUR 458 million and EUR 521 million respectively.

Banco Santander, at least annually and whenever there are indicators of impairment, conducts an analysis of the potential loss of value of the trade funds it has recorded in respect of their recoverable value.

The first step in carrying out this analysis requires the identification of the cash-generating units, which are the smallest identifiable groups of assets in Banco Santander that generate cash inflows and are largely independent of the cash flows of other assets or asset groups.

For the purposes of those mentioned in the preceding paragraph, the Bank's administrators have identified the banking commercial business in Spain as the cash-generating unit to which to allocate goodwill arising both by the acquisition and subsequent merger by absorption of Banco Popular Español, S.A.U. and by the repurchase of the credit and debit cards from Grupo Banco Popular.

Its carrying 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 carrying value is compared to its recoverable amount in order to determine whether there is impairment. The recoverable amount of the cash-generating unit Santander España has been determined as the fair value of that cash-generating unit obtained from quotes, market references (multiples) and internal estimates. At the end of the year, this value exceeded the carrying value.

Based on the above, and according to the estimates of the Bank's directors, during the years 2020 and 2019 the Bank has not recorded a balance under the heading Impairment or impairment reversal of 'Non-financial assets' 'Intangible assets' as a result of impairment of goodwill'.

b) Other intangible assets

i. Breakdown

The detail of Intangible assets 'Other intangible assets' in the balance sheets is as follows:

EUR million

	2020	2019
With finite useful life		
IT Developments	996	550
Accumulated amortization	(506)	(386)
Balance at end of year	**490**	**164**

ii. Changes

The changes in Intangible assets 'Other intangible assets' in the balance sheets were as follows:

EUR million

	2020	2019
Balance at end of prior year	**164**	**195**
Net additions and disposals	447	62
Amortization charge	(120)	(93)
Impairments losses	(1)	—
Balance at end of year	**490**	**164**

17. Other assets and Other liabilities

The detail of 'Other assets and Other liabilities' in the accompanying balance sheets is as follows:

EUR million

	Assets		Liabilities	
	2020	2019	2020	2019
Transactions in transit	—	565	20	433
Insurance contracts linked to pensions (note 14)	423	511	—	—
Inventory	—	—	—	—
Prepayments and accrued income	447	503	1,789	1,737
Other*	3,304	4,368	1,758	1,761
Total:	**4,174**	**5,947**	**3,567**	**3,931**

* 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:

EUR million

	2020	2019
CENTRAL BANKS		
Classification		
Financial liabilities designated at fair value through profit or loss	1,469	7,596
Financial liabilities at amortized cost	60,372	36,896
	61,841	**44,492**
Type		
Time deposits	60,932	43,686
Deposits available with prior notice	—	—
Repurchase agreements	909	806
Of which, valuation adjustments	*(292)*	*(306)*
	61,841	**44,492**
Currency		
Euro	56,306	37,237
US dollar	4,909	7,189
Pound Sterling	593	6
Other currencies	33	60
	61,841	**44,492**
CREDIT INSTITUTIONS		
Classification		
Financial liabilities designated at fair value through profit or loss	4,496	6,152
Financial liabilities at amortized cost	40,725	51,180
	45,221	**57,332**
Nature		
Current accounts / Intraday deposits	14,280	15,911
Time deposits	23,869	28,496
Deposits available with prior notice	—	—
Repurchase agreements	7,072	12,925
Of which, valuation adjustments	*429*	*364*
	45,221	**57,332**
Currency		
Euro	32,063	33,804
US dollar	8,963	18,614
Pound Sterling	3,541	4,163
Other currencies	654	751
	45,221	**57,332**
Total	**107,062**	**101,824**

Banco Santander, following the various long-term financing programmes of the European Central Bank (TLTRO), mantain deposits at amortized cost from the TLTRO III programme amounting to EUR 56,288 million as at 31 December 2020 (EUR 35.200 million as at 31 December 2019 from TLTRO II). As of December 2020, the income recognized in the profit and loss account, corresponding to TLTRO III, is EUR 299 million.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

19. Customer deposits

The detail by classification, type, sector and geographical area, of 'Customer deposits' is as follows:

EUR million

	2020	2019
Classification		
Financial liabilities held for trading	—	—
Financial liabilities designated at fair value through profit or loss	10,925	10,516
Financial liabilities at amortized cost	275,740	250,521
	286,665	**261,037**
Type		
Current accounts / Intraday deposits	247,394	219,852
Time deposits	36,660	38,030
Deposits available with prior notice	—	—
Repurchase agreements	2,611	3,155
Of which, subordinated deposits	*—*	*—*
Of which, issued securities	*381*	*116*
Of which, valuation adjustments	*2,495*	*2,639*
	286,665	**261,037**
Sector		
Public sector	21,754	20,012
Other financial companies	47,169	40,090
Non-financial companies	75,877	64,442
Households	141,865	136,493
	286,665	**261,037**
Geographical area		
Spain	249,522	229,873
European Union (excluding Spain)	21,801	22,286
United States and Puerto Rico	7,902	3,451
Other OECD countries	3,116	2,606
Latin America (non-OECD)	2,385	2,146
Rest of the world	1,939	675
Total:	**286,665**	**261,037**

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 amortized cost and of the related average interest rates.

20. Marketable debt securities

a) Breakdown

The detail by classification and type, of 'Marketable debt securities' in the accompanying balance sheets is as follows:

EUR million	2020	2019
Classification:		
Financial liabilities at amortized cost	87,902	87,567
	87,902	**87,567**
Type:		
Certificates of deposit	3,921	3,661
Guaranteed bonds	55,110	49,610
Mortgage bonds	44,343	41,199
Others mortgage bonds and guaranteed bonds	10,767	8,411
Other non-convertible issued securities (note 21)	59,209	59,273
Of which, subordinated liabilities	*17,124*	*15,352*
Treasury shares*	(32,430)	(26,351)
Valuation adjustments	2,092	1,374
	87,902	**87,567**

* At 31 December 2020 y 2019, the registered balance corresponds mainly to guaranteed bonds.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortized 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:

	EUR million		2020	
Currency of issuance	2020	2019	Outstanding issue amount in foreign currency (million)	Annual interest rate*
US dollar	2,351	3,661	2,885	1.31 %
Hong Kong Dollars	21	—	200	0.34 %
Pound Sterling	1,549	—	1,391	0.17 %
Balance at end of the year	**3,921**	**3,661**		

* Average interest rates for different issue based on their nominal values.

i. Changes

The movement that has occurred in the certificate of deposit account during the years 2020 and 2019 is as follows:

EUR million

	2020	2019
Balance at end of the prior year	**3,661**	**1,495**
Issues	10,193	10,404
Redemptions	(9,530)	(8,278)
Exchange differences and other changes	(403)	40
Balance at end of the year	**3,921**	**3,661**

As at 31 December 2020, Banco Santander issued certificates of deposit issues amounting to EUR 10,193 million (EUR 10,404 million as at 31 December 2019), with an average maturity of 6 months (5 months during the 2019 financial year), with have been amortized in EUR 9,530 million (EUR 8,278 million in 2019).

c) Marketable mortgage-backed securities

The detail by currency of issuance, of 'Marketable mortgage-backed securities' is as follows:

	EUR million		2020
Currency of issuance	2020	2019	Annual interest rate*
Euros	44,343	41,199	0.96 %
Balance at end of the year	**44,343**	**41,199**	

* Average interest rate of the various issues at 31 December 2019 based on their nominal values.

i. Changes

The changes in 2020 and 2019 in 'Marketable mortgage-backed securities' were as follows:

EUR million

	2020	2019
Balance at the end of the prior year	**41,199**	**38,470**
Reclassification of deposits	—	—
Issues	6,250	4,749
Of which		
May 2019	—	*1,499*
July 2019	—	—
December 2019	—	*1,500*
April 2020	*2,750*	—
May 2020	*1,000*	—
June 2020	*2,000*	—
October 2020	500	—
Transfers	(66)	—
Amortizations on maturity	(3,040)	(2,020)
Balance at end of the year	**44,343**	**41,199**

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 Grupo and Banco Santander 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 Grupo and Banco Santander 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.

General policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analyzed 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.

Grupo and Banco Santander have specialized document comparison procedures and tools for verifying customer information and solvency (see note 49).

Grupo and Banco Santander 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, Banco Santander 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. Banco Santander`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 Banco Santander 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 Banco Santander 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 issued by Grupo and Banco Santander 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 recognized 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 'person especially related' to the issuing entity in accordance with Royal Legislative Decree 1/2020, of 5 May, approving the revized text of the Bankruptcy Law and Law 22/2003, of 9 July, on Bankruptcy (the Insolvency Law'), will enjoy the special privilege established in Article 270.1.1 of the aforementioned Insolvency Law. Without prejudice to the foregoing, in accordance with Article 242.10 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 (Article 14 of Law 2/1981 of 25 March 1981 regulating the mortgage market).

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 it would be necessary to proceed in accordance with the terms of Article 212.1 and, in accordance with the requirements of Article 413 of the Insolvency Law, 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 Grupo and Banco Santander had replacement assets assigned to them.

Following is a detail, by their main features and nominal amount, of the marketable mortgage-backed bonds outstanding at 31 December 2020 and 2019:

	Code ISIN	EUR million			Annual interest rate (%)
		2020	2019	Nominal amount	
Issues					
Euros					
Issue April 2005	ES0413900087	—	993	—	
Issue February 2006	ES0413900129	1,500	1,488	1,500	3.87 %
Issue May 2007	ES0413900160	1,500	1,494	1,500	4.63 %
Issue January 2010	ES0413900194	100	100	100	0.05 %
Issue June 2012	ES0413900293		100		
Issue November 2014	ES0413900368	1,750	1,728	1,750	1.13 %
Issue November 2014	ES0413900376	1,250	1,238	1,250	2.00 %
Issue September 2015	ES0413900384	1,000	994	1,000	0.75 %
Issue January 2016	ES0413900392	1,000	997	1,000	1.50 %
Issue February 2016	ES0413900400	907	933	907	2.04 %
Issue March 2016	ES0413900418	100	100	100	1.52 %
Issue June 2016	ES0413900434	4,000	4,000	4,000	0.13 %
Issue June 2016	ES0413900442		150		
Issue December 2016	ES0413900467	250	250	250	0.45 %
Issue June 2017	ES0413900475	350	350	350	0.13 %
Issue June 2017	ES0413900483	2,000	2,000	2,000	0.02 %
Issue June 2017	ES0413900491	2,000	2,000	2,000	0.16 %
Issue November 2017	ES0413900509	12	12	13	
Bonds Pitch		300	299	300	5.13 %
Issue April 2010 (Banco Popular Español, S.A.U.)	ES0413770100		39		
Issue April 2013	ES0413790256	200	200	200	2.22 %
Issue July 2013	ES0413790264	15	15	15	5.28 %
Issue July 2013	ES0413790280	400	400	1,250	1.24 %
Issue July 2013	ES0413790298	500	500	1,500	1.49 %
Issue July 2013	ES0413790306	1,500	1,500	1,500	1.74 %
Issue December 2013	ES0413790322	100	100	100	2.17 %
Issue February 2014	ES0413790330	1,000	1,000	1,500	2.02 %
Issue March 2014	ES0413790348	200	200	200	1.15 %
Issue March 2014	ES0413790389	250	250	250	0.28 %
Issue April 2015	ES0413790397	1,000	995	1,000	1.00 %
Issue June 2015	ES0413790405	575	575	575	0.22 %
Issue July 2015	ES0413790413		1,248		
Issue October 2015	ES0413790421	750	749	750	0.88 %
Issue March 2016	ES0413790439	1,500	1,500	1,500	1.00 %
Issue October 2016	ES0413790454	—	500	1,500	
Issue December 2016	ES0413790462	250	250	250	1.13 %
Issue March 2017	ES0413790470	1,000	1,000	1,000	0.30 %

Santander

	Code ISIN	EUR million			Annual interest rate (%)
		2020	2019	Nominal amount	
Issue April 2017	ES0413790488	1,600	1,600	1,600	0.54 %
Issue July 2014 (Banco Pastor)	ES0405035009	1,000	1,000	1,000	2.71 %
Issue June 2018	ES0413900517	350	350	350	
Issue October 2018	ES0413900533	1,000	987	1,000	1.12 %
Issue October 2018	ES0413900525	2,000	2,000	2,000	0.29 %
Issue November 2018	ES0413900541	200	200	200	0.40 %
Issue May 2019	ES0413900558	1,500	1,485	1,500	0.88 %
Issue July 2019	ES0413900566	1,500	1,493	1,500	0.25 %
Issue December 2019	ES0413900574	1,750	1,733	1,750	0.13 %
Issue February 2020	ES0413900590	1,250	—	1,250	0.01 %
Issue February 2020	ES0413900608	1,250	—	1,250	0.10 %
Issue February 2020	ES0413900582	250	—	250	0.05 %
Issue March 2020	ES0413900616	1,000	—	1,000	0.01 %
Issue April 2020	ES0413900624	2,000	—	2,000	0.27 %
Issue Octuber 2020	ES0413900699	500	—	500	0.01 %
Balance at end of the year		**44,409**	**41,095**	**48,260**	

The detail of the principal amount of Banco Santander mortgage securities outstanding at 31 December 2020 and 2019 is as follows:

EUR million

	Principal amount	
	2020	2019
1. Mortgage bonds outstanding	**—**	**—**
2. Mortgage-backed bonds issued	**44,409**	**41,199**
Of which, recognized in liabilities	*23,589*	*23,594*
2.1. Debt instruments. Issued through a public offering	44,409	41,199
- Term to maturity of up to one year	7,300	2,540
- Term to maturity of one to two years	7,700	7,800
- Term to maturity of two to three years	1,125	7,700
- Term to maturity of three to five years	6,250	4,125
- Term to maturity of five to ten years	16,627	13,627
- Term to maturity of more than ten years	5,407	5,407
2.2. Debt instruments. Other issues	—	—
2.3 Deposits	—	—
3. Mortgage transfer certificates issued (1)	**—**	**—**
4. Mortgage transfer certificates issued (1) (2)	**17,610**	**14,569**
4.1. Issued through a public offering (note 10.e)	17,610	14,569

(1) Relating solely to mortgage loans and credits not derecognized.
(2) The average term to maturity weighted by amount, expressed in months, rounded up, was 465 months .

Asset transactions

According 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 Banco Santander. The breakdown of the mortgage loans at 31 December 2020 and 2019 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

EUR million

	Principal amount	
	2020	2019
Total mortgage loans and credits (1)	95,114	98,823
Mortgage participation certificates issued	1,811	454
Of which, loans recognized in assets	—	—
Mortgage transfer certificates issued	18,305	15,346
Of which, loans recognized in assets	*17,610*	*14,569*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	74,998	83,023
i) Non-eligible mortgage loans and credits (3)	18,652	24,614
- Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009	11,621	15,934
- Other non-eligible loans	7,031	8,680
ii) Eligible mortgage loans and credits (4)	56,346	58,409
- Un-measurable amounts (5)	—	—
- Measurable amounts	56,346	58,409
a) Mortgage loans and credits covering mortgage bond issues	—	—
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	56,346	58,409

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognized.
(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:

EUR million

	Principal amount			
	2020		2019	
	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	74,238	55,621	82,137	57,574
From subrogations	760	725	886	835
	74,998	**56,346**	**83,023**	**58,409**
By currency				
Euro	74,299	56,346	81,971	58,409
Other currencies	699	—	1,052	—
	74,998	**56,346**	**83,023**	**58,409**
By payment status				
Current	66,215	54,967	73,508	56,772
Past due	8,783	1,379	9,515	1,637
	74,998	**56,346**	**83,023**	**58,409**
By term to maturity				
Less than 10 years	26,072	15,185	27,793	15,806
10 to 20 years	27,436	23,249	29,395	24,404
20 to 30 years	20,301	17,445	22,260	17,431
More than 30 years	1,189	467	3,575	768
	74,998	**56,346**	**83,023**	**58,409**
By interest rate				
Fixed-rate loans	13,623	10,921	11,214	8,332
Floating-rate loans	61,375	45,425	71,809	50,077
	74,998	**56,346**	**83,023**	**58,409**
By borrower				
Legal entities and individual traders	25,492	13,290	28,078	14,248
Of which, property developments(including land)	*2,837*	—	*3,376*	*1,042*
Other individuals and non-profit institutions serving households	49,506	43,056	54,945	44,161
	74,998	**56,346**	**83,023**	**58,409**
By type of guarantee				
Completed buildings – residential	55,297	46,001	60,835	47,167
Of which, officially sponsored housing	*4,996*	*3,452*	*3,695*	*3,190*
Completed buildings – commercial	6,908	3,782	6,720	3,807
Completed buildings – other	9,085	5,343	11,024	5,870
Buildings under construction – residential	1,225	1	1,106	3
Of which, officially sponsored housing	*99*	—	*5*	*2*
Buildings under construction – commercial	46	—	38	—
Buildings under construction – other	57	1	68	9
Land – developed consolidated land	801	434	1,656	750
Land – other	1,579	784	1,576	803
	74,998	**56,346**	**83,023**	**58,409**

* Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account measurement limits established in Art. 12 of Royal Decree 716/2009.

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:

EUR million

	2020				
	Principal amount by LTV range				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	22,834	20,251	13,261	—	56,346
Home property	17,210	15,532	13,261	—	46,003
Other property	5,624	4,719	—	—	10,343

* Pursuant to Art. 3 of Royal Decree 716/2009.

Following is a detail of the changes in 2020 in the principal amount of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

EUR million

	Eligible mortgage loans and credits*	Non-eligible mortgage loans and credits**
Balance at 31 December 2019	**58,409**	**24,614**
Period additions:	6,713	4,502
Originated by Banco Santander	4,792	2,435
Subrogations from other entities	1	4
Other	1,920	2,063
Period disposals:	(8,776)	(10,464)
Repayments on maturity	(203)	(1,261)
Early repayments	(2,328)	(1,390)
Other***	(6,245)	(7,813)
Balance at 31 December 2020	**56,346**	**18,652**

* 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.
*** Banco Santander 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:

EUR million

	Principal amount*	
	2020	2019
Potentially eligible **	589	622
Non-eligible	1,387	2,131

* 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 (mortgage bond), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

Currency of issuance	EUR million		2020
	2020	2019	Annual interest rate*
Euro	7,671	6,668	0.18 %
US dollar	3,096	1,743	0.75 %
Balance at end of the year	**10,767**	**8,411**	

* Average interest rate of the various securities at 31 December 2020 based on their nominal amounts.

Internationalisation bonds have been repaid early in February 2020, replaced by internationalisation bonds, issued in April 2020.

i. Changes

The following movement in 2020 and 2019 in the 'Other non-convertible marketable securities' account was as follows:

	EUR million		2020	
	2020	2019	Annual interest rate (%)**	Maturity date
Balance at end of the prior year	**8,411**	**10,141**		
Issues	10,145	—		
Of which				
April, 2020	*1,100*	—	*0.00 %*	*abr-25*
April, 2020	*1,200*	—	*0.00 %*	*abr-27*
April, 2020	*3,095*	—	*0.75 %*	*abr-27*
June, 2021	*750*	—	*0.07 %*	*jun-27*
June, 2021	*2,000*	—	*0.06 %*	*jun-27*
July, 2021	*2,000*	—	*0.01 %*	*jul-27*
Amortizations	(7,789)	(1,778)		
Exchange differences	—	48		
Balance at end of the year	**10,767**	**8,411**		

In February 2020 Banco Santander has amortized the live internationalization bonds to December 2019 in the amount of EUR 2,639 million.

In addition, there have been other depreciations in territorial ballot cards amounting to EUR 4,900 million.

Three new issues of Territorial Cards were made in the financial year two of them amounting to 2 billion and a third EUR 750 million.

In April 2020, 3 new issues of Internalization Cards totaling EUR 5,397 million have been formalized.

ii. Disclosures required by Bank of Spain Circular 4/2017, of 27 November Territorial bonds

Territorial bonds

The members of the board of directors have stated that in the territorial bond issuances Banco Santander 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 2020:

EUR million

	Principal amount*
	Residents in Spain
Central governments	115
Autonomous or regional governments	8,959
Local governments	786
	9,860

* Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2020:

EUR million

	Principal amount
Issued through a public offering	**—**
Other emissions	**5,371**
Of which,treasury shares	*4,500*
Term to maturity of up to one year	217
Term to maturity of one to two years	309
Term to maturity of two to three years	95
Term to maturity of three to five years	250
Term to maturity of five to ten years	4,500
Term to maturity of more than ten years	—

The coverage ratio of the territorial bonds with respect to the loans was 54.39% at 31 December 2020 (65.39% at 31 December 2019).

iii. Internationalization bonds

The following is a detail of the face value of all loans that serve as collateral to live internationalization cards as of December 31, 2020:

	Nominal value (EUR million)
Eligible loans under Article 34.6 and 7 of Law 14/2013	9,793
Less: loans that support the issuance of internationalization bonds	—
Less: loans in arrears to be deducted in the calculation of the emission limit, in accordance with Article 13 of Royal Decree 579/2014	—
Total loans included in the base of the emission limit	**9,793**

Below is a detail of the internationalization bonds issued live on December 31, 2020:

	Nominal value (EUR million)
(1) Debt securities. Issued by public offer	—
Of which, own values	—
Residual maturity up to one year	—
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	—
Residual maturity greater than five and up to ten years	—
(2) Debt securities. Other emissions	—
Of which, own values	*5,396*
Residual maturity up to one year	5,396
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	1,100
Residual maturity greater than five and up to ten years	4,296
Residual maturity greater than ten years	—
(3) Deposits	—
Residual maturity up to one year	—
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	—
Residual maturity greater than five and up to ten years	—
Residual maturity greater than ten years	—
TOTAL	**5,396**

The coverage ratio of internationalization papers on loans is 55.11% as of December 31, 2020.

21. Other non-convertible issuances

a) Breakdown

The following is a breakdown of the balance under this heading of the attached balance sheets, taking into account their nature and currency of the transactions:

EUR million*

	2020	2019
Type		
Other non convertible issuances	59,209	59,273
Of which, subordinated liabilities	*17,124*	*15,352*
	59,209	**59,273**
Currency		
Euro	34,321	29,384
US dollar	18,848	22,596
Pound Sterling	2,692	3,685
Other currencies **	3,348	3,608
	59,209	**59,273**

* This amount includes the principal, in other currencies.

** As of December 31, 2020, the most significant currencies are yen (EUR 1,328 million), Swiss Frankfurt (EUR 939 million) and Australian (EUR 686 million).

b) Changes

The changes in 'Subordinated marketable debt securities' in the foregoing table for the years 2020 and 2019 are as follows:

EUR million

	2020	2019
Balance at the end of prior year	**59,273**	**53,380**
Issues	28,255	44,305
Redemptions	(26,297)	(39,230)
Exchange differences	(2,022)	818
Balance at end of the year	**59,209**	**59,273**

Within the sub-heading Other Non-convertible Marketable Securities, there are commercial paper issues, as well as other issues made by Banco Santander.

- Commercial paper

On 16 April 2020, Banco Santander approved the annual renewal of the 'European Commercial Paper Issue Programme' for a maximum nominal global amount of up to EUR 15,000,000 thousand. On November 2020, the "American Commercial Paper Issue Program" was renewed for a nominal global amount of up to 15,000,000 thousand dollar.

As at 31 December interest rate is between -0.66% and 3.0% per annum with the average nominal interest rate of 1.059% per annum. At the end of 2019, the interest rate was between -0.53% and 3.285% per annum, with the average nominal interest rate of 1.586% per annum.

- Remaining emissions

During the financial year 2020, Banco Santander reported 17 issues for a nominal amount of EUR 8,088 million (excluding perpetual issues amounting to EUR 1,500 MM, see note 21.c). The average remuneration of these emissions has been set at 1.63% per annum.

During 2019, Banco Santander reported 42 issues amounting to a nominal amount of EUR 8,230 million (not considering perpetual issues amounting to USD 1,200 million, see note 21.c). The average remuneration for these emissions has been set at 2.1% per annum.

c) Other information

This heading includes preferential shares as well as other issued financial instruments, which have the legal nature of capital, do not meet the requirements to qualify as equity (preferential shares).

Preference shares are not eligible to vote and are non-cumulative. They have been subscribed by third parties outside Banco Santander, and are amortizable by decision of the issuer, according to the conditions of each issue.

Preferred interests are placed for the purpose of priority of claims behind common creditors and subordinated deposits. Their remuneration is conditional on obtaining sufficient distributable profits, and the limitations imposed by Spanish banking regulations on own resources, and they lack political rights. All other issues are subordinate and, for priority purposes, are placed behind all common creditors of Banco Santander, S.A.

As of December 31, 2020, there are the following issues convertible into shares of Banco Santander:

On January 14, 2020, Banco Santander carried out the issuance of preferential shares that are contingently convertible into ordinary shares of the newly issued of Banco Santander (the PPCC) for a nominal amount of EUR 1,500 million. The remuneration of PCCs whose payment is subject to certain conditions and is in turn discretionary, was fixed at 4.375% per annum for the first five years and thereafter by applying a margin of 453.4 basis points on the 5-year Mid-Swap Rate (5 year Mid-Swap Rate).

On February 8, 2019, Banco Santander carried out the issuance of preferential shares that are contingently convertible into ordinary shares of the newly issued Banco Santander (the PPCC) for a nominal amount of USD 1,2 billion. The remuneration of PCCs whose payment is subject to certain conditions and is in turn discretionary, was fixed at 7.5% per annum for the first five years and thereafter by applying a margin of 498.9 basis points on the 5-year Mid-Swap Rate (5 year Mid-Swap Rate).

The interest of the PPCC for the year 2020 amounted to EUR 417 million (EUR 466 million in the financial year 2019).

In addition, as of December 31, 2020, the following subordinate issues were issued:

Issuance for 2018, of EUR 1.5 billion with a remuneration of 4.75%, two emissions in 2017, of EUR 1 billion and EUR 750 million, with remuneration of 5.25% and 6.75% respectively; and an issue in 2014, of EUR 1.5 billion with a remuneration of 6.25%.

22. Other financial liabilities

a) Breakdown

Following is a detail of 'Other financial liabilities' in the accompanying balance sheets:

EUR million

	2020	2019
Trade payables	721	758
Payment obligations	2,864	3,239
Public agency revenue collection accounts	3,498	3,401
Unsettled financial transactions	797	1,133
Other accounts	2,000	2,323
	9,880	**10,854**

b) Average payment period to suppliers

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.

	2020	2019
	Days	
Average period of payment to suppliers	11	12
Ratio of transactions paid	11	12
Ratio of transactions pending payments	—	—
	EUR million	
Total payments made	**2,966**	**3,233**
Total payments outstanding	**—**	**—**

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 December, 3.

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 maturity periods of 'Other financial liabilities' at each year-end.

c) Lease liabilities

The total cash outflow of leases in 2020 was EUR 324 million.

The analysis of the maturities of lease liabilities as of 31 December 2020 is shown below:

EUR million

	2020
Maturity Analysis – Discounted payments	
Within 1 year	289
Between 1 and 3 years	485
Between 3 and 5 years	349
Later than 5 years	1,411
Total Discounted payments at 31 December 2020	**2,534**

During 2020, 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 2020 and 2019 is as follows:

EUR million

	2020	2019
Provision for pensions and similar obligations	3,430	5,138
Of which		
Pensions and similar defined benefit obligations post-employment	*1,849*	*3,918*
Other long-term remunerations to employees	*1,581*	*1,220*
Restructuring	484	279
Provisions for taxes and other legal contingencies	496	501
Provisions for commitments and guarantees given	157	180
Rest of provisions	440	392
	5,007	**6,490**

b) Changes

The changes in 'Provisions' in 2020 and 2019 were as follows:

EUR million

	2020					2019				
	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	**3,918**	**1,220**	**180**	**1,172**	**6,490**	**3,895**	**1,111**	**263**	**1,412**	**6,681**
Changes in value recognized in equity	77	—	—	—	77	327	—	—	—	327
Additions charged to income	(340)	728	(20)	804	1,172	15	639	(60)	560	1,154
(Interest income)/ Interest expense (notes 34 and 35)	20	8	—	—	28	28	14	—	—	42
Staff costs (note 42)	10	1	—	—	11	12	1	—	—	13
Provisions or reversal of provision	(370)	719	(20)	804	1,133	(25)	624	(60)	560	1,099
Payments to pensioners and pre-retirees	(1,817)	(367)	—	—	(2,184)	(297)	(565)	—	—	(862)
Amounts used and other changes	11	—	(3)	(556)	(541)	(22)	35	(23)	(800)	(810)
Balances at end of year	**1,849**	**1,581**	**157**	**1,420**	**5,007**	**3,918**	**1,220**	**180**	**1,172**	**6,490**

c) Provision for pensions and similar obligations

The detail of 'Provision for pensions and similar obligations' at 31 December 2020 and 2019 is as follows:

EUR million

	2020	2019
Provisions for pensions and similar defined benefit plan obligations	3,430	5,138
Of which		
Provisions for pensions	*1,849*	*3,918*
Provisions for similar obligations	*1,581*	*1,220*
Of which, pre-retirements	*1,567*	*1,206*
Provisions for pensions and similar defined contribution plan obligations	—	—
Total provisions for pensions and similar obligations	**3,430**	**5,138**

i. Defined contribution plans

At the end of 2012, Banco Santander reached an agreement with workers' representatives to transform the defined benefit commitments derived from the collective agreement into defined contribution plans. Similarly, the contracts for senior management staff with pension commitments in the defined benefit modality were amended to transform them into a defined contribution provision system.

Practically all pension commitments with active personnel correspond to defined contribution plans. The total contributions made to said aircraft during the year 2020 amounted to EUR 80 million (EUR 82 million during the year 2019) (see note 42).

ii. Defined Benefit Plans

In addition to the previous defined contribution plans, as of December 31, 2020 and 2019, Banco Santander maintained definite service commitments. Below is the present value of the Bank`s commitments in post-employment remuneration for defined benefit, as well as the value of the reimbursement entitlements for insurance contracts linked to those obligations as at 31 December 2020 and the preceding years:

EUR million

	2020	2019	2018
Present value of the obligations			
To current employees	78	78	58
To retired employees	3,304	5,378	5,331
Other	—	—	—
	3,382	**5,456**	**5,389**
Fair value of plan assets	(1,537)	(1,543)	(1,496)
Assets not recognized	4	5	2
Provisions - Provisions for pensions	**1,849**	**3,918**	**3,895**
Of which			
Internal provisions for pensions	*1,426*	*3,407*	*2,241*
Insurance contracts linked to pensions (note 14)	*423*	*511*	*1,654*
Of which			
Group insurance entities	*249*	*319*	*1,445*
Other insurers	*174*	*192*	*209*

In December 2019, Banco Santander reached an agreement with workers' representatives to offer in 2020 part of its passive staff the possibility of collecting pensionable rights derived from the collective agreement in the form of a single or split consideration in a maximum of 5 equal annuities. Similarly, the proposal was extended to staff with pensionable rights recognized under individual contracts or agreements. The number of beneficiaries who exercised the voluntary option of accepting replacement of life annuity by the payment of a single payment in the form of capital or in a maximum of 5 annuities amounted to 15,613 persons. The effect of the reduction of those commitments is shown in the following tables.

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:

EUR million

	2020	2019
Annual discount rate	0.60 %	0.80 %
Expected return on plan assets rate	0.60 %	0.80 %
Mortality tables	PE2020 M/F Col. Orden 1	PE2000P M/F
Cumulative annual CPI growth	1.00 %	1.00 %
Annual pension increase rate	1.00 %	1.00 %

3. The discount rate used for the flows was determined by reference to high-quality corporate bonds.
4. 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.
5. The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

EUR million

	2020	2019
Expected rate of return on reimbursement rights	0.60 %	0.80 %

The amounts recognized in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	2020	2019
Service cost:		
Current service cost (note 42)	10	12
Past service cost (including reductions)	2	3
Pre-retirement cost	—	1
Settlements	(372)	(29)
Net interest (note 35)	26	52
Expected return on insurance contracts linked to pensions (note 34)	(6)	(24)
	(340)	**15**

In addition, in 2020 '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 78,7 million respect to defined benefit obligations (2019: EUR 327 million of actuarial loss).

The changes in 2020 and 2019 in the present value of the accrued defined benefit obligations were as follows:

EUR million

	2020	2019
Present value of the obligations at beginning of the year	**5,456**	**5,389**
Current service cost	10	12
Interest cost	39	71
Pre-retirement cost	—	1
Settlements	(372)	(29)
Benefits paid for settlements	(1,551)	—
Other benefits paid	(356)	(397)
Past service cost	2	3
Actuarial (gains)/losses*	160	404
Exchanges rate differences and others	(6)	2
Present value of the obligations at end of the year	**3,382**	**5,456**

* Including in 2020 demographic actuarial losses of EUR 90 million and financial actuarial losses of EUR 70 million (2019: demographic actuarial gains of EUR 15 million and financial actuarial gains of EUR 389 million).

The changes in 2020 and 2019 in the fair value of the plan assets are as follows:

EUR million

	2020	2019
Fair value of plan assets at beginning of year	**1,543**	**1,496**
Expected return on plan assets	13	19
Benefits paid	(94)	(108)
Contributions payable by the employer	5	8
Exchange rate differences and others	(6)	2
Actuarial gains/(losses)	76	126
Fair value of plan assets at end of year	**1,537**	**1,543**

The changes in 2020 and 2019 in the fair value of the insurance contracts linked to pensions are as follows:

EUR million

	2020	2019
Fair value of insurance contracts linked to pensions at beginning of the year	**511**	**1,654**
Expected return on insurance contracts (note 34)	6	24
Actuarial gains/(losses)	5	(47)
Premiums paid/(surrenders)	(7)	(1,006)
Benefits paid	(92)	(114)
Fair value of insurance contracts linked to pensions at end of the year (note 14)	**423**	**511**

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

iii. Other long-term employee benefits

In various years Banco Santander offered to some certain of its employees the possibility of leaving its employ prior to their retirement, Therefore, provisions are recognized 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.

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 2020 and for the preceding years:

EUR million

	2020	2019	2018
Present value of the obligations:			
To pre-retirees	1,580	1,220	1,111
Long-service bonuses and other benefits	13	14	15
	1,593	**1,234**	**1,126**
Fair value of plan assets	(12)	(14)	(15)
Provisions - Provisions for pensions	**1,581**	**1,220**	**1,111**
Insurance plans linked to pensions	—	—	—
Group insurers	—	—	—
Other insurance entities	—	—	—

In December 2020, Banco Santander reached an agreement with the representatives of the In December 2020, Banco Santander reached an agreement with workers' representatives to implement a pre-retirement and incentive retirement plan expected to receive 3,572 employees in 2021, bringing the provision established to cover these commitments to EUR 674 million. In addition to the above, the provision constituted to cover the retirement losses of 379 employees who have received pre-retirement offers and incentive leave during 2020 amounts to EUR 63 million. Therefore, the total provision established during 2020 to cover these items amounts to 737 EUR million (EUR 624 million as at 31 December 2019, corresponding to the offer of pre-retirements and incentives for that year).

The amount of the other long-term remuneration commitments defined benefit has been determined on the basis of work performed by independent actuaries, applying the following criteria to quantify them:

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:

EUR million

	2020	2019
Annual discount rate	0.60 %	0.80 %
Expected return on plan assets rate	0.60 %	0.80 %
Mortality tables	PE2020 M/F Col. Orden 1	PE2000P M/F
Cumulative annual CPI growth	1.00 %	1.00 %
Annual benefit increase rate	Entre 0% y 1,5%	Entre 0% y 1,5%

3. The discount rate used for the flows was determined by reference to high-quality corporate bonds.
4. 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.
5. The amounts recognized in the income statement in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	2020	2019
Current service cost	1	1
Interest cost (note 35)	8	14
Extraordinary charges		
Actuarial (gains)/losses recognized in the year	(3)	4
Pre-retirement cost	737	622
Other	(15)	(2)
	728	**639**

The changes in 2020 and 2019 in the present value of the accrued obligations for other long-term benefits were as follows:

EUR million

	2020	2019
Present value of the obligations at beginning of the year	**1,234**	**1,126**
Current service cost	1	1
Cost per interest (note 35)	8	14
Past service cost	—	—
Pre-retirement cost	737	622
Effect of curtailment/settlement	(15)	(2)
Benefits paid	(369)	(566)
Actuarial (gains)/losses	(3)	5
Other	—	34
Present value of the obligations at end of the year	**1,593**	**1,234**

The movement that has occurred, during the years 2020 and 2019, in the fair value of the assets of the plan, has been as follows:

EUR million

	2020	2019
Fair value of plan assets at the beginning of the year	**14**	**15**
Expected return on plan assets	—	—
Benefits paid	(2)	(2)
Contributions by the employer	—	—
Contributions by the employee and others	—	—
Actuarial gains / (losses)	—	—
Present value of the obligations at end of the year	**12**	**13**

During the financial year 2020 there has been no movement in the present value of insurance contracts linked to pensions.

iv. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations, At 31 December 2020, 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 5.43% and -5.10%, respectively, and an increase or decrease in the present value of the long-term obligations of 1.11% and -1.08%, 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 Banco Santander 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.

'Provisions for taxes and other legal contingencies' include proceedings and other legal proceedings such as judicial, arbitral or administrative proceedings initiated against Banco Santander. Qualitative information on the main disputes is provided in note 23.e. For their part, the provisions for restructuring include only costs arising from restructuring processes incurred in Banco Santander.

Banco Santander 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 Banco Santander 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.

As for the restructuring provision, EUR 299 million have been recorded in 2020 related to the agreement reached with workers' representatives to implement a pre-retirement and incentive retirement plan in that year 2020. The amounts associated with that plan have been recorded, according to their nature, part in 'Restructuring Provisions' and part in 'Pension Provisions and Similar Liabilities' as explained in footnote 23.c above. The increase in the restructuring provision has been of EUR 99 million in 2020.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2020 the main tax-related proceedings concerning Banco Santander 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 recognized 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 recognized 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 recognized 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, actually Santander Brasil Tecnología S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000 to 2002. The administrative discussion

ended unfavourably for both companies, and on July 3, 2015, filed a lawsuit requesting the cancellation of both tax assessments. The lawsuit was judged unfavorably in first instance. Therefore, both plaintiffs appealed to the court of second instance. On December 2020, the appeal was decided unfavorably and is pending a motion of clarification, which could be appealed to higher courts. There is a provision recognized 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. The administrative discussion ended unfavourably, and the CARF decision has been appealed at the Federal Justice. 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 recognized 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 recognized 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 recognized 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 recognized in connection with this matter as it is considered to be a contingent liability.

- Brazilian tax authorities have issued infringement notices against Getnet Adquirência e Serviços para Meios de Pagamentos S.A and Banco Santander (Brasil) S.A. as jointly liable in relation to corporate income tax (IRPJ and CSLL) for 2014 to 2018 questioning the tax-deductibility of the amortization of the goodwill from the acquisition of Getnet Tecnologia Proces S.A., considering that the company would not have complied with the legal requirements for such amortization. A defense against the tax assessment notices was submitted. The notice related to the fiscal years 2014 and 2015 has already been appealed at the CARF, meanwhile the one related to the fiscal years of 2016 to 2018 is pending on judgment. No provision was recognized as it is considered to be a contingent liability.

  The total amount for the aforementioned Brazil lawsuits that are fully provisioned is EUR 821 million, and for lawsuits that qualify as contingent liabilities is EUR 2,972 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 Massachusetts entered a 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, consistent with the September 5, 2019 judgment. The Congressional Joint Committee on Taxation has completed its review of the proposed resolution of the 2006 and 2007 tax years, with no objection. The Company and the IRS are now finalizing that resolution, which will have no impact on net 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 of the financial goodwill 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 Advocate-General has issued his conclusions proposing the dismissal of the appeal. 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 2020 the main non-tax-related proceedings concerning Banco Santander 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. At 31 December 2020, the remaining provision for PPI redress and related costs was GBP 76 million – EUR 85 million - (GBP 189 million – EUR 222 million at 31 December 2019). There was no additional provision in 2020.

  Cumulative complaints from the inception of the PPI complaints process to 31 December 2020, regardless of the likelihood of Santander UK incurring in liability, were 4,6 million. At 31 December 2020, there are an estimated 0.0035 complaints still requiring assessment and, Santander UK has also entered into a commercial negotiation with the Official Receiver.

  Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of current stock and estimated future claims. There are ongoing factual issues to be resolved regarding such litigation which may have legal consequences including the volume and quality of future litigation claims. As a result, the extent of the potential liability and amount of any compensation to be paid remains uncertain.

  In relation to a specific PPI portfolio of complaints, there is a legal dispute regarding allocation of liability for pre-2005 PPI policies underwritten by two affiliates (Axa France) that Axa Group acquired from Genworth Financial International Holdings, Inc. in September 2015. The dispute involves a Santander Cards UK Limited (formerly known as GE Capital Bank Limited which was acquired by Banco Santander, S.A. from GE Capital group in 2008) which was distributor of the refer pre-2005 PPI policies and Santander Insurance Services UK Limited (the Santander Entities).

  In July 2017, Santander UK plc notified Axa France that the Santander Entities did not accept liability for losses on PPI policies relating to this period, but entered in a Complaints Handling Agreement –that included a standstill agreement- agreeing to handle complaints on Axa affiliates behalf, paying these latter companies redress assessed to be due to relevant policyholders on a without prejudice basis.

  After the termination of the Complaints Handling Agreement, on 30 December 2020 Axa France has provided written notice to the Santander Entities to terminate the standstill agreement, and that the Santander Entities are liable to reimburse AXA France for pre-2005 PPI mis-selling losses currently estimated at GBP 631 million (EUR 706 million). This dispute is at an early stage and there are ongoing factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is not currently practicable to reliably predict the resolution of the matter including timing or the significance of the possible impact. The provision for this dispute includes the best estimate of Santander UK's liability to the specific portfolio.

- 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 before the Court of Barcelona in charge of the bankruptcy proceedings, a total of EUR 66 million from the liquidation resulting from the early termination of financial transactions due to Delforca's non-payment of the equity swaps. In the same bankruptcy proceedings, Delforca and Mobiliaria Monesa have in turn claim the Bank to repay EUR 56,8 million, which the Bank received for the enforcement of the agreed guarantee, as a result of the aforementioned liquidation. In 2009, Mobiliaria Monesa, S.A. (parent of Delforca) filed a civil procedure with the Courts of Santander against the Bank claiming damages that have not been specified to date. The procedure is suspended.

- 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, the Supreme Federal Court (STF) rejected the extraordinary appeal filed by Banco Santander Brasil. The Bank filed a rescission action to nullify the decisions of the main proceedings and suspend the execution of the judgment, which was deemed inadmissible, and its execution has been suspended until the publication of the decision. At the moment we have the legal opinion of the bank's external advisers, who have classified the risk as probable. The recorded provisions are considered sufficient to cover the risks associated with the legal claims that are being substantiated as of today.

- "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. On 29 May 2020, the Supremo Tribunal Federal approved the extension of the agreement for 5 additional years starting from 3 June 2020. Condition for this extension was to include in the agreement actions related to the "Collor I Plan". The provisions recorded for the economic plan processes are considered to be sufficient.

- Floor clauses: 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. Grupo Santander 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. At 31 December 2020, after having processed most of the customer requests, the potential residual loss associated with ongoing court proceedings is estimated at EUR 51 million, amount which is fully covered by provisions.

- 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..

At this stage, it is not possible to foresee the total number of claims that could be filed by the former holders of shares and capital instruments (arising from the acquisition by investors of such shares and capital instruments of Banco Popular prior to resolution, including in particular, without limitation, the shares acquired in the context of the capital increase with pre-emptive subscription rights carried out in 2016), and their economic implications (especially considering that the decision to resolve in application of the new regulation has no precedent, and that it may be possible that future claims do not specify a specific amount, put forward new legal interpretations or involve a large number of parties).

In this respect, on 2 September 2020, the Provincial Court of La Coruña has referred a preliminary ruling to the Court of Justice of the European Union ("CJEU") asking for the correct interpretation of Article 60 (2) of Directive 2014/59/EU of the European Parliament and of the Councill, dated 15 May 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment firms. This article establishes that, in cases of redemption of capital instruments in a bank resolution, no liability shall remain in relation to the amount of the instrument that has been redeemed. The judgement given by the CJEU in this case is likely to condition the outcome on the judicial proceedings that are currently open.

The estimated cost of any compensation to shareholders and bondholders of Banco Popular recognized in the 2017 accounts amounted to EUR 680 million, of which EUR 535 million were applied to the commercial loyalty program. The provisions recorded are considered sufficient to cover the risks associated with the court claims currently being dealt with. However, if additional amounts have to be paid for claims already raised with an undetermined economic interest or for new claims, this could have a significant adverse effect on the Santander Group's results and financial situation.

Likewise, the Central Court of Instruction 4 is currently conducting preliminary proceedings 42/2017, in which, amongst other things, is being investigated the following: (i) the accuracy of the prospectus for the capital increase with pre-emptive subscription rights carried out by Banco Popular in 2016; and (ii) the alleged manipulation of the share price of Banco Popular until the resolution of the bank, in June 2017. During the course of the proceedings, on 30 April

2019, the Spanish National Court, ruled in favour 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. In this procedure, Banco Santander has the status of possible subsidiary civil liability.

- 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.

  Grupo Santander 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. For this reason, the Bank has not recognized 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 served 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. On 19 May 2020, SC entered into settlements with all the attorneys general resolving this investigation. The agreement had no significant impact for the Group.

- Financial Industry Regulatory Authority (FINRA) Puerto Rico Arbitrations: as of 31 December 2020, Santander Securities LLC (SSLLC) had received 770 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 141 arbitration cases that remained pending as of 31 December 2020.

  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 many 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 was referred to the Court of Justice of the European Union through a preliminary ruling procedure. On 3 March 2020 the CJEU rendered its decision.

  The CJEU ruled that, being the IRPH a valid index, national courts are entitled to examine its use on each particular contract in order to verify whether the transparency requirements have been met. When carrying out the transparency control, national courts have to take into account all the circumstances surrounding the conclusion of the particular contract, including whether essential information relating to the calculation of that rate was easily accessible and the provision of data relating to past fluctuations of the index. Finally, with regards to the effects of nullity of an IRPH index clause, the CJUE entitles national courts to substitute it with another statutory index, thus not declaring the nullity of the whole contract.

  On 12 November 2020, the Supreme Court has issued four judgments applying the doctrine established by the CJUE that resolve individual appeals in which the validity of the IRPH clauses was questioned. The Court understands that in those cases there is a lack of transparency because the financial institutions had not been able to prove the delivery to the client of the information on the evolution of the index in the two years prior to the contract. However, the Supreme Court reminds that the lack of transparency does not automatically imply the invalidity of the clause, but rather it is necessary to analyze whether this lack of transparency generates abusiveness. The Supreme Court resolves that in the case of the IRPH, that specific lack of transparency does not mean that the clause is abusive to the detriment of the client, so the clause is valid and fully applicable.

  Currently, the balance of the relevant mortgage indexed to IRPH loans held by the Group, equals approximately EUR 3,1 billion.

- Banco Santander, S.A. 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. Trial will take place on 10 March 2021.

- 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.

On March 2021, the Supreme Court is expected to take a position regarding the key issues in disputes concerning loans based on foreign currency, clarifying the discrepancies and unifying the court jurisprudence.

In December 2020, the Chairman of the Financial Supervision Authority announced a high-level proposal for voluntary settlements between banks and borrowers under which active loans based on Swiss francs would be converted into PLN loans with interest at the WIBOR rate and an appropriate margin. No details of the proposal, or legal or tax considerations, were provided as at the date of publication of these financial statements. This proposal is currently under analysis within the Bank, as well as by representatives of the financial sector in consultation with the competent authorities. Depending on the results of this analysis, the Bank will decide whether to adhere to this proposal and will proceed to include additional scenarios in the models for calculating provisions and reflect the estimated impact on their level. The Group considers that the maximum risk associated to this proposal, assuming that 100% of customers choose to convert their active loans as proposed, would amount to approximately PLN 3,5bn (EUR 768 million).

While these two events could lead to significant changes in the level of expected provisions, in the opinion of the Management Board, as at the date of these financial statements it is not possible to reliably estimate the value of their impact on the financial position of the Group.

As of 31 December 2020, Santander Bank Polska and Santander Consumer Bank Poland have a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,853 million (EUR 2,161 million). At the same date, the provision registered is PLN 603 million (EUR 132 million). 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 and the process of analysing and deciding on the proposal described above has not yet been completed. Santander Bank Polska and Santander Consumer Bank Poland will continue to monitor and assess appropriateness of those provisions in the upcoming reporting periods.

Grupo y Banco Santander 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, Banco Santander considers that, at 31 December 2020, 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 Banco Santander business, financial position or results of operations.

iii. Administrative Sanctions

In accordance with the applicable legislation, it is hereby informed that, during the financial year 2020, Banco Santander was enforceably imposed on the Bank sanction of EUR 32,250, imposed by the Bank of Spain, as a result of the penalty file followed against Avalmadrid, S.G.R. its former directors and ex-directors, for breaches relating to the lack of remediation of various deficiencies in the area of concentration and risk control. The sanction is imposed on Banco Santander, as successor to Banco Popular, and as director of Aval Madrid S.G.R.

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 Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

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), 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 financial statements, as there are sound arguments as proof in the appeals filed against them pending at the National Appellate Court (tax years 2003 to 2007) and the Economic Administrative Court (tax years 2009-2011). 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 2020 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 was 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. On 1 January 2018 those entities that were part of the aforementioned Consolidated Tax Group were integrated in the Consolidate Tax Group which parent company is Banco Santander.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the rest of years subject to review might give rise to contingent tax liabilities which cannot be objectively quantified. However, Grupo Santander tax advisers consider that it is unlikely that such tax liabilities will materialize, and that in any event the tax charge arising therefrom would not materially affect Banco Santander's financial statements.

c) Reconciliation

The following is the reconciliation between the corporate tax expenditure applying the applicable tax rate (30%) and the expenditure recorded by the said tax (in EUR million):

EUR million

	Expenses / (Incomes)	
	2020	2019
Profit before taxes	**(2,247)**	**3,579**
Corporate tax at the applicable rate of 30%	(674)	1,074
Dividends and capital gains not subject	(1,885)	(1,836)
Impairment of non-deductible shares	1,776	180
Deferred tax review effect	1,632	—
Remaining permanent differences and others	461	631
Expense taxes recorded	**1,310**	**49**

d) Tax recognized in equity

Regardless of the income tax passed on profit and loss accounts, Banco Santander has passed on the net worth the following amounts during 2020 and 2019:

EUR million

	Amounts receivable/ (Amounts payable)	
	2020	2019
OCI,s loan	3	(2)
Fixed-income securities - Available for sale	93	(218)
Equity securities - Available for sale	87	(37)
Cash flow hedges	62	35
Other valuation adjustments (note 25)	23	96
	268	**(126)**

e) Deferred taxes

The balance under the heading 'Tax assets' of the balance sheets includes the debtor balances against the Public Treasury for Advance Tax; in turn, the balance under the heading 'Tax liabilities' includes the liabilities corresponding to the different deferred taxes of Banco Santander.

In Spain Royal Decree-Law 14/2013 of 29 November, confirmed by Law 27/2014 of 27 November, established a regime to allow certain deferred tax assets to continue to count as prudential capital, within the "Global regulatory framework to strengthen banks and banking systems" (called Agreements Basel III) and under the implementing regulations of those Agreements, i.e. Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 (hereinafter CRD IV).

Prudential legislation provides that deferred tax assets that depend on their use of future profits must be deducted from regulatory capital, although taking into account whether they are credits for tax losses and deductions or for temporary differences. It is for the latter category of deferred tax assets and within it those arising from insolvencies, awarded, commitments for pensions and pre-retirements, for which it is established that they do not depend on future profits, since in certain circumstances they can be converted into credits against the Public Treasury, and therefore not deducts from regulatory capital (hereinafter referred to as monetizable tax assets).

During 2015, the regulation on monetizable tax assets was completed by the introduction of a capital supply involving the payment of an amount of 1.5% per annum for maintaining the right to monetization and will be applied on part of the deferred tax assets that meet the legal requirements to be considered monetizables generated before 2016.

The following are the breakdown of tax assets and liabilities as of December 31, 2020 and 2019:

EUR million

	2020	2019
Tax assets:	**9,282**	**12,331**
Current	721	2,215
Deferred	8,561	10,116
Of which		
Relating to pensions	*3,540**	*3,540**
Relating to allowances for loan losses	*3,023**	*3,023**
Relating to deductions and negative tax bases	*380*	*2,064*
Tax liabilities:	**1,555**	**1,591**
Of which, deferred tax liabilities	*1,510*	*1,591*

* Monetizable, not deducted from regulatory capital.

On the occasion of the accounting closure, deferred taxes, both assets and liabilities, are reviewed in order to verify whether adjustments are necessary to be made in accordance with the results of the analyses carried out.

These analyses take into account all the positive and negative evidence of the recoverability of such assets, including (i) the results generated in previous years, (ii) the projections of results, (iii) the estimate of the reversal of the various temporary differences depending on their nature and (iv) the period and limits established in current legislation for the recovery of the various deferred tax assets, thus concluding on Banco Santander ability to recover its deferred tax assets.

The results projections used in this analysis are based on the financial budgets approved by both the local bureaux of the respective units and by the Grupo Santander managers. Grupo Santander budget estimation process is common for all units. The Grupo Santander management prepares its financial budgets based on the following key assumptions.

a. Microeconomic variables of the entities that make up the tax group at each location: consideration is taken of the existing balance sheet structure, the mix of products offered and the commercial strategy at any time defined by the local authorities in this regard based on the competition, regulatory and market environment.

b. Macroeconomic variables: The estimated growth is based on the evolution of the economic environment considering the expected developments in the Gross Domestic Product of each location and the forecasts of behaviour of interest rates, inflation and exchange rates. These data are provided by Grupo Santander's Studies Service, which are based on external sources of information.

In addition, Grupo Santander performs retrospective contrasts (backtesting) on the variables projected in the past. The differential performance of these variables with respect to the actual market data is considered in the estimated projections for each financial year. Thus, in relation to Spain, the deviations identified by the Management in recent years are due to non-recurring events that are not related to the business's operations, such as the impacts for the first application of new applicable regulations, the costs incurred for accelerating restructuring plans and the changing effect of the current macroeconomic environment.

During 2020, given the uncertainties about the economic impacts resulting from the covid-19 health crisis, Grupo Santander has reassessed the generation of tax gains in relation to the recoverability of deferred taxes recorded in the main companies that make up the Grupo Santander, including Banco Santander. In Spain, the Panel finds that the key changes on which the projections of its tax group's results are based, resulting from the above-mentioned impact of covid-19, have resulted in the case of Banco Santander an impairment of EUR 1,632 million in deferred tax assets against a counterpart under the heading 'Profit tax' on the profit and loss account.

Finally, and given the degree of uncertainty of these assumptions regarding those variables, Grupo Santander conducts a sensitivity analysis of the most significant ones used in the analysis of the recoverability of deferred tax assets, considering reasonable changes in the key assumptions upon which the projections of results of each tax entity or group and the estimate of the reversal of the various temporary differences. In relation to Spain, the sensitivity analysis consisted of adjusting 50 basis points for growth (gross domestic product) and adjusting 50 basis points for inflation. Following this analysis, the maximum recovery period of deferred tax assets recorded at 31 December 2020 is maintained in 15 years.

In addition, the Spanish Tax Group, of which Banco Santander, S.A. is the dominant entity, has not recognized deferred tax assets in respect of tax losses, investment deductions and other incentives amounting to approximately EUR 9,700 million, of which EUR 350 million are subject, among other requirements, to time limits.

f) Regulatory changes

In 2018, for the purpose of regulating the tax effects of the first application of the Bank of Spain's Circular 4/2017, Royal Decree-Law 27/2018 of 28 December established a transitional regime, according to which charges and credits to reserve accounts accounted for in first application, which have tax effects, will be integrated into the Tax base for corporation tax equally in each of the first three tax periods starting from January 1, 2018.

In application of the aforementioned Royal Decree-Law, a negative adjustment amounting to EUR 99 million, EUR 30 million in instalment will be integrated into the tax base of Banco Santander, S.A. corresponding to 2020.

Moreover, in 2020, the Law on General State Budgets for 2021 was approved, which, among other tax measures, establishes in Corporation Tax the reduction of the exemption on dividends and capital gains to 95% as of January 1, 2021 (formerly 100%), considering it does not exempt 5% for management expenses and the abolition of the exemption from dividends and capital gains derived from shares in the capital of an institution which does not reach 5% but whose acquisition value exceeds EUR 20 million, although in that second case the shares acquired before 1 January 2021 may benefit from a transitional regime until 2026.

g) Other information

In compliance with the reporting obligation set out in the 2005 Contributing Standards Instrument issued by the Financial Conduct Authority of the United Kingdom, it is stated that shareholders of Banco Santander who are resident in the United Kingdom shall be entitled to apply for a tax credit paid abroad in respect of withholdings to be made by Banco Santander on dividends to be paid to those shareholders if the total dividend income exceeds the amount of exempt dividends of £2,000 for the 2020/21 financial year. Banco Santander shareholders who are resident in the United Kingdom and maintain their participation in Banco Santander 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 UK. All other shareholders of Banco Santander who are resident in the United Kingdom should contact their bank or securities agency.

Banco Santander, is part of the Large Business Forum and has adhered to the Code of Good Tax Practices in Spain since 2010, actively participating in the cooperative compliance programmes being developed by the tax administration.

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 recognized 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

EUR million

	2020	2019
Other accumulated comprehensive income	**(1,561)**	**(340)**
Items that will not be reclassified in results	**(1,882)**	**(1,024)**
Actuarial gains and losses on defined benefit pension plans	(1,351)	(1,197)
Non-current assets held for sale	—	—
Other recognized 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	(537)	171
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 item)	154	44
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	(154)	(44)
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	6	2
Items that can be classified in results	**321**	**684**
Hedges of net investments in foreign operations (effective portion)	—	—
Exchange differences	—	—
Cash flow hedges (effective portion)	(189)	(45)
Changes in the fair value of debt instruments measured at fair value through changes in other comprehensive income	510	729
Hedging instruments (items not designated)	—	—
Non-current assets held for sale	—	—
Share in other income and expenses recognized 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 unrealized 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 2020 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):

EUR million

	2020				2019			
	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	275	(812)	(537)	1,942	590	(419)	171	1,856

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 recognized 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 unrealized changes in the fair value of assets classified as items 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, 2020 and 2019 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:

EUR million

	2020				2019			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	526	(16)	510	15,146	747	(18)	729	26,306

As at 31 December 2020, the handicaps recorded in the 'Other cumulative comprehensive income - Elements that can be reclassified into profit or loss - Changes in the fair value of debt instruments measured at fair value through 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 2020 is set forth below.

27. Issued capital

a) Changes

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., Institución de Banca Múltiple, Grupo Financiero Santander México. (see note 3.a).

Therefore, Banco Santander's new capital consisted 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.

On 3 December 2020, a capital increase of EUR 361 million was made, with a charge to the share premium, through the issue of 722,526,720 shares (4.35% of the share capital).

Therefore, Banco Santander's share capital at 31 December 2020 was consisted of EUR 8,670 million, represented by 17,340,641,302 shares of EUR 0,50 of nominal value each and all of them of a unique class and series.

Banco Santander'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), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDR), each BDR representing one share. During 2019 and 2018 the number of markets where the Bank is listed was reduced; the Bank's shares was delisted from Buenos Aires, Milan, Lisboa and São Paulo's markets.

At 31 December 2020, no shareholder held more than 3% of Banco Santander's total share capital (which is the threshold generally provided under Spanish regulations for a significant holding in a listed company to be disclosed). Even though at 31 December 2020, certain custodians appeared in our shareholder registry 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 whom exceeded that threshold individually. These custodians were State Street Bank (13.54%),The Bank of New York Mellon Corporation (8.25%), Chase Nominees Limited (7.74%), EC Nominees Limited (3.55%), BNP Paribas (3.07%) and Caceis Bank (3.01%).

On 24 October 2019, BlackRock Inc. reported to the CNMV its significant holding of voting rights in Banco Santander (5.426%). It also specified that it was holding shares on behalf of a number of funds or other investment entities, none of which exceeded 3% individually. No changes have been communicated since then. There may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2020, neither our shareholder registry nor the CNMV's registry showed any shareholder residing in a tax haven with a shareholding equal to, or greater than, 1% of our share capital (which is the other threshold applicable under Spanish regulations).

b) Other considerations

At 31 December 2020 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 39 million shares, which represented 0.22% of the Bank's share capital (40 and 63 million shares, representing 0.24% and 0.39% of the share capital in 2019 and 2018, respectively). In addition, the number of Bank shares owned by third parties and

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received as security was 237 million shares (equal to 1.37% of the Bank's share capital).

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 Corporate Enterprises Act 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 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.

The decrease in 2020 is due to the reduction of EUR 361 million to cover the capital increase on 3 December (see Note 27).

Also, in 2020, and an amount of EUR 72 million was transferred from the Share premium account to the Legal reserve (2019 EUR 38 million) (see note 29 b).

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 2020 and 2019 is as follows:

EUR million

	2020	2019
Restricted reserves	**2,460**	**2,594**
Legal reserve	1,734	1,662
Own shares	672	878
Revaluation reserve Royal Decree-Law 7/1996	43	43
Reserve for retired capital	11	11
Unrestricted reserves		
Voluntary reserves	6,128	4,603
	8,588	**7,197**

i. Legal reserve

According to the Consolidated Text of the Corporate Enterprise Act, Spanish entities that obtain profits in the financial year must provide 10% of the net profit for the financial year to the legal reserve. These allocations must be made until the reserve reaches 20% of the share capital. The legal reserve may be used to increase the share capital in the share of its balance exceeding 10% of the share capital already increased.

During 2020, Banco Santander allocated EUR 72 million of issue premium to Legal Reserve, EUR 38 million in 2019 (see note 28).

Thus, once the capital increases described in note 27 had been made, the amount of the Legal Reserve again reached 20% of the share capital figure, and that Reserve was fully constituted on 31 December 2020.

ii. Voluntary Reserve

During the year 2020 there was an increase in voluntary reserves amounting to EUR 1,525 million; which correspond to the application of the 2019 financial year result by EUR 1,869 million, an increase of EUR 206 million due to the release of reserves for own shares, a decrease of EUR 417 million by interest in the PPCC (see note 21) and a decrease of EUR 133 million for other.

iii. Reserve for treasury shares

According to the Consolidated Text of the Corporate Enterprise Act, an unavailable reserve equivalent to the amount for which Banco Santander's shares owned by subsidiaries are recorded. This reservation shall be freely available when the circumstances which have obliged its constitution disappear. In addition, this reserve covers the outstanding balance of loans granted by the Group with Banco Santander's share guarantee and the amount equivalent to the credits granted by the Group companies to third parties for the acquisition of own shares.

30. Other equity instruments and own shares

a) Equity instruments issued not capital and other equity instruments

It includes the amount corresponding to compound financial instruments with a nature of net worth, the increase in staff remuneration, and other items not recorded in other items of own funds.

On July 13, 2017, Banco Santander and Banco Popular Español, S.A.U. (hereinafter Banco Popular) reported that they had decided to launch a commercial action in order to loyalty retail customers in their networks affected by Banco Popular's resolution (the "Loyalty Action").

Under the Loyalty Action, customers who met certain conditions and have been affected by Banco Popular's decision could receive, without disbursement by their part, marketable securities issued by Banco Santander for a nominal amount equivalent to the investment in shares or in certain bonds subordinates of Banco Popular (with certain limits) of which they held at the date of Banco Popular's resolution. In order to avail itself of such action, it was necessary for the client to waive legal action against the Group.

The Loyalty Action would be carried out by providing the customer with contingently amortizable perpetual obligations ("Loyalty Bonds") of Banco Santander, S.A. Loyalty Bonds will accrue a cash coupon, discretionary, non-cumulative, payable for matured 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.U. As at 31 December 2020, the cost recorded under the heading 'Equity instruments' issued other than capital on Banco Santander balance sheet amounts to EUR 627 million (EUR 598 million as at 31 December 2019).

Loyalty Bonds are perpetual securities; however, they may be fully amortized at the will of Banco Santander, S.A., with prior authorization from the European Central Bank, on any of the dates of payment of the coupon, seven years after its issuance.

b) Own shares

'Shareholders' equity - Own shares' includes the amount of own equity instruments held by Banco Santander.

Transactions involving own 'Equity instruments', including their issuance and cancellation, are recognized directly in equity, and no profit or loss may be recognized 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 0.164% of issued share capital at 31 December 2020 (December 31, 2019 0.051%)

The average purchase price of Banco Santander`s shares in 2020 was EUR 2,51 per share and the average selling price was EUR 2,56 per share.

At the end of 2020, the purchase and sale of shares issued by Banco Santander have not generated any results (equally without result in the 2019 financial year).

31. Memorandum items

Memorandum items relate 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 commitments granted

Guarantees include transactions for which an entity secures obligations of a third party arising from financial guarantees granted by the entity or other types of contracts. '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:

EUR million

	2020	2019
Loans commitment granted	**96,959**	**85,840**
Available in lines of credit	96,870	83,977
Deposits in the future	89	1,863
Financial guarantees granted	**10,135**	**9,474**
Financial guarantees	189	207
Credit derivatives sold	9,946	9,267
Other commitments granted	**50,686**	**52,460**
Irrevocable documentary credits	1,947	1,981
Other guarantees and guarantees granted	24,675	23,107
Other	24,064	27,372
Total	**157,780**	**147,774**

The breakdown as at 31 December 2020 of the exposures and the provision fund (see note 23) out of balance sheet by impairment stage under Bank of Spain Circular 4/2017 are EUR 155,706 million and EUR 69 million in stage 1, EUR 1,630 million and EUR 45 million in stage 2 and EUR 444 million and EUR 43 million in stage 3, respectively. In addition, the breakdown at December 31, 2019 of exposures and the allowance were EUR 145,574 million and EUR 75 million in phase 1, EUR 1,497 million and 20 million in phase 2 and EUR 703 million and EUR 85 million in phase 3, respectively.

A significant portion of these guarantees will expire without any pay due obligation materialized from 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 recognized 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 available 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. Contingent commitments

Continent liabilities include all transactions under which an entity may recognize financial liabilities

Its composition is shown below:

EUR million

	2020	2019
Loan commitments grantee	**96,959**	**85,840**
Available on credit lines	96,870	83,977
Future deposits	89	1,863

iv. 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:

EUR million

	2020	2019
Other commitments granted	**50,686**	**52,460**
Irrevocable documentary credits	1,947	1,981
Other guarantees and guarantees lent	24,675	23,107
Other commitments	24,064	27,372
Of which		
Subscribed values pending disbursement	*1*	*4*
Conventional procurement contracts assets	*4,593*	*6,530*
Other contingent commitments	*19,470*	*20,838*
	147,645	**138,300**

b) Other information

i. Assets advanced as collateral

In addition to collateral assets, there are assets owned by Banco Santander which guarantee both transactions carried out by the Bank or by third parties and various contingent liabilities and liabilities over which the assignee has the right, by contract or custom, to re-transfer and pledge them.

The carrying value of Banco Santander's financial assets delivered as collateral for such contingent and assimilated liabilities or liabilities:

EUR million

	2020	2019
Financial assets held for trading	8,540	21,192
Of which		
Public debt Public Sector Agencies	*314*	*611*
Fix rent instruments	*3,113*	*14,702*
Equity instruments	*5,113*	*5,879*
Non-trading financial assets mandatorily at fair value through profit or loss	329	224
Financial assets designated at fair value through profit or loss	3,642	4,783
Financial assets at fair value through other comprehensive income	2,293	5,329
Financial assets at amortized cost	2,607	2,640
	17,411	**34,168**

32. Hedging derivatives

Banco Santander, 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 details of the coverage derivatives of Banco Santander, S.A. according to the type of coverage, the risk they cover and the product, can be found in the following table:

EUR million

	2020				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Balance sheet items
		Assets	Liabilities		
Fair value hedges	**49,371**	**2,357**	**(988)**	**366**	
Interest rate risk	**36,371**	**1,875**	**(723)**	**336**	
Interest Rate Swap	*35,983*	*1,855*	*(711)*	*336*	*Hedging derivatives*
Call money Swap	*7*	*—*	*—*	*—*	*Hedging derivatives*
Swaption	*51*	*11*	*(11)*	*—*	*Hedging derivatives*
Floor	*330*	*9*	*(1)*	*—*	*Hedging derivatives*
Exchange rate risk	**7,990**	**209**	**(34)**	**(1)**	
Fx forward	*7,990*	*209*	*(34)*	*(1)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,803**	**273**	**(228)**	**27**	
Interest Rate Swap	*426*	*9*	*(1)*	*1*	*Hedging derivatives*
Currency Swap	*4,377*	*264*	*(227)*	*26*	*Hedging derivatives*
Credit risk	**207**	**—**	**(3)**	**4**	
CDS	*207*	*—*	*(3)*	*4*	*Hedging derivatives*
Cash flow hedges	**40,140**	**92**	**(405)**	**(206)**	
Interest rate risk	**35,443**	**39**	**(271)**	**(204)**	
Interest rate swap	*30,000*	*39*	*(12)*	*39*	*Hedging derivatives*
Futures	*5,443*	*—*	*(259)*	*(243)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,697**	**53**	**(134)**	**(2)**	
Currency swap	*4,697*	*53*	*(134)*	*(2)*	*Hedging derivatives*
Net investment hedges abroad	**20,211**	**688**	**(387)**	**—**	
Exchange rate risk	**20,211**	**688**	**(387)**	**—**	
Fx forward	*20,211*	*688*	*(387)*	*—*	*Hedging derivatives*
	109,722	**3,137**	**(1,780)**	**160**	**—**

EUR million

	2019				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line items
		Assets	Liabilities		
Fair value hedges	**41,791**	**1,865**	**(831)**	**(248)**	
Interest rate risk	**28,445**	**1,571**	**(609)**	**(231)**	
Interest rate swap	*28,179*	*1,551*	*(600)*	*(208)*	Hedging derivatives
Inflation swap	*55*	*4*	—	—	*Hedging derivatives*
Swaption	*51*	*9*	*(9)*	—	*Hedging derivatives*
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**	**246**	**(174)**	**23**	
Currency coverage	*869*	*10*	*(1)*	*8*	*Hedging derivatives*
Interest rate swap	*3,329*	*235*	*(173)*	*15*	*Hedging derivatives*
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	**18,862**	**33**	**(48)**	**(2)**	
Interest rate swap	—	—	—	*13*	*Hedging derivatives*
Futures	*18,862*	*33*	*(48)*	*(16)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,970**	**79**	**(399)**	**(6)**	
Currency swap	*4,970*	*79*	*(399)*	*(6)*	*Hedging derivatives*
Net investment hedges abroad	**23,384**	**249**	**(766)**	**—**	
Exchange rate risk	**23,384**	**249**	**(766)**	**—**	
Fx forward	*23,384*	*249*	*(766)*	—	*Hedging derivatives*
	89,007	**2,226**	**(2,044)**	**(257)**	

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 risk of both interest rate, exchange rate and credit of fixed-income portfolios (REPOs are included in this typology) and are therefore exposed to changes in fair value thereof due to changes in market conditions in based on the various risks covered, which has an impact on Banco Santander's income statement. To mitigate these risks, the Bank contracts hedging instruments (Derivatives), basically Interest rate Swaps, Cross Currency Swaps, Cap&Floors, Forex Forward and Credit Default Swaps.

On the other hand, the risk of both interest and exchange of loans granted to corporate clients at a fixed rate is generally covered. These hedges are made using Interest Rate Swaps, Cross Currency Swaps and exchange rate derivatives (Forex Swaps and Forex Forward).

In addition, Banco Santander manages the interest and exchange risk of debt issues in its various categories (mortgage, perpetual, subordinate and senior debt issuances) and in different currencies, denominated at fixed rate, and therefore subject to changes in fair value. These issues are covered by Interest Rate Swaps and Cross Currency Swaps or the combination of both through differentiated fair value hedging strategies for interest rate risk, and cash flows to cover exchange-rate risk.

The methodology used by Banco Santander, S.A. to measure the effectiveness of fair value hedge hedges is based on comparing the market values of hedged items, based on the objective risk of hedging, and hedging instruments in order to analyse that changes in that fair value of hedging the items covered by hedging are offset by the market value of hedging instruments, mitigating hedged risk and minimizing volatility in the income statement. Prospectively, the same analysis is performed, measuring theoretical market values in the face of parallel variations of market curves at a positive base point.

There is a structured loan macro-coverage covering the interest rate risk of fixed-rate loans (mortgage, personal or other collateral) granted to commercial or corporate legal entities and medium/long-term Wealth clients. This coverage is instrumented as a VR macro coverage being the main coverage instruments, Interest Rate Swap and Cap&Floors. In the event of total or partial early cancellation or amortization, the client is obliged to pay/receive the cost/income of the cancellation of the interest rate risk coverage that Banco Santander manages.

With regard to cash flow hedges, the objective is to be covered by the exposure of flows to changes in interest rate and exchange rates.

For retrospective purposes, the 'Hypothetical Derivate' methodology is used to measure efficacy. Through this methodology, the hedged risk is modelled as a derivative — not real — instrument created exclusively for the purpose of measuring the effectiveness of the hedging, and which must meet that its main characteristics match the critical terms of the hedged item for the entire period for which the ratio of coverage. This hypothetical derivative does not incorporate characteristics that are unique to the hedging instrument. In addition, it should be mentioned that, for the purpose of the effectiveness calculation, any risk component not associated with the target risk covered and actually documented at the beginning of the risk is excluded. The market value of the hypothetical derivative replicating the hedged item is compared with the market value of the hedging instrument, verifying that the hedged risk is effectively mitigated and that the impact on the income statement due to potential inefficiencies is residual.

Changes in the market values of the hedging instrument and the hedged item (represented by the hypothetical derivative) are prospectively measured for parallel movements of a positive base point in the market curves concerned.

There is also another macro-hedging, this time of cash flows, which aims to actively manage the risk-free interest rate risk (excluding credit risk) of a portion of the variable rate assets of Banco Santander, S.A., through the contracting of interest rate derivatives for which the bank exchanges interest flows at variable rate with others at a fixed rate agreed upon at the time of contract of transactions. Items affected by Macrocoverage have been designated as those in which their cash flows are exposed to interest rate risk, in particular mortgages of the Banco Santander, S.A. network at variable rate referenced to Euribor 12 Mones or Euribor Mortgage, with annual rate renewal, classified as healthy risk and which do not present a contractual floor (or otherwise, the floor is not activated). The hedged position affects the Macrocoverage of Cash Flows at the present time is EUR 30 billion.

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, USD, SAR and PLN.

The instruments used to hedge the risk of these investments are Forex Swaps, Forex Forward and Spot currency purchases/sales.

In the case of this type of coverage, ineffectiveness scenarios are considered to be low probability, since the hedging instrument is designated considering the position determined and the spot rate at which it is located.

Additionally, the profile information of maturities and the price/average rate for Banco Santander, S.A. is shown:

EUR million

	2020					
	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	**2,906**	**4,848**	**5,999**	**20,242**	**15,377**	**49,372**
Interest rate risk						
Interest rate instruments						
Nominal	2,073	409	2,165	17,430	14,294	36,371
Average fixed interest rate (%) GBP	—	—	—	1.38	4.07	
Average fixed interest rate (%) EUR	0.65	0.55	0.39	0.82	1.93	
Average fixed interest rate (%) CHF	—	—	—	0.80	0.40	
Average fixed interest rate (%) JPY	—	—	—	0.46	—	
Average fixed interest rate (%) RON	—	—	—	3.61	—	
Average fixed interest rate (%) USD	0.70	0.57	2.03	3.00	3.56	
Exchange rate risk						
Exchange rate instruments						
Nominal	833	4,149	3,008	—	—	7,990
GBP / EUR average exchange rate	—	0.90	0.92	—	—	
USD / EUR average exchange rate	1.16	1.17	1.18	—	—	
USD / COP average exchange rate	3,628.14	3,603.59	—	—	—	
PEN / USD average exchange rate	—	3.61	—	—	—	
AUD / EUR average exchange rate	—	1.61	—	—	—	
SAR / EUR average exchange rate	4.48	4.51	—	—	—	
CNY / EUR average exchange rate	8.11	8.10	8.00	—	—	
JPY / EUR average exchange rate	—	124.61	—	—	—	
Interest rate and exchange risk						
Instruments of exchange rate and interest						
Nominal	—	282	818	2,621	1,083	4,804
Average fixed interest rate (%) AUD / EUR	—	—	—	4.00	4.66	
Average fixed interest rate (%) COP / USD	—	—	6.00	—	—	
Average fixed interest rate (%) CZK/EUR	—	—	—	0.86	—	
Average fixed interest rate (%) EUR/COP	—	—	4.38	—	—	
Average fixed interest rate (%) RON/EUR	—	—	—	4.85	—	
Average fixed interest rate (%) HKD/EUR	—	—	—	2.58	—	
Average fixed interest rate (%) JPY/EUR	—	—	2.20	0.57	1.28	
Average fixed interest rate (%) NOK/EUR	—	—	—	—	3.61	
Average fixed interest rate (%) CHF/EUR	—	—	—	—	1.24	
Average fixed interest rate (%) USD/CLP	—	—	0.93	—	—	
Average fixed interest rate (%) USD/COP	—	—	8.03	6.66	7.23	
AUD/EUR average exchange rate	—	—	—	1.50	1.51	
COP/USD average exchange rate	—	—	3,437.20	—	—	
CZK/EUR average exchange rate	—	—	—	25.54	—	
EUR/GBP average exchange rate	—	1.11	—	—	—	
EUR/COP average exchange rate	—	—	—	—	—	
EUR/USD average exchange rate	—	—	—	0.89	—	
HKD/EUR average exchange rate	—	—	—	8.78	—	
JPY/EUR average exchange rate	—	—	113.30	133.84	125.88	
MXN/EUR average exchange rate	—	—	—	14.70	—	
NOK/EUR average exchange rate	—	—	—	—	9.61	

EUR million

	2020					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
RON/EUR average exchange rate	—	—	—	4.73	—	
CHF/EUR average exchange rate	—	—	—	1.09	1.11	
USD/CLP average exchange rate	—	—	—	—	—	
USD/COP average exchange rate	—	—	—	—	—	
USD/MXN average exchange rate	—	—	0.05	—	—	
Credit risk						
Credit Risk Instruments						
Nominal	—	8	8	191	—	207
Cash flow hedges	**3,164**	**5,000**	**24,247**	**7,521**	**208**	**40,140**
Interest rate and exchange rate risk						
Interest rate and exchange instruments						
Nominal	—	—	1,247	3,242	208	4,697
EUR / GBP average exchange rate	—	—	1.08	1.10	—	
EUR / USD average exchange rate	—	—	—	0.88	—	
AUD / EUR average exchange rate	—	—	—	1.62	—	
RON / EUR average exchange rate	—	—	—	4.81	—	
JPY / EUR average exchange rate	—	—	—	120.57	—	
CHF / EUR average exchange rate	—	—	—	—	1.10	
Interest rate risk						
Interest Rate Swaps						
Nominal	3,164	5,000	23,000	4,279	—	35,443
Average fixed interest rate (%) EUR	—	(0.26)	(0.25)	(0.24)	—	
Bond Forward Instruments						
Nominal						
Net investment hedges abroad	**2,229**	**4,554**	**11,570**	**1,858**	**—**	**20,211**
Exchange rate risk						
Exchange rate instruments						
Nominal	2,229	4,554	11,570	1,858	—	20,211
BRL / EUR average exchange rate	5.27	5.31	6.33	—	—	
CLP / EUR average exchange rate	869.63	861.55	864.34	932.22	—	
COP / EUR average exchange rate	—	—	4,471.31	—	—	
GBP / EUR average exchange rate	0.91	0.92	0.91	—	—	
MXN / EUR average exchange rate	23.12	25.46	26.79	—	—	
PLN / EUR average exchange rate	4.43	4.42	4.52	—	—	
Total	**8,299**	**14,402**	**41,816**	**29,621**	**15,585**	**109,723**

EUR million

	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	**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	—	—	—	25.41	26.03	
EUR / GBP average exchange rate	—	1.17	—	—	—	
EUR / USD average exchange rate	—	—	—	—	—	
EUR / COP average exchange rate	—	—	—	—	—	
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	—	—	—	—	9.61	
RON / EUR average exchange rate	—	—	—	4.73	—	
CHF / EUR average exchange rate	—	—	—	1.09	1.11	
USD / COP average exchange rate	—	—	—	—	—	
USD / MXN average exchange rate	—	—	—	0.05	—	
Credit risk						
Credit Risk Instruments						
Nominal	—	*13*	—	*244*	—	*257*

EUR million

	2019					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Cash flow hedges:	**11,626**	**—**	**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
EUR / GBP average exchange rate	—	—	—	—	—	
EUR / USD average exchange rate	—	—	—	—	—	
AUD / EUR average exchange rate	—	—	—	—	—	
JPY / EUR average exchange rate	—	—	—	—	—	
CHF / EUR average exchange rate	—	—	—	—	—	
Interest rate risk						
Interest Rate Swaps						
Nominal	11,626	—	1,792	5,443	—	18,861
Average fixed interest rate (%) EUR	—	—	—	—	—	
Bond Forward Instruments						
Nominal	—	—	—	—	—	
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**

Santander

The following table contains details of the hedged exposures covered by Banco Santander, S.A. hedging strategies of 31 December 2020 and 2019:

EUR million

	2020						
	Amount in books of the item covered		Cumulative amount of fair value adjustments on the covered 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	**23,964**	**20,775**	**321**	**1,440**	**(356)**	**—**	**—**
Interest rate risk	**13,939**	**18,278**	**264**	**1,360**	**(328)**	**—**	**—**
Deposits	*7,276*	*—*	*310*	*—*	*76*	*—*	*—*
Bonds	*4,469*	*18,278*	*(64)*	*1,360*	*(398)*	*—*	*—*
Repo	*2,194*	*—*	*18*	*—*	*(6)*	*—*	*—*
Fixed income securities loans	*—*	*—*	*—*	*—*	*—*	*—*	*—*
Exchange rate risk	**8,030**	**—**	**40**	**—**	**1**	**—**	**—**
Deposits	*1,227*	*—*	*22*	*—*	*—*	*—*	*—*
Bonds	*6,685*	*—*	*14*	*—*	*(1)*	*—*	*—*
Liquidity lines	*118*	*—*	*4*	*—*	*2*	*—*	*—*
Interest rate and exchange rate risk	**1,775**	**2,497**	**14**	**80**	**(27)**	**—**	**—**
Deposits	*946*	*—*	*13*	*—*	*9*	*—*	*—*
Bonds	*—*	*2,400*	*—*	*78*	*(33)*	*—*	*—*
Repo	*829*	*97*	*1*	*2*	*(3)*	*—*	*—*
Credit risk	**220**	**—**	**3**	**—**	**(2)**	**—**	**—**
Bonds	*220*	*—*	*3*	*—*	*(2)*	*—*	*—*
Cash flow hedges	**—**	**—**	**—**	**—**	**231**	**(274)**	**3**
Interest rate risk	**—**		**—**	**—**	**231**	**(266)**	**3**
Deposits	*—*	*—*	*—*	*—*	*(28)*	*27*	*3*
Bonds	*—*	*—*	*—*	*—*	*259*	*(293)*	*—*
Interest rate and exchange rate risk	**—**	**—**	**—**	**—**	**—**	**(8)**	**—**
Deposits	*—*	*—*	*—*	*—*	*—*	*(10)*	*—*
Bonds	*—*	*—*	*—*	*—*	*—*	*2*	*—*
Net investment hedges abroad	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
Exchange rate risk	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
Equity	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
	44,175	**20,775**	**321**	**1,440**	**(125)**	**(274)**	**3**

EUR million

	2019						
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item		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*	*—*	*28*	*—*	*—*
Bonds	*1,043*	*(19,753)*	*149*	*(1,169)*	*152*	*—*	*—*
Repo	*1,936*	*—*	*29*	*—*	*4*	*—*	*—*
Fixed income securities loans	*25*	*—*	*2*	*—*	*—*	*—*	*—*
Exchange rate risk	**7,612**	**—**	**40**	**—**	**35**	**—**	**—**
Deposits	*1,912*	*—*	*22*	*—*	*14*	*—*	*—*
Bonds	*5,643*	*—*	*15*	*—*	*18*	*—*	*—*
Liquidity lines	*57*	*—*	*3*	*—*	*3*	*—*	*—*
Interest rate and exchange rate risk	**1,173**	**(2,721)**	**(5)**	**(47)**	**(26)**	**—**	**—**
Deposits	*363*	*—*	*—*	*—*	*1*	*—*	*—*
Bonds	*—*	*(2,621)*	*—*	*(49)*	*(23)*	*—*	*—*
Repo	*810*	*(100)*	*(5)*	*2*	*(4)*	*—*	*—*
Credit risk	**253**	**—**	**6**	**—**	**5**	**—**	**—**
Bonds	*253*	*—*	*6*	*—*	*5*	*—*	*—*
Cash flow hedges	**—**	**—**	**—**	**—**	**17**	**(23)**	**(42)**
Interest rate risk	**—**	**—**	**—**	**—**	**16**	**(16)**	**(42)**
Deposits	*—*	*—*	*—*	*—*	*—*	*—*	*14*
Bonds	*—*	*—*	*—*	*—*	*16*	*(16)*	*(56)*
Interest rate and exchange rate risk	**—**	**—**	**—**	**—**	**1**	**(7)**	**—**
Deposits	*—*	*—*	*—*	*—*	*2*	*(7)*	*—*
Bonds	*—*	*—*	*—*	*—*	*(1)*	*—*	*—*
	13,342	**22,474**	**502**	**(1,216)**	**215**	**(23)**	**(42)**

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 2020 is EUR 150 million (December 31, 2019 is EUR 204 million).

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 2020 and 2019:

EUR million

	2020				
				Reclassified amount of reserves to the income statement due to	
	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 affects the income statement	Line of the income statement that includes reclassified amounts
Fair value hedges	**—**	**10**		**—**	**N/A**
Interest rate risk	**—**	**4**		**—**	**N/A**
Deposits	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*6*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Repo	*—*	*(2)*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Exchange rate risk	**—**	**—**		**—**	**N/A**
Deposits	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Interest and Exchange rate risk	**—**	**4**		**—**	**N/A**
Deposits	*—*	*(6)*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*7*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Repo	*—*	*3*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Credit risk	*—*	*2*		*—*	*N/A*
Bonds	*—*	*2*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Cash flow hedges	**(206)**	**—**		**33**	**N/A**
Interest rate risk	**(204)**	**—**		**(10)**	**N/A**
Deposits	*17*	*—*	*Gains or losses of financial assets/liabilities*	*(10)*	*N/A*
Bonds	*(221)*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Interest rate and exchange rate risk	**(2)**	**—**		**43**	**N/A**
Deposits	*(3)*	*—*	*Gains or losses of financial assets/liabilities*	*42*	*NET INTEREST INCOME*
Bonds	*1*	*—*	*Gains or losses of financial assets/liabilities*	*1*	*NET INTEREST INCOME*
	(206)	**10**		**33**	

EUR million

	2019				
				Reclassified amount of reserves to the income statement due to	
	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 affects the income statement	Line of the income statement that includes reclassified amounts
Fair value hedges	**—**	**(50)**		**—**	**N/A**
Interest rate risk	**—**	**(48)**		**—**	**N/A**
Deposits	*—*	*(15)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(32)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Loans of fixed income securities	*—*	*(1)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Exchange rate risk	**—**	**(1)**		**—**	**N/A**
Deposits	*—*	*1*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(2)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Interest and Exchange rate risk	**—**	**(1)**		**—**	**N/A**
Deposits	*—*	*1*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(2)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Financial Repo	*—*			*—*	*N/A*
Cash flow hedges	**(117)**	**—**		**88**	**N/A**
Interest rate risk	**(112)**	**—**		**67**	
Deposits	*(13)*	*—*	*Gains or losses of financial assets/ liabilities*	*(10)*	*NET INTEREST INCOME*
Bonds	*(99)*	*—*	*Gains or losses of financial assets/ liabilities*	*77*	*NET INTEREST INCOME*
Interest rate and exchange rate risk	**(5)**	**—**		**21**	
Deposits	*(5)*	*—*	*Gains or losses of financial assets/ liabilities*	*21*	*NET INTEREST INCOME*
	(117)	**(50)**		**88**	

The following table shows a reconciliation of each component of equity and an analysis of other comprehensive income in relation to hedge accounting as of December 31, 2020:

EUR million

	2020
Balance at the end of the previous year	**(45)**
Amount recognized in Other accumulated global income	
Cash flow hedges	(206)
Interest rate risk and interest rate and exchange rate risk	(206)
Changes in equity by discharge at P&L	*33*
Remains of equity movements	*(239)*
Taxes	62
Balance at year end	**(189)**

33. Off-balance-sheet funds under management

At 31 December 2019, Banco Santander held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 81,964 million (31 December 2019: EUR 76,477 million). Also, at 31 December 2019, the funds marketed but not held under management amounted to EUR 20,503 million (31 December EUR 26,248 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 recognized gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2020 and 2019 is as follows:

EUR million

	2020	2019
Debt instruments	**777**	**1,169**
Central Banks	2	6
Public sector	210	430
Credit entities	342	328
Other financial companies	169	284
Non-financial companies	54	121
Loans and advances	**5,095**	**5,855**
Central Banks	41	130
Public sector	162	225
Credit entities	406	461
Other financial companies	467	705
Non-financial companies	2,607	2,704
Households	1,412	1,630
Other assets	**85**	**178**
Of which, insurance contracts linked to pensions (note 23.c)	*6*	*24*
Deposits	**520**	**274**
Central Banks	375	177
Public sector	2	3
Credit entities	105	71
Other financial companies	30	18
Non-financial companies	8	5
Households	—	—
Hedging derivatives - Interest rate risk	**34**	**80**
Other financial liabilities	**12**	**7**
Debt securities issued	**5**	**3**
	6,528	**7,566**

Most of the interest and similar income was generated by Banco Santander's financial assets that are measured either at amortized cost or at fair value through Other comprehensive income.

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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 2020 and 2019 is as follows:

EUR million

	2020	2019
Debt securities Issued	**1,507**	**1,559**
Debt securities	**97**	**98**
Central Banks	—	—
Public sector	49	38
Credit entities	40	41
Other financial companies	8	18
Non-financial companies	—	1
Loans and advances	**361**	**278**
Central Banks	101	94
Public sector	9	10
Credit entities	198	145
Other financial companies	48	23
Non-financial companies	5	6
Households	—	—
Deposits	**1,006**	**1,906**
Central Banks	111	216
Public sector	145	153
Credit entities	351	513
Other financial companies	279	590
Non-financial companies	94	250
Households	26	184
Other financial liabilities	**190**	**205**
Hedging derivatives - Interest rate risk	**(35)**	**(14)**
Pensions and other obligations of defined post-employment benefits (note 23)	**34**	**66**
Others	**—**	**9**
	3,160	**4,107**

Most of the interest expense and similar charges was generated by Banco Santander's financial liabilities that are measured at amortized 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:

EUR million

	2020	2019
Financial assets held for trading	264	381
Of which		
Spain	*105*	*140*
Rest of Europe	*156*	*238*
America	*1*	*1*
Rest of the world	*2*	*2*
Non-trading financial assets mandatorily at fair value through profit or loss	—	9
Financial assets available for sale		
Financial assets at fair value through other comprehensive income	62	53
Investments in subsidiaries, jointly controlled entities and associates	5,316	5,959
Group entities	*5,221*	*5,679*
Associates	*95*	*280*
	5,642	**6,402**

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognized in 2020 and 2019 is as follows:

EUR million

	2020	2019
Detail of the companies:		
SANTANDER HOLDING INTERNATIONAL, S.A.	1,270	1,100
STERREBEECK B.V.	1,260	1,000
SANTUSA HOLDING, S.L.	1,019	—
TEATINOS SIGLO XXI INVERSIONES, S.A.	733	63
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C	200	201
SANTANDER HOLDING USA, Inc.	112	358
SANTANDER UK GROUP HOLDINGS PLC	88	233
SANTANDER UK GROUP HOLDINGS PLC (AT1)	72	—
ZURICH SANTANDER INSURANCE AMÉRICA, S.L.	80	158
SAM INVESTMENT HOLDINGS LIMITED, S.L.	72	—
SANTANDER CONSUMER FINANCE, S.A. (AT1)	65	926
SANTANDER TOTTA, SGPGS, S.A.	61	61
BANCO SANTANDER (BRASIL) S.A.	59	335
BANCO SANTANDER S.A.	37	49
SANTANDER INVESTMENT, S.A.	30	—
SANTANDER GLOBAL TECHNOLOGY, S.L.	20	73
SANTANDER TOWARZYSTTWO FUNDUSZY INMESTYCYJNYCH, S.A.	20	—
SANTANDER GLOBAL OPERATIONS, S.A.	17	—
SOCUR, S.A.	17	15
SANTANDER CHILE HOLDING, S.A.	16	37
SAM INVESTMENT HOLDINGS, S.L. (before SAM UK INVESTMENT HOLDINGS LIMITED)	1	149
GRUPO FINANCIERO SANTANDER MÉXICO, S.A. de C.V.	—	357
SANTANDER BANK POLSKA S.A.	—	317
SANTANDER SEGUROS Y REASEGUROS, COMPAÑÍA ASEGURADORA, S.A.	—	200
POPULAR SPAIN HOLDING DE INVERSIONES, S.L.U. (before ALLIANZ POPULAR, S.L.)	—	52
SANTANDER LEASE, S.A., E.F.C.	—	42
BANCO SANTANDER MEXICO, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO SANTANDER MÉXICO	—	42
Other companies	67	191
	5,316	**5,959**

37. Commission income

Fee and commission income comprise the amount of all fees and commissions accruing in favour of Banco Santander 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 2020 and 2019 is as follows:

EUR million

	2020	2019
Collection and payment services:		
Current Accounts	300	250
Credit and debit cards	194	307
Transfers and other payment orders	84	89
Other commission income in connection with payment services	71	90
	649	**736**
Marketing of non-banking financial products:		
Collective Investment	465	456
Insurance	232	262
Other	—	—
	697	**718**
Securities services:		
Securities underwriting and placement	138	129
Transfer orders	12	—
Other	90	10
	240	**139**
Clearing and settlement	**78**	**60**
Asset management	**78**	**58**
Custody	**67**	**67**
Structured finance	**229**	**206**
Loan granted commitments granted	**217**	**164**
Financial granted guarantees granted	**222**	**238**
Other:		
Foreign currency exchange	88	83
Other concepts	246	311
	334	**394**
	2,811	**2,780**

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38. Commission expense

Fee and commission expense show the amount of all fees and commissions paid or payable by Banco Santander 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 2020 and 2019 is as follows:

EUR million

	2020	2019
Clearing and settlement	73	83
Loan commitments received	—	25
Financial guarantees received	113	138
Custody	—	2
Other *	308	268
	494	**516**

* Other Includes mainly commissions paid for financial and mediation services, as well as credit cards.

39. 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 classification of the related instrument, of Gains/losses on financial assets and liabilities in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	578	891
Financial assets at amortized cost	10	296
Other financial assets and liabilities	568	595
Of which, debt instruments	*565*	*592*
Of which, equity instruments	—	—
Gains or losses on financial assets and liabilities held for trading, net*	(29)	(12)
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	(290)	35
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net*	4	(54)
Gains or losses from hedge accounting, net	10	(50)
	273	**810**

* Includes the net income obtained from transactions with debt securities, capital instruments, derivatives and short positions included in this portfolio when the Bank jointly manages its risk in those 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:

EUR million

	2020	2019
Loans and receivables	35,222	51,246
Central Banks	482	138
Credit institutions	9,891	18,543
Customers	24,849	32,565
Debt instruments*	18,914	20,193
Equity instruments	10,063	11,928
Derivatives	53,362	55,694
	117,561	**139,061**

* Include EUR 13,842 million related to Spanish and foreign government debt securities at 31 December 2020 (31 December 2019 EUR 14,741 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2020 and 2019, respectively, Banco Santander mitigates and reduces this exposure as follows.

With respect to derivatives, Banco Santander 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. Banco Santander 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 31,070 million at 31 December 2020 (December 2019: EUR 45,807 million).

In addition, assets amounting to EUR 1,408 million have a mortgage guarantee at 31 December 2020 (December 2019: EUR 1,853 million).

At 31 December 2020 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:

EUR million

	2020	2019
Deposits	16,890	24,264
Central Banks	*1,469*	*7,596*
Credit Institutions	*4,496*	*6,152*
Customers	*10,925*	*10,516*
Short positions	10,338	8,288
Derivatives	50,676	56,068
	77,904	**88,620**

At 31 December 2020, 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 2020 and 2019 is as follows:

EUR million

	2020	2019
Net gains/losses on		
Foreign currency purchases and sales	240	33
Translation of monetary items to the functional currency	132	(488)
	372	**(455)**

Banco Santander 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 analyzed together with those recognized 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 2020 and 2019 is as follows:

EUR million

	2020	2019
Exploitation of real estate investments and operating leases	241	199
Others	163	175
	404	**374**

The detail of 'Other operating expenses' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Contribution to Deposit Guarantee Fund (note 1.h)	(239)	(234)
Real estate investment expenses		
Contribution to Resolution Fund* (note 1.h)	(262)	(187)
Other operating expenses	(284)	(195)
	(785)	**(616)**

*Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund.

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42. Staff costs

a) Breakdown

The detail of 'Staff costs' in 2020 and 2019 is as follows:

EUR million

	2020			2019		
	Of which, in Spain	Of which, foreign branches	Total	Of which, in Spain	Of which, foreign branches	Total
Wages and salaries	1,639	241	1,880	1,856	218	2,074
Social security costs	381	27	408	424	25	449
Additions to provisions for defined benefit pension plans (note 23)	11	—	11	12	1	13
Contributions to defined contribution pension funds	72	8	80	74	8	82
Equity-instrument-based remuneration	—	—	—	—	—	—
Other staff costs	191	16	207	243	13	256
	2,294	**292**	**2,586**	**2,609**	**265**	**2,874**

b) Headcount

The average number of employees at the Bank, by professional category, is as follows:

Average number of employees

	2020	2019
Executive and Senior management	21	20
Other line personnel	26,527	29,147
Staff at branches abroad	955	842
	27,503	**30,009**

The functional breakdown, by gender, at 31 December 2020 is as follows:

	Breakdown by gender			
	Executives		Other line personnel	
	Men	Women	Men	Women
Breakdown by gender	75 %	25 %	52 %	48 %

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, 2020 and 2019, is as follows:

	2020	2019
Senior management	—	—
Other management	30	28
Other staff	287	267
	317	**295**

The average number of Santander Bank employees with disabilities greater than or equal to 33%, at the end of 2020 was of 319 (31 December 2019 was of 318).

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December, 2020, 2019 and 2018 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 and conditional variable remuneration plan (2015, 2016, 2017, 2018, 2019 and 2020)	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 sixth cycles, and over three or five years for the fifth, seventh, eighth, ninth and tenth 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 (fifth cycle) In the case of the sixth, seventh, eighth, ninth and tenth cycle, the beneficiaries are Material Risk Takers (Identified staff) that are not beneficiaries of the Deferred Multiyear Objectives Variable Remuneration Plan.	For the fifth and sixth cycles (2015 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: Poor financial performance of the Group. breach by the beneficiary of internal regulations, including, in particular, those relating to risks. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards. Significant changes in the Group's economic capital or risk profile In the case of the seventh, eight, ninth and tenth cycles (2017 to 2020), 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: significant failures in risk management committed by the entity , or by a business unit or risk control unit. 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. 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. 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.	Fifth cycles (2015): 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, ninth and tenth cycle (2017, 2018, 2019 and 2020): 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.
(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 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: Poor financial performance of the Group; breach by the beneficiary of internal regulations, including, in particular, those relating to risks. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards. 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.	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 op 3 top 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.

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iii)Deferred Multiyear Objectives Variable Remuneration Plan (2016, 2017, 2018, 2019 and 2020)	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: Poor performance of the Group. breach by the beneficiary of the internal regulations, including in particular that relating to risks. material restatement of the Group's consolidated financial statements, except when appropriate under a change in accounting regulations. Significant changes in the Group's economic capital or risk profile. In 2017, 2018, 2019 and 2020 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: Significant failures in risk management committed by the entity, or by a business unit or risk control unit. 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. 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. 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, 2021 and 2022 (over 2016, 2017, 2018 and 2019, 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 and fifth cycle) for the 2019-2021 and 2020-2022 period. Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial years 2019, 2020, 2021 and 2022, respectively.

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iv) Digital Transformation Award (2019 y 2020)	The 2019 and 2020 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: Launch of a Global Trade Services (GTS) platform. Launch of a Global Merchant Services (GMS) platform. Migration of our fully digital bank, OpenBank, to a "next generation" platform and launch in 3 markets. Extension of SuperDigital in Brazil to at least one other country. Launch of our international payments app based on blockchain Pago FX to non-Santander customers. The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries. 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	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 and eight years from granting for the 2019 and 2020 incentive, respectively.

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 01/01/2018	**27.201**						
Options granted (sharesave)	6,210	3.46	2018	Employees	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 31/12/2018	**26,838**						
Options granted (sharesave)	9,594	2.83	2019	Employees	5,606	01/11/19	01/11/22
						01/11/19	01/11/24
Options exercised	(7,978)	2.83					
Options cancelled (net) or not exercised	(5,081)	3.42					
Plans outstanding at 31/12/2019	**23,373**						
Options granted (sharesave)	11,642	1.65	2020	Employees	5,012	01/11/20	01/11/23
						01/11/20	01/11/25
Options exercised	(860)	2.75					
Options cancelled (net) or not exercised	(12,993)	2.96					
Plans outstanding at 31/12/2020	**21,162**						

* At 31 December, 2020, 2019 and 2018, the euro/pound sterling exchange rate was EUR 1.1168 GBP 1, EUR 1.1754 GBP 1; EUR 1.1179 GBP 1, respectively.
** Number of accounts/contracts. A single employee may have more than one account/contract.

IIn 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. At the end of the chosen period, the employee may choose between collecting the amount contributed, the interest accrued and a bonus (tax-exempt in the United Kingdom) or exercising options on shares of the Bank in an amount equal to the sum of such three amounts at a fixed price. The exercise price will be the result of 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 21to 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, April 12, 2019, and April 3, 2020 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 2018, 2019 and 2020:

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 2018, 2019 and 2020 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 GBP 0.21 (GBP 0.49 and GBP 0.53 in 2019 and 2018, respectively).

43. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Technology and systems	666	652
Fixtures and supplies	258	310
Other administrative expenses	630	608
Technical reports	194	204
Advertising	101	107
Per diems and travel expenses	19	60
Surveillance and cash courier services	42	58
Communications	31	25
Taxes other than income tax	58	106
Insurance premiums	17	19
	2,016	**2,149**

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:

EUR million

	2020*	2019*
Audit fees	95.8	102.4
Audit-related fees	6.0	7.8
Tax fees	0.8	0.7
All other fees	1.2	2.3
Total	**103.8**	**113.2**

* Of which Banco Santander, S.A., EUR 27.5 million, EUR 2.1 million, EUR 0 million and EUR 0.4 million respectively as at December 31, 2020 (EUR 28.4 million, EUR 2.4 million, EUR 0 million and 0.2, respectively as at December 31, 2019).

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 Grupo Santander.

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 172.4 million in 2020 (EUR 227.6 million and EUR 173.9 million in 2019 and 2018, respectively).

The Audit fees and Audit-related 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

Santander

presented according to their approval by the Audit Committee.

c) Number of branches

The number of offices at 31 December 2020 and 2019 is as follows:

Number of branches

	Group	
	2020	2019
Spain	2,989	3,286
Group	8,247	8,666
	11,236	**11,952**

Number of branches

	Of which, Banco Santander	
	2020	2019
Spain	2,905	3,202
International	9	9
	2,914	**3,211**

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates

The detail of 'Impairment losses on other assets (net)' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Investments in subsidiaries, joint ventures and associates (note 13)	5,921	434
	5,921	**434**

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 2020 and 2019 is as follows:

EUR million

	2020	2019
On disposal of tangible assets	7	2
On disposal of investments in subsidiaries, jointly controlled entities and associates	1,135	50
Of which (note 13)		
Capital reductions and refunds of share premium by subsidiaries (note 13.b)	—	—
Banco Santander Brasil (sale to company de Grupo Santander)	*1,127*	
Grupo Financiero Ve por Mas	—	*12*
	1,142	**52**

46. 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' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Impairment of non-current assets held for sale (note 12)	(68)	(70)
Gain / (loss) on disposal*	(9)	(109)
	(77)	**(179)**

* Year 2019: includes the result of extraordinary sales of real estate portfolio.

47. Related parties

The parties related to Banco Santander are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, Banco Santander'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 Banco Santander with its related parties at 31 December 2020, distinguishing between subsidiaries, associates and jointly controlled entities, members of Banco Santander's board of directors, Banco Santander'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 recognized.

EUR million

	Subsidiaries, associates and jointly controlled entities	Members of the board of directors*	Executive vice presidents*	Other related parties*
Assets	**144,956**	**—**	**24**	**90**
Equity instruments	85,329	—	—	—
Debt instruments	10,803	—	—	—
Loans and advances	48,824	—	24	90
From which: impaired financial assets	138	—	—	—
Liabilities	**19,740**	**4**	**16**	**158**
Deposits credit institution and clients	19,123	4	16	158
Marketable debt securities	617	—	—	—
Income statement	**6,977**	**—**	**—**	**3**
Interest and similar income	671	—	—	2
Interest expense and similar charges	62	—	—	—
Interest from equity instruments	5,318	—	—	—
Gains / (Losses) on financial instruments and other	7	—	—	—
Fee and commission income	770	—	—	1
Fee and commission expense	149	—	—	—
Other	**347,736**	**1**	**1**	**45**
Contingent liabilities	5,521	—	—	3
Contingent commitments	9,070	1	1	13
Financial instruments - derivatives	333,145	—	—	29

* Includes transactions carried out with both Banco Santander and with other entities of Grupo Santander.

Additionally, the above-mentioned breakdown shows pension insurance contracts with Grupo Santander insurance companies amounting to EUR 249 million on December 31 of 2020.

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 of 31 December 2020 and 2019 is as follows:

EUR million

	2020							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Average iterest rate
Assets								
Cash, cash balances at central banks and other demand deposits	67,561	—	—	—	—	—	67,561	(0.44)%
Financial assets at fair value with changes in other comprehensive income								
Representative values of debt	—	50	1,466	234	1,723	11,673	15,146	1.24 %
Financial assets at amortised cost								
Representative values of debt	—	107	122	276	2,366	8,542	11,413	2.87 %
Loans and advances								
Central banks	—	20	—	1	—	—	21	— %
Credit institutions	12,082	2,489	4,233	8,998	5,539	818	34,159	0.17 %
Customer	19,238	10,345	28,981	22,142	79,552	105,169	265,427	2.06 %
	98,881	**13,011**	**34,802**	**31,651**	**89,180**	**126,202**	**393,727**	
Liabilities								
Financial liabilities at amortised cost								
Deposits								
Central banks	42	—	3,368	404	56,558	—	60,372	(1.00)%
Credit institutions	25,495	4,863	2,055	2,434	4,930	948	40,725	0.07 %
Customer	247,219	6,740	5,677	9,513	5,611	980	275,740	0.01 %
Debt securities issued	1,401	2,380	4,791	5,865	32,120	41,345	87,902	2.15 %
Other financial liabilities	123	3,453	3,935	472	778	1,119	9,880	N/A
	274,280	**17,436**	**19,826**	**18,688**	**99,997**	**44,392**	**474,619**	
Difference (assets less liabilities)	**(175,399)**	**(4,425)**	**14,976**	**12,963**	**(10,817)**	**81,810**	**(80,892)**	

EUR million

	2019							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Average iterest rate
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	— %
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	—	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)**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the balance sheets as of 31 December 2020 and 2019, based on the nature of the related items, is as follows:

Countervalue in EUR million

	2020	2019
Assets	**162,058**	**185,960**
Cash and balances at central banks and other deposits on demand	5,168	7,534
Financial assets held for trading	29,422	35,271
Non-trading financial assets mandatorily at fair value through profit or loss	768	15,062
Financial assets designated at fair value through profit or loss	11,107	14,529
Financial assets at fair value through other comprehensive income	5,419	5,494
Financial assets at amortized cost	70,802	62,272
Hedging derivatives	1,116	750
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	—	—
Investments	37,215	44,011
Tangible assets	21	34
Intangible assets	4	4
Tax assets	28	5
Other assets	988	994
Non-current assets and disposal groups which have been classified as assets held-for-sale	—	—
Liabilities	**100,734**	**109,543**
Financial liabilities held for trading	26,178	27,801
Financial liabilities designated at fair value through profit or loss	6,143	12,773
Financial liabilities at amortized cost	67,101	67,989
Hedging derivatives	362	325
Changes in the fair value of hedged items in portfolio hedges of interest risk rate	—	—
Provisions	88	68
Tax liabilities	—	—
Refundable equity on demand	—	—
Other liabilities	862	587
Liabilities included as disposal groups which have been classified as liabilities held-for-sale	—	—

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 amortized cost in the accompanying balance sheets.

The following is a comparison between the value of Grupo Santander'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 amortized cost as of 31 December 2020 was as follows:

a. The fair value of debt securities is 7.69% higher than the carrying amount.

b. The fair value of the loans and advances is 1.03% lower than the carrying amount.

c. The fair value of deposits is 0.06% lower than the carrying amount.

d. The fair value of marketable debt securities is 6.27% greater than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2020 to determine the fair values of the financial assets and liabilities recognized 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 amortized cost:

  a. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

  b. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

  c. 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 Grupo Santander in similar operations.

  d. 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

Risk principles below are compulsory. They comply with regulatory requirements and are inspired by best market practices:

1. All employees are risk managers. Employees must understand the risks inherent in their jobs, avoiding them wherever the impact is unknown or exceeds our risk appetite.
2. Engagement of top management, who must act and communicate to manage risks consistently, supervise our risk culture and make sure we keep our risk profile within our risk appetite.
3. Independent risk management and control functions, consistent with our model of three lines of defence, which is further explained in section
4. A forward-looking, comprehensive approach to risk management and control for all businesses and risk types.
5. Detailed, timely information to detect, assess, manage and report risks to the appropriate level of management.

Holistic control structure stands on these principles, plus a series of strategic tools and procedures embedded in Grupo and Banco Santander risk appetite statement, such as risk profile assessment, scenario analysis, risk reporting structure and the annual planning and budget process.

1. Main risks of Grupo and Banco Santander financial instruments

The classification of risks ensures effective risk management, control and reporting. Our risk framework distinguishes these key risk types:

- Credit risk relates to financial loss arising from the default or credit quality deterioration of a customer or counterparty, to which Santander has directly provided credit or assumed a contractual obligation.
- **Market risk** results from changes in interest rates, exchange rates, equities, commodities and other market factors, and from their effect on profit or capital.
- Liquidity risk occurs if liquid financial resources are not enough to meet due obligations or can only be obtained at a high cost.
- Structural risk relates to the changing value or margin of assets or liabilities in the banking book owing to changes in market factors and balance sheet behaviour. It includes risks from insurance, pension activities or an inadequate quantity or quality of capital to fulfil internal business objectives, regulatory requirements or market expectations.
- Operational risk is the possibility of losses from inadequate or failed internal processes, people and systems or from external events. It includes legal risk and conduct risk.
- Regulatory compliance risk is the risk of not fulfilling legal and regulatory requirements and supervisors

´expectations, and may lead to fines, financial penalties or other sanctions.

- Model risk involves potential losses resulting from inaccurate predictions that lead to sub-optimal decision-making, or from a misuse or inadequate implementation of a model.
- Reputational risk consists of potential losses from damage to its reputation amongst employees, customers, shareholders/investors and the wider community.
- Strategic risk relates to losses or damage to the medium- and long-term interests of key stakeholders owing to strategic decision-making, poor execution of strategy or failure to adapt to external developments.

Grupo and Banco Santander, also consider environmental and climate-related risk drivers (whether physical or transition-led) as factors that could impact the exiting risks in the medium and long-term.

2. Risk governance

Grupo and Banco Santander, 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.

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 led by the Group-wide risk culture, *Risk Pro*.

2.1 Lines of defense

Grupo and Banco Santander, follow a three lines of defence model to ensure effective risk management and control:

- First line: Businesses and functions that originate risks make up the first line of defence, which identifies, measures, controls, monitors and reports risks. It adheres to all risk management policies and procedures, making sure risks fit within risk appetite and other limits.
- Second line: The Risk and Compliance & Conduct functions form the second line of defence to provide independent oversight and challenge to risk management decisions from the first line. The second line of defence ensures risks are managed according to risk appetite, strenghtening our risk culture across Grupo Santander.
- Third line: The Internal Audit function is independent to assure senior management about the quality and effectiveness of internal controls, risk management. governance and systems, helping to safeguard our value, solvency and reputation.

The Risk, Compliance & Conduct and Internal Audit functions are separate and independent. Each has its own direct access to the board of directors and its committees.

2.2 Risk and Compliance committee structure

The **board of directors'** duties include risk and compliance management and control. It regularly revises and approves risk appetite and frameworks, strengthening and promoting our risk culture. In its duties, the board is supported by the risk supervision, regulation and compliance committee and the Grupo Santander executive committee.

The **Group chief risk officer (Group CRO)** is responsible for devising risk strategy, overseeing all risks, and challenging and advising business lines on their risk management.

The **Group chief compliance officer (Group CCO)** promotes the adherence to rules, supervisory requirements, principles of good conduct and values. This role determines the compliance and conduct strategy, and independently oversees and challenges the compliance and conduct risk management of the first line of defence.

Both the Group CRO and CCO have direct access, and report to, the risk supervision, regulation and compliance committee and the board of directors.

The executive risk, risk control and general compliance committees are also at the top of Grupo and Banco Santander risk and compliance governance, with authority delegated by the board of directors. Further detail is provided in the table below:

	Executive risk committee (ERC)	Risk control committee (RCC)	General compliance committee
Duties:	This committee is responsible for risk management duties delegated by the board, being authorized to accept, modify or scale those actions or transactions that may expose the entity to a relevant risk as well as the most significant models. It takes the highest-level risk-related decisions within the group's risk appetite.	This committee is responsible for risk control and for providing a holistic view of all risks. It determines if the risks business lines are being managed according to risk appetite. It also identifies, monitors and evaluates the impact of current and emerging risks on the group's risk profile.	The committee is responsible for reviewing significant compliance and conduct risk events, and evaluating related measures. It devises and assesses corrective actions for compliance risks owing to shortcomings in management and control or new risks.
Chair:	CEO	Group CRO	Group CCO
Composition:	Nominated executive directors and other senior managers from the Risk, Finance and Compliance & Conduct functions (the Group CRO has veto power over committee resolutions).	Senior managers from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions (CRO from subsidiaries regularly report on their own risk profiles).	Senior managers from the Compliance & Conduct, Risk, Accounting and Management functions. The committee chair has a casting vote over committee resolutions.

Risk functions have forums and regular meetings to manage and control the risks under their scope. Their responsibilities include:

- Reporting to the Group CRO, Group CCO, the risk control committee and general compliance committee on risk management according to risk appetite.
- Monitoring each risk factor regularly.
- Overseeing measures to meet supervisor and auditor expectations.

Grupo and Banco Santander may set up additional government for special cases.

- Amid the covid-19 pandemic, coordination and communication with our subsidiaries is essential to making sure our actions were effective, underpinned by written communication, meetings, reporting and enhanced governance. In early March, we implemented specific weekly reporting mechanisms so all units could provide detailed, standardized information.

Grupo Santander monitored the pandemic intensively through special situation forums such as the credit risk war room, in addition to our regular governance framework. Close coordination between our subsidiaries and Group-wide and local contingency plans (including scenario analysis) strengthened resources and governance. As the crisis developed, it became a multidisciplinary task force composed of members from relevant functions to steer units in managing credit risk with these special work streams in place: i) monitoring and reporting; ii) sectorial intelligence; iii) portfolio management; iv) credit strategy; v) regulatory assurance; vi) credit forecasting and vii) collections and recoveries.

- Furthermore, in view of Brexit, Grupo Santander and Santander UK set up steering committees and separate working groups to monitor the transition; develop contingency plans; and escalate and make decisions to minimise impact on our business and customers.

2.3 The Group's relationship with subsidiaries regarding risk management

In all Grupo Santander's subsidiaries, the risk and compliance management and control models are 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.

As part of the aggregate supervision function for all risks, Grupo Santander challenges and validates subsidiaries' policies and transactions. This creates a common risk management and control model across the group.

In 2020, a new approach was taken in the relationship with the Group´s subsidiaries with the creation of three regions (Europe, North America and South America) and the appointment of three risk regional leaders. The aim is to enhance the identification of synergies under a common operating model and common platforms, leveraging the Group's global and regional scale, as well as simplifying processes and strengthening control mechanisms to support business growth while optimizing capital allocation and better serving Group´s customers.

In this sense, each local CRO must regularly interact with, and report to, the risk regional leaders, the Group CRO and the Group CCO. Additionally, periodic follow-up meetings are held between the different risk areas and the local counterparts.

Furthermore, the Group CRO, the Group CCO, and Risk Regional Leaders take part in appointments, target setting and local CRO evaluations and remuneration to make sure risks are appropriately controlled.

Grupo Santander undertook various initiatives to enhance the relationship between the Group and its subsidiaries and apply an advanced risk management mode:

- It is worth highlighting, the close collaboration in relation to covid-19 to share best practices, experiences, provide support in scenario analysis, additional provision estimations, etc.
- Development of organizational structures, subsidiary benchmarks and a strategic vision of the Risk and Compliance function to promote the most advanced and efficient risk management infrastructures and practices.
- Cooperation to share best practices, strengthen processes and drive innovation for a quantitative impact.
- Identification of talent in the Risk and Compliance teams, encouraging international mobility through the global risk talent programme.
- Risk Subject Matter Experts to bring together a community of specialists.

3. Management processes and tools

Grupo Santander has these effective risk management processes and tools:

3.1 Risk appetite and structure of limits

Risk appetite is the volume and type of risks deemed prudent to assume for the business strategy of the Group, even under unexpected circumstances. It considers adverse scenarios that could have a negative impact on capital and liquidity, profitability and/or the share price.

The board sets the group's risk appetite statement (RAS) every year. The boards of Grupo Santander's subsidiaries also set their own risk appetites annually, in line with the consolidated Group-wide RAS. Each of those risk appetites cascades down into specific, detailed limits and policies based on risk type, portfolio and segment.

Business model and risk appetite fundamentals

Grupo Santander's risk appetite is consistent with the risk culture and its unique business model built on customer focus, scale and diversification. At the core of our risk appetite are:

- A medium-low, target risk profile that is predictable. centred on retail and commercial banking, internationally diversified operations and strong market share;
- Stable, recurrent earnings and shareholder remuneration, sustained by sound capital, liquidity and sources of funding;
- Self-run subsidiaries with their own sources of capital and liquidity and risk profiles that do not compromise Grupo Santander's solvency;
- An independent risk function with active senior management that embeds a strong risk culture and drives a sustainable return on capital;
- A global, holistic view through extensive control and monitoring of risks, businesses and markets;
- A focus on products the Group knows well;
- A conduct model that protects Grupo Santander's customers;
- A remuneration policy that reconciles employees and executives' interests to risk appetite and long-term results.

Santander risk appetite principles

The principles informing our risk appetite are:

- **The board and senior management's responsibility** for risk appetite.
- **An enterprise-wide view, risk profile back-testing and challenge,** using quantitative metrics and qualitative indicators.
- **A forward-looking approach** based on plausible assumptions and adverse/stress scenarios to reflect our desired risk profile in the short and medium term.
- **Strategic and business plans** embedded in daily management by policies and limits.
- **Common standards** aligning each subsidiary with Grupo Santander.
- **Regular reviews, regulatory requirements and best practices** with mechanisms in place to keep the risk profile stable and mitigate non-compliance.

Limits structure, monitoring and control

Grupo Santander risk appetite is expressed in qualitative terms and limits structured on these five core elements.

1 **Earnings volatility**
The maximum loss Grupo Santander can tolerate in an acute stress scenario.

2 **Solvency**
- The minimum capital position Grupo Santander can tolerate in an acute stress scenario.
- The maximum leverage we can accept in an acute scenario.

3 **Liquidity**
- Minimum structural liquidity position.
- Minimum liquidity horizon Grupo Santander is willing to accept in 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 cyberrisk
  - Reputational
  - Others
- Maximum operational risk losses.
- Maximum risk profile.

While risk appetite limits are regularly monitored, specialized control functions report on risk profile and compliance with limits to the board and its committees every month.

Risk appetite limits cascade down to business units, risk types and portfolios. This makes risk appetite an effective tool for managing risks. Management policies and limits are directly based on the principles and limits in the risk appetite statement.

Key 2020 developments

Grupo Santander thoroughly reviewed the impact of covid-19 and the adequacy of our risk appetite to cope with the new environment. Risk appetite limits remained broadly unchanged despite extraordinarily challenging conditions. Management focused on enhancing control over market volatility, better representation and visibility of emerging risks such as cyber security and other non-financial risks.

Grupo Santander's risk appetite statement also strengthened our commitment to corporate social responsibility (CSR), the environment and the Paris Agreement's transition to a low-carbon and climate-resilient economy.

3.2. Risk profile assessment (RPA)

Grupo Santander routinely identifies risk types to systematically and objectively evaluate its risk profile. This helps address major threats to is business plan and strategic objectives.

Santander

Risk identification results inform Group´s risk profile assessment (RPA), which involves all lines of defence. It reinforces Group´s risk culture in analysing how risks evolve and identifying improvement areas. Grupo Santander´s RPA methodology covers these areas:

- **Risk performance**, to understand residual risks by type with international standard and indicators.
- **Control environment**, to measure the target-operating model of Grupo Santander's advanced risk management according to regulatory requirements and best market practices.
- **Forward-looking**, based on stress metrics and top risks to the strategic plan.

In 2020, Grupo Santander upgraded its control environment standards and reviewed risk performance metrics, focusing on strategic, compliance and conduct metrics. The inclusion of the 'control score' in the non-financial risks control environment enabled the Group to better capture its risk profile.

Covid-19 had a negative impact on Grupo Santander's risk performance. In triggering all scenarios the Group consider (including those most severe), it led to a higher risk profile, driven by higher provisions and budgetary deviations with respect to profits. Non-financial risk profile remained stable, with operational losses below 2019 figures, and better liquidity performance.

The impact of covid-19 as a catalyst for relevant and emerging risks was also key in the deterioration of our risk profile in 2020. This deterioration has been contained by a solid control environment, especially in credit risk, driven by ATOMiC and collections and recovery preparation plans. All of this has allowed us to maintain our risk profile at a 'medium-low' level.

3.3. Scenario analysis

The scenarios that Grupo Santander analyse include macroeconomic and other variables that can affect the risk profile in those markets in which Grupo Santander operate. Scenario analysis is a useful tool for managing risks at all levels, so Grupo Santander can gauge our resilience under stressed conditions and formulate mitigating actions on income, capital and liquidity if needed. For this, the Research and Public Policy team is key in defining scenarios, as well as our governance and control, including the review of our top management and the three lines of defence.

Grupo Santander's scenario analyses are consistent and robust because the Group:

- Creates and runs models that estimate how metrics such as credit losses will perform in the future.
- Back-tests and regularly challenges model results.
- Relies on expert opinions and a vast understanding of our portfolios.
- Exerts robust control over models, scenarios, assumptions, results and mitigating management actions.

Grupo Santander has recurrently achieved excellent quantitative and qualitative results in the European Banking Authority (EBA) stress tests.

The global economic uncertainty caused by the covid-19 crisis made it exceptionally difficult for businesses to plan ahead. Our scenario analyses were key in identifying new action points, developing business responses, adjusting our risk strategy and preserving our strength and solvency.

Applications of scenario analysis

Grupo Santander run scenario analysis at all levels under a forward-looking approach that helps Grupo Santander anticipate potential impacts on its solvency or liquidity. Grupo Santander run a systematic review of our risk exposure under a baseline scenario and various adverse and favourable scenarios.

Scenario analysis forms an integral part of several key Group processes:

- Regulatory exercises under the guidelines of the EU supervisor and national supervisors.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP), for which Grupo Santander follows its own methodology to assess capital and liquidity under stress scenarios and support planning and management.
- **Risk appetite**, which includes stressed metrics to set the maximum risk we can assume. The risk appetite and capital and liquidity scenario exercises are closely interrelated but have different frequencies and granularity.
- **Climate change analyses** to identify scenarios of risks and opportunities. Pilot analyses are covering the wholesale portfolio.
- **Recurrent risk management:**
  - **Budget and strategic planning**: when implementing a new risk approval policy, in Grupo Santander's risk profile assessment by senior management or when monitoring specific portfolios or lines of business

– The systematic process of identifying and analysing our **top risks,** each of which is associated with a macroeconomic or idiosyncratic scenario to assess their potential impact.

– **The recovery plan**, which is drawn up every year to determine Grupo Santander's tools to overcome an extremely severe financial crisis. The plan provides financial and macroeconomic stress scenarios with degrees of severity as well as idiosyncratic and systemic events.

– **Bank of Spain Circular 4/2017,** since 1 January 2018, the processes, models and methodologies for the analysis of scenarios have been incorporated into the regulatory requirements related to the estimation of provisions.

– **Credit and market risk stress test exercises** not only as a response to regulatory exercises but also as a key tool integrated in Grupo Santander's risk management.

– Amid the **covid-19 pandemic** and following supervisory guidelines, the Research department created a set of additional macroeconomic scenarios under a long-term stable outlook approach to account for the observed worsening in most indicators and assess expected losses. Grupo Santander developed the scenarios through a robust process with great effort from the teams involved, ensuring their consistency.

3.4. Risk Reporting Structure (RRS)

Grupo Santander´s reporting continues to streamline processes, controls and reports to senior management. The Enterprise Wide Risk Management team updates and compiles the risk profile overview under a forward-looking approach so senior management can assess actual and future risks and take appropriate actions.

There are three main types of risk reports: the weekly and monthly risk reports distributed to senior management; subsidiaries' risk reports; and reports on each risk factor identified in the risk framework.

Grupo Santander's strong risk reporting structure is characterized by:

- Balancing data, analysis and qualitative comments, including forward-looking measures, risk appetite alerts, limits and emerging risks.
- Covering all risk factors in the risk framework.
- Combining a holistic and reliable view with deeper analysis of each risk factor, our subsidiaries and markets.
- Following the same structure and criteria and provides a consolidated view to analyse all risks.
- Following risk data aggregation (RDA) criteria to report on metrics, ensuring data quality and consistency.

To respond to the covid-19 crisis, the reporting function, as acknowledged by the ECB's Single Supervisory Mechanism (SSM), increased the frequency, customized reports and produced new ones for the board and senior committees. It focused on critical topics such as macroeconomic conditions, health indicators, customer support measures and risk areas to enable close monitoring and easier decision-making.

b) Credit risk

1. Introduction to the credit risk treatment

Credit risk refers to a potential financial loss from the default or credit quality deterioration of a customer or other third party with whom Grupo and Banco Santander has a contractual obligation. It is our most important risk, both in terms of exposure and capital consumption. It also includes counterparty risk, country risk and sovereign risk.

Credit risk management

Grupo Santander identifies, analyses, controls and decides on credit risk based on holistic view of the credit risk cycle, which includes the transaction, the customer and the portfolio. Business and risk areas and top managers are part of this process.

Credit risk identification is key to managing and controlling Grupo Santander's portfolios effectively. Grupo Santander classify external and internal risks in each business and adopt corrective and mitigating measures when needed through these processes:

1.1. Planning

Grupo Santander´s planning helps to set business targets and define specific action plans within our risk appetite framework.

Strategic commercial plans (SCP) are a management and control tool the business and risk areas prepare for Grupo Santander's credit portfolios. They determine commercial strategies, risk policies, resources and infrastructure, ensuring a holistic view of the portfolios. They provide managers with an updated view of credit portfolio quality to measure credit risk, run internal controls over the defined strategy coupled with regular monitoring, detect significant deviations in risk and potential impacts, and take corrective actions when necessary. They also align with Grupo Santander's risk appetite and its subsidiaries' capital targets, and are approved and monitored by senior managers at each subsidiary before being reviewed and validated by the Group and the Bank.

1.2. Risk assessment and credit rating process

To analyse customers' ability to meet contractual obligations, Grupo Santander uses valuation and parameter estimation models in each of the segments. Grupo Santander's credit quality valuation models are based on credit rating drivers, which Grupo Santander monitors to calibrate and adjust the decisions and ratings they assign. Depending on each segment, drivers can be:

- Rating: from mathematical algorithms that have a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. It is used for SCIB, corporate, institutional and SME segments (with individualised treatment).
- Scoring: an automatic system to evaluate credit applications that assigns an individual score to customers for subsequent decision-making, generally in the retail and smaller SME segments.

Grupo Santander's parameter estimation models follow econometric models built on Grupo Santander's portfolios' historical defaults and losses. Grupo Santander uses them to calculate economic and regulatory capital as well as IFRS 9 provisions for each portfolio.

Grupo Santander regularly monitoring and evaluate models' appropriateness, predictive capacity, performance, granularity, compliance with policies and other related factors. Grupo Santander reviews ratings with the latest available financial and economic information. Grupo Santander has also increased the reviews for customers who are under closer observation or have automatic warnings in the risk management systems.

1.3. Credit risk mitigation techniques

We approve risks generally on the basis of borrowers' ability to pay in fulfilment of financial obligations, notwithstanding any additional collateral or personal guarantees we can require from them. To determine this, we analyse funds or net cash flows from their businesses or income with no guarantors or the assets pledged as collateral. We always consider guarantors and collateral when deciding to approve a loan as a secondary means of recourse if the first channel fails.

In general, a guarantee is as a reinforcement measure added to a credit transaction to mitigate a loss due to a failure to meet a payment obligation.

Grupo Santander has credit risk mitigation techniques for various types of customer and products. Some are for specific transactions (e.g., property) while others apply to a series of transactions (e.g., derivatives netting and collateral). Grupo Santander can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

1.4. Definition of limits, pre-classifications and pre-approvals

Grupo and Banco Santander use SCPs to manage credit portfolios, defining limits for each of them and for new originations, in line with the Group´s credit risk appetite and its target risk profile. Transposing the risk appetite to portfolio management strengthens controls over our credit portfolios.

Grupo and Banco Santander limits, pre-classifications and pre-approvals processes determine the risk we can assume with each customer. The business and risk areas set risk limits that are approved by the executive risk committee (or delegated committees) and should reflect a transaction's expected risk-return.

Grupo and Banco Santander apply various limits models to each segment:

- Large corporate groups: are subject to a pre-classification model based on a system for measuring and monitoring economic capital. Pre-classification models express the level of risk Grupo and Banco Santander and are willing to assume in transactions with customers/groups in terms of capital at risk, nominal cap and maximum tenors. To manage limits with financial entities, Grupo Santander uses Credit Equivalent Risk (CER), which includes actual and expected risks with customers according to risk appetite and credit policies.
- Corporates and institutions: that meet certain requirements (strong relationships, rating, etc.): Grupo Santander uses simpler pre-classification model with an internal limit. It establishes a reference point in a customer's level of risk based on repayment capacity, overall indebtedness and a pool of banks.

  Transactions with large corporates, corporates and institutions above certain limits or with special characteristics could require approval from a senior credit analyst or a committee.
- For **individual customers and SMEs** with low turnover, Grupo Santander manages large volumes of credit transactions with automatic decision models to classify customers and transactions.

1.5. Scenario analysis

Grupo Santander´s scenario analyses determine the potential risks in its credit portfolios and provide a better understanding of our portfolios' performance under various macroeconomic conditions. They allow us to anticipate management strategies that will avoid future deviations from defined plans and targets. They simulate the impact of alternative scenarios in portfolios' credit parameters (PD, LGD) and expected credit losses. We compare findings with portfolios' credit profile indicators to find the right measures for managers to take. Credit risk management of portfolios and SCPs incorporate scenario analyses.

1.6. Monitoring

Regularly monitoring business performance and comparing it to pre-defined plans is key to our management of risk.

Grupo and Banco Santander are holistic monitoring of customers helps detect impacts on risk performance and credit quality early. Grupo and Banco Santander assign customers a classification with a pre-defined course of action and ad hoc measures to correct any deviations. Monitoring, which considers transaction forecasts and characteristics, in addition to changes in classification, is performed by local and global risk teams supported by the Internal Audit unit and is based on customer segmentation:

- For SCIB, monitoring is initially a function of business managers and risk analysts who maintain direct relationships with customers, manage portfolios and provide Grupo Santander with an up-to-date view of customers' credit quality to anticipate concerning situations.
- For commercial banking, institutions and SMEs assigned a credit analyst, tracks customers requiring closer monitoring and review their ratings based on relevant indicators.
- Monitoring of individual customers, businesses and smaller SMEs follows a system of automatic alerts to detect shifts in portfolios' performance.

Monitoring uses the Santander Customer Assessment Note (SCAN) tool. Grupo Santander fully rolled it out in our subsidiaries in 2019. It helps set individual monitoring levels and frequencies, policies, and actions for customers based on credit quality and particular circumstances.

In addition to monitoring customer credit quality, Grupo Santander defines control procedures to analyse portfolios and performance, as well as any deviations from planning or approved alert levels.

1.7. Recovery and collections management

The Collections & Recoveries area carries out recoveries, which are important to risk management. It defines a global, enterprise-wide management strategy with guidelines and general lines of action for Grupo and Banco Santander subsidiaries based on the economic environment. business model and other local recovery conditions. Recovery management follows regulatory requirements set out in the EBA Guidelines on the management of non-performing and forborne exposures. In addition, Grupo and Banco Santander appy specific policies on recovery management that include the principles of the different strategies.

The Collections & Recoveries areas directly manage customers. As sustained value creation is based on effective and efficient collections, digital channels that develop new customer relations are gaining importance. Grupo and Banco Santander diverse customer base requires segmentation to manage recoveries appropriately. The highly technological and digital processes Grupo and Banco Santander follows help us attend to large groups of customers with similar profiles and products. Grupo and Banco Santander personalized management, however, focuses on customer profiles that require a special manager and approach.

Grupo and Banco Santander splits recovery management into four phases: arrears, non-performing loans, write-offs and foreclosed assets. Grupo and Banco Santander may use mechanisms to rapidly reduce assets like sales of foreclosed assets or non-performing loans pool sales. Grupo and Banco Santander constantly seek alternatives to legal action in order to collect debt.

Grupo Santander includes debt instruments as written-off loans (even if they are not past-due) if an individual analysis of the solvency of a transaction and the borrower leads us to believe recovery is remote due to a notorious and unrecoverable impairment. Though this may lead to full or partial cancellation and de-recognition of the gross carrying amount of debt, it does not mean we interrupt negotiations and legal proceedings to recover debt. In countries with high exposure to real estate risk, we have efficient sales management instruments that help maximize recovery and optimize balance sheet stocks.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk from our activities with customers.

Main credit risk performance metrics from activity with customers

December 2020 data

	Credit risk with customers * (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Europe	**722,429**	**722,661**	**688,810**	**22,792**	**23,519**	**25,287**	**3.15**	**3.25**	**3.67**
Spain	221,341	213,668	227,401	13,796	14,824	16,651	6.23	6.94	7.32
SCF	104,032	105,048	97,922	2,455	2,416	2,244	2.36	2.30	2.29
UK	263,671	275,941	252,919	3,202	2,786	2,739	1.21	1.01	1.08
Portugal	40,693	37,978	38,340	1,584	1,834	2,279	3.89	4.83	5.94
Poland	31,578	33,566	30,783	1,496	1,447	1,317	4.74	4.31	4.28
North America	**131,611**	**143,839**	**125,916**	**2,938**	**3,165**	**3,510**	**2.23**	**2.20**	**2.79**
US	99,135	105,792	92,152	2,025	2,331	2,688	2.04	2.20	2.92
SBNA	49,862	56,640	51,049	405	389	450	0.81	0.69	0.88
SC USA	29,050	29,021	26,424	1,529	1,787	2,043	5.26	6.16	7.73
Mexico	32,476	38,047	33,764	913	834	822	2.81	2.19	2.43
South America	**129,575**	**143,428**	**138,134**	**5,688**	**6,972**	**6,639**	**4.39**	**4.86**	**4.81**
Brazil	74,712	88,893	84,212	3,429	4,727	4,418	4.59	5.32	5.25
Chile	42,826	42,000	41,268	2,051	1,947	1,925	4.79	4.64	4.66
Argentina	4,418	5,044	5,631	93	171	179	2.11	3.39	3.17
Santander Global Platform	**979**	**706**	**340**	**5**	**4**	**4**	**0.51**	**0.63**	**1.21**
Corporte Centre	**4,862**	**5,872**	**4,953**	**344**	**138**	**252**	**7.08**	**2.34**	**5.09**
Total Group	**989,456**	**1,016,507**	**958,153**	**31,767**	**33,799**	**35,692**	**3.21**	**3.32**	**3.73**

* Includes gross lending to customers, guarantees and documentary credits.

Key figures by geographic region are described below:

- **Europe:** the NPL ratio fell 10 bps to 3.15% from 2019 due to a significant reduction in non-performing loans in Spain and Portugal, offsetting the increase observed in the UK.
- **North America:** the NPL ratio slightly increased 3 bps to 2.23% from 2019, due to the decline in total lending both in Mexico and SBNA, although the ratio declined in Santander US by 16 bps due to good

performance in SC USA. In terms of NPL stock, a decrease of 7.2% was observed in the year.

- **South America:** the NPL ratio decreased by 47 bps to 4.39%. In Brazil and Argentina, they dropped 73 bps and 128 bps respectively from 2019. However, they slightly increased in Chile (+15 bps vs 2019).

Information on the estimate of impairment losses in the covid-19 environment

The covid-19 health crisis has been unexpected, unpredictable and severe, but it is estimated to be of a temporary nature. The Group and the Bank priority in these circumstances has been to look after the health of its employees, customers and shareholders, but also to help reduce the economic impact of the pandemic. This includes trying to offer the best solutions to help customers.

Conceptually, the phases in managing the effects of covid-19 have been:

– Identification of customers or groups affected or potentially affected by the pandemic.

– Early relief of temporary financial difficulties caused by covid-19 through measures promoted by governments, central banks, and financial institutions.

– Monitoring the evolution of customers, to ensure that they continue to be provided with the best solution for their situation, and also to guarantee that their potential impairment is correctly reflected in the risk management and accounting. This point is particularly relevant at the expiry of any moratorium or liquidity support measures to which customers may have availed themselves.

– Monitoring is accompanied by recovery management activities when necessary.

These conceptual phases do not occur sequentially but overlap in time. Additionally, the continuous interaction and coordination between the different local units of the Group and the Bank are proving to be a fundamental asset in the management of this crisis. The experience obtained in the fight against the health crisis and its financial consequences in our different geographies, and the different speeds at which it has been developing in each of them, allow us to share the best practices identified and to implement in an agile and efficient manner those strategies and concrete actions that have been most successful, always adapted to the local reality of each market.

Measures to support the economy

In accordance with the comments made earlier regarding the relief of our clients' temporary financial difficulties caused by the pandemic, Grupo and Banco Santander have adopted measures to foster the economic resilience of our clients during the crisis in all regions. The most outstanding of these include the following:

- Providing liquidity and credit facilities to companies facing difficulties.
- Facilitate grace periods or moratoriums in many of their markets.
- Optional, temporary increase of the limit on credit cards and overdrafts.
- Support customers with potential difficulties (elderly, SMEs, etc.) by being proactive and trying to cover their needs.
- Temporary reduction or suspension of commissions (when withdrawing money from ATMs, on interest-free online purchases, on bank transfers...).
- Guaranteeing covid-19 coverage in health insurance.
- Advising clients in financial difficulties through specialised teams.

Regarding the covid-19 pandemic, Grupo and Banco Santander has implemented measures in all its subsidiaries to provide liquidity and credit facilities, as well as to facilitate payment deferrals for people and businesses facing hardship.

In relation to the specific liquidity measures, shortages or moratoriums, a series of support programmes have been implemented in accordance with the guidelines set by regulatory and supervisory authorities, as well as by governments, central banks and supranational entities. The main objective is to mitigate the temporary impact on the activity of customers. The absence of appropriate measures and their adequate prudential and accounting treatment could worsen the economic consequences of the crisis, generating procyclical effects that would lengthen its duration and impact.

The different measures offered can be grouped into the following categories:

- Government liquidity measures: Generally speaking, these are lending facilities provided by Grupo and Banco Santander to legal entities, which have government guarantees on a specific percentage of the exposure generated in the event of default. Examples of this type of measure include ICO (Instituto de Crédito Oficial) loans in Spain or the Paycheck Protection Program (PPP) in the United States.
- Government moratorium measures: In this case, the government authorities define a series of requirements, which, in the event that they are met by the beneficiary, involve the granting of moratoriums by Banco Santander on the payment of capital and/or interest on the various credit operations that customers may have

contracted. The general expiration of the moratorium measures is short term. Some governments and institutions are re-extending the terms of the initial moratoriums, especially those that were launched in the very short term in the initial phase, with less visibility of the potential duration of the crisis, but re-extensions are also being short term.

The specific characteristics of these programs vary depending on how they are defined by the national governments of the countries in which Grupo and Banco Santander operates. The criteria used to grant these loans also depend on the requirements established by the authorities of each country in accordance with the legislation in force in each case.

- Internal/sectoral moratorium measures: This is, broadly speaking, the granting of moratoriums by Banco Santander on the payment of capital and/or interest on the various credit operations that customers may have contracted. In this case, the specific characteristics of these measures, in terms of terms, amounts, etc., vary according to each geography, product or customer segment in order to adapt them as best as possible to the reality of the local market and its regulation, as well as to the needs of the customer and the product contracted. In many cases, the general conditions of application have been agreed on a sectoral basis, for example through the national banking associations.
- Other internal measures: This category includes all those measures not included in the previous sections

As regards the moratorium measures granted, it should be noted, as detailed below, that the amount amounted to EUR 112,000 million. Of these, around 63% corresponded to residential mortgages, mainly in the UK where the portfolio has a low average loan to value (<50%). The moratoriums granted on consumer loans (EUR 20bn; 18% of total) are mainly car loans . The granting of new moratoriums has slowed down in the second half of the year.

The 79% of total moratoriums (EUR 89,000 million) have already expired by the end of December 2020, showing a good performance, with only 3% of them classified as stage 3.

Estimation of expected loss in the context of covid-19

In the context described in the previous sections, many regulators and supervisors have highlighted the uncertainties surrounding the economic impacts of the health crisis. This is also evident in the frequent updates of macroeconomic forecasts, with different perspectives and views on the depth and duration of the crisis. Thus, the guidance (including ESMA, EBA and ECB) does not set a mechanistic approach to estimating expected credit losses under Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9), in order to prevent this variability in economic conditions from translating into volatility in results, with its potential pro-cyclical effects on the economy.

Thus, Group and Banco Santander analyses losses under IFRS 9 and Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9) on the basis of three types of elements:

1. Continuous monitoring of customers

Monitoring the credit quality of customers may be more complex in the current circumstances, in the absence of certain contractual payments on transactions subject to a moratorium, however, the total amount of loans still subject to these measures has been significantly reduced during the year. This amount was around EUR 23,000 million of Grupo Santander at the end of December 2020, of which approximately 78% is secured. For such monitoring, and in addition to the application of internal customer monitoring policies, all available information should be used. The availability of information and its relevance is different in the various portfolios of the different countries in which Grupo and Banco Santander operates, but it may include, but is not limited to the following:

- The payment of interest in the case of principal-only shortfalls.
- The payment of other operations of the same client in the institution (not subject to moratorium).
- Information on payment of loans in other entities (through credit bureaus).
- Customer financial information: average balances in current accounts, availability/use of limits, etc.
- Available behavioural elements (variables that feed the behavioural scores, etc.).
- Information gathered from customer contacts (surveys, calls, questionnaires, etc.). This may include: customers who have taken up furlough programs, direct government aid, etc.

2. Forward-looking vision

As reflected by the IASB, macroeconomic uncertainty makes the usual application of IFRS 9 expected loss calculation models difficult but does not exempt the incorporation of the prospective feature of the standard. To this end, the European Central Bank has recommended the use of a stable, long-term view (long-run) of the macroeconomic forecasts, which takes into account in the assessment the multiple support measures explained above.

3. Additional elements

Additional elements will be required when necessary because they have not been captured under the two previous elements. This includes, among others, the analysis of sectors most affected by the pandemic if their impacts are not sufficiently captured by the macroeconomic scenarios. Also collective analysis techniques, when the potential impairment in a group of clients cannot be identified individually.

With the elements indicated above, Grupo and Banco Santander evaluates in each of the geographical areas, include Spain, the evolution of the credit quality of its customers, for the purposes of their classification in Grupo Santander financial statements.

In terms of classification, Grupo and Banco Santander has generally maintained the criteria and thresholds for classification during the pandemic, incorporating the regulatory interpretations of the effect of moratoria on classification (in particular, the European Banking Authority's 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in covid-19 crisis'). In this way, moratoriums that meet the specifications of these guidelines are not considered as automatic indicators for identifying these contractual changes as forbearances or classifying them in stage 2. However, this does not exempt the rigorous application of Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9) in the monitoring of customer credit quality and, using individual or collective analysis techniques, the timely detection of significant increases in risk in certain transactions or groups of transactions.

Sound and accurate assessment of SICR has been one of the key areas of focus of the Group to identify and record any material increase in credit risk at an early stage. With that purpose, the SICR framework has not been relaxed due to covid-19 crisis. Not relying solely on conventional qualitative and quantitative triggers (e.g. days past due as a trigger), the determination of SICR has also been strengthened through collective assessments. This was done with the aim to responsibly anticipate the expected additional deterioration inherent to specific sector and client clusters, whose credit risk deemed to have increased, without the need to identify which individual client has suffered a SICR, avoiding "wait and see" approaches and ensuring that risks are adequately assessed, classified and measured in the balance sheet. Different assessments have been carried out for this purpose: (i) Top-down Unlikeliness to Pay analysis; (ii) Identification of high risk segments or vulnerable sectors; (iii) Stress on payment holidays; (iv) Surveys on payment capacity and (v) Stress of roll rates based on past delinquency indicators.

Regarding moratoria measures, a rigorous identification and regular monitoring of customer credit quality and payment behavior have been performed and through specific individual or collective assessment, the timely detection of SICR have been assured.

Grupo Santander, within its governance processes, deployed guidelines across all our subsidiaries to assure a coherent and homogeneous criteria and governance to manage the new treatment and specific impacts on provisions derived from the pandemic. Directions were provided regarding the calculation of the macroeconomic impact of the crisis through an overlay and potential collective assessments, considering incurred deterioration, as result of the covid-19 contingency. These documents also include monitoring guide in order to ensure the adequacy of the overlay and to anticipate any update if required.

Details of the exposure by stage can be found in note 10, as well as in this note of these annual accounts. These notes shows the levels of provisions for the year, which amount to EUR 2,594 million of Banco Santander, S.A., including the provisions to cover the impact to date on expected losses resulting from the pandemic.

Grupo and Banco Santander 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 and Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9).

Then, considering the most relevant units of the Group (United Kingdom, Spain, United States, Brazil, also Chile, Mexico, Portugal, Poland, Argentina and Santander Consumer Finance), which represent approximately 96% of the total Group's provisions. The table below shows the impairment losses associated with each stage as of 31 December 2020 and 2019.

In addition, depending on the transactions credit quality, the exposure is divided into three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	489,518	9,124	—	498,642
From BB- to CCC	276,516	55,838	—	332,354
Default	—	—	30,436	30,436
Total exposure **	**766,034**	**64,962**	**30,436**	**861,432**
Impairment losses***	**4,458**	**5,461**	**13,503**	**23,422**

* 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

	2019			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	552,763	5,532	—	558,295
From BB- to CCC	306,880	47,365	—	354,245
Default	—	—	31,363	31,363
Total exposure **	**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).+ loan commitments granted.
***Includes provisions for undrawn authorized lines (loan commitments).

The remaining units that form the totality of the Group exposure, contributed EUR 98,121 million, in stage 1, EUR 3,613 million in stage 2, and EUR 1,323 in stage 3 (In 2019 EUR 38,174 million in stage 1, EUR 442 million in stage 2, and EUR 1,056 million in stage 3), and impairment losses of EUR 180 million in stage 1, EUR 393 million in stage 2, and EUR 277 million in stage 3 (In 2019 EUR 264 million, EUR 306 million and EUR 91 in stage 1, stage 2 and stage 3, respectively).

The rest of the exposure, including all financial instruments not included before, amounts to EUR 478,093 (EUR 507,479 million December 2019), as this includes all undrawn authorized lines (loan commitments).

As of at 31 December 2020, the Group had EUR 497 million net of provisions (EUR 706 million December 2019) of purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

Regarding the evolution of credit risk provisions, Grupo and Banco Santander, 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, Grupo and Banco Santander 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 Bank of Spain Circular 4/2017 considering its modifications (aligned with 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 Grupo and Banco Santander. 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 Grupo and Banco Santander 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).
- Bank of Spain La Circular 4/2017 (aligned with 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.

Covid-19 credit risk management and customer support programmes

In the context of the general response of Grupo and Banco Santander to the covid-19 pandemic, and specifically with the purpose to help the customers from the credit perspective and foster their economic resilience during the crisis, Grupo Santander implemented several actions in addition to those listed above, the following:

- The severity of the pandemic's effects was significantly different depending on the economic sector. Consequently, Santander launched a process to identify those that could be more affected in order to focus credit risk management on them.
- Due to the covid-19 crisis, great focus was placed on collections & recoveries readiness across Grupo Santander to deal with the impact expected on its portfolios once the support measures granted have expired.

At 31 December 2020, the Group and the Bank had granted payment moratoria to 4.8 million customers for an overall amount of EUR 112,000, which represents 12% of the lending portfolio.

The payment moratoria distribution by business line can be observed in the following table:

	Clients (Million)	Total amount (EUR million)	
	Of which government programmes	Of which government programmes	% Lending portfolio
Mortgages	0.7	69,938	22 %
	0.5	*56,936*	
Consumer	3.9	19,951	9%
	1	*4,060*	
SME & Corporates	0.2	21,948	7%
	0.1	*9,182*	
Total	**4.8**	**111,837**	**12 %**
	1.6	**70,178**	

At the end of 2020, 79% of total moratoria granted by the Group had expired and only 3% of the total was classified in stage 3.

The following table shows the distribution by business line:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	89,889	543,321	72,662
Mortgages	69,938	312,949	55,020
Consumer	19,951	230,372	17,642
SME & corporates	21,948	336,489	15,847
Total*	**111,837**	**879,810**	**88,509**

* Total portfolio includes segmented exposure and excludes off-balance.

Over 60% of the outstanding loans under moratoria are mortgages.

Total loans granted under government liquidity programmes amounted to EUR 38,314 million, with an average government guarantee coverage of 81%.

Covid-19 overlay quantification of provisions additional to models

Numerous international organizations and supervisors have underlined the importance of responsibly adapting and applying the accounting and prudential policies to the containment measures put in place to combat the effects of the covid-19 health crisis, which are of a temporary and exceptional nature.

Some policies disclosed by supervisors include the Bank of England measures to respond to the economic shock from Covid-19; EBA's Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures; and the Federal Reserve's SR 20-4 / CA 20-3 - Supervisory Practices Regarding Financial Institutions Affected by Coronavirus.

In light of these statements, we accounted for deviations in local books based on stable long-term macroeconomic forecasts with a post model adjustment and a collective and/or individual assessment to reflect reality and recognize expected credit losses on assets deemed subject to a significant increase in credit risk, without the need to identify individual financial instruments.

The overlay was considered as the best option to recognize the increase in expected loss, as a mechanistic application of the Expected Credit Loss (ECL) methodology, which in the current context may have led to unpredictable results. The additional provisions associated to different macroeconomic scenarios were calculated using internal models; however an overlay over the monthly Bank of Spain Circular 4/2017 and subsequent modifications calculation was considered, in order to enhance the oversight and control of the ECL estimation accuracy.

In addition, the aforementioned scenarios considered to support the overlay calculation were based on a long-run approach, following the indications of numerous international organizations and supervisors.

Amid maximum uncertainty, this long-term approach is to avoid volatility in provisions as a result of the sharp economic downturn, on account of the exceptional nature of the overlay and the battery of support economic measures taken by central banks and governments.

In this regard, at the end of 2020, the Group has recorded an additional provision for impairment of financial assets at amortized cost the allowance for credit losses of EUR 3,105 million due to the effect of the covid-19 pandemic (EUR 622 million in stage 1, EUR 1,663 million in stage 2 and EUR 820 million in stage 3).

3. Details of the management units of Banco Santander, S.A.

The following are the main magnitudes related to the credit risk derived from the activity with clients of the Santander España management units as well as the Santander Corporate & Investment Banking (SCIB) portfolio which makes up Banco Santander, S.A.

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 Santander Spain

Portfolio overview

Santander España's credit risk totalled EUR 221,341 million (22% of Grupo Santander's total). It is appropriately diversified in terms of products and customer segments.

In a backdrop of lower economic and credit growth, with a significant deterioration in macroeconomic figures after the covid-19 lockdown from March to May, new lending to consumers, SMEs and corporates increased, helped by *Instituto de Crédito Oficial* (ICO) financing lines and other liquidity programmes. Total credit risk increased by +3.6% compared to December 2019, including ICO loans by EUR 25,510 million.

The total portfolio's NPL ratio was 6.23%, 71 bps less than in December 2019, Fewer defaults reduced the ratio by 48 bps, due to overall better performance driven by customer support programmes, the cure of several restructured debts and portfolio sales. Additionally, this positive effect was helped by the aforementioned growth in the loan portfolio, which decreased the ratio by 21 bps.

Additional provisions related to covid-19 increased the coverage rate to 47% (+6 p.p. vs. December 2019). Moreover, NPL reduction was mostly with loans with higher expected loss.

Cost of credit reflects the higher provisions due to the pandemic.

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, 2020 and 2019, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses per stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	146,992	1,517	—	148,509
From BB- to CCC	40,630	11,541	—	52,171
Default	—	—	13,762	13,762
Total exposure **	**187,622**	**13,058**	**13,762**	**214,442**
Impairment losses***	**479**	**732**	**5,277**	**6,488**

*Detail of credit quality ratings calculated for Banco Santander 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

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	139,673	1,315	—	140,988
From BB- to CCC	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 Banco Santander 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).

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 2019 of exposure in stage 1, stage 2 and stage 3, and impairment losses in the amount of EUR 55 million, EUR 41 million and EUR 8 million in 2019 , in stage 1, stage 2 and stage 3, respectively.

The real estate unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in 2020). Consequently, unlike in 2019 and 2018, in 2020 the perimeter is aligned.

From the information detailed above, Banco Santander, S.A. reaches a total gross exposure of EUR 306.584 million in the heading of financial assets at amortized cost (see note 6 and 10) and EUR 96.956 million in loan commitments granted for off-balance sheet exposures (see note 31) Impairment losses amount to EUR 6,977 and EUR 157 million, 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)

The Government support measures taken in Spain in response to the covid-19 pandemic are detailed below:

- Moratoriums on mortgages were granted with moratoriums of up to 12 months, 25% of which were legislative moratoriums of 3 months, some of which were extended in the last quarter of the year.
- The legal moratoriums granted entailed a deferral of principal and interest, unlike the sectoral moratoriums which only involved a deferral for principal.
- In the consumer portfolio, moratoriums of up to 6 months were granted.

At 31 December 2020, moratoriums had been granted to 248,336 customers, for a total amount of EUR 9,438 million, equivalent to 4.70% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	9,267	71,577	2,476
Mortgages	7,828	43,919	1,346
Consumer	1,439	17,658	1,130
SME & corporates	171	126,568	12
Total*	**9,438**	**198,145**	**2,488**

* Total portfolio includes segmented exposure and excludes off-balance

Of the total moratoriums expired at 31 December 2020, EUR 1,921 million were classified in stage 1, EUR 374 million in stage 2 and EUR 193 million in stage 3.

At the end of 2020, 26.36% of total moratoria granted by the Group had expired and only 7.74% of these was classified in stage 3.

Total loans granted under government liquidity programmes amounted to EUR 25,510 million. Spain represents 67% of the Group's total exposure to government liquidity programs. It has the longest maturities (in both the SME and corporate segments) due to the nature of these legislative programs.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, EUR 466 million corresponds to the overlay calculated as of December 31, 2020 (EUR 37 million in stage 1, EUR 261 million in stage 2 and EUR 168 million in stage 3).

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. The projected evolution for a period of five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

	2020 - 2024		
Variables	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	-0.12%	-0.12%	0.80%
Unemployment rate	13.71%	11.65%	9.59%
Housing price change	-0.26%	1.62%	3.22%
GDP growth	0.77%	1.61%	2.34%

In the case of Santander Spain, the previously projected macroeconomic scenarios up to 2024 have been complemented with an additional scenarios, the 'long-run' scenarios, as indicated below.

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:

	2020	2019
Pessimistic scenario	30 %	30 %
Base scenario	40 %	40 %
Optimistic scenario	30 %	30 %

Regarding the the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for a period of five years is shown below:

Magnitudes	Long-run scenario
Interest rate	-0.29%
Unemployment rate	14.35%
Housing price change	1.20%
GDP growth	0.79%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision		
	Mortgages	Corporate	Rest
GDP Growth			
-100 bp	6.24%	8.17%	8.63%
100 bp	-2.63%	-4.50%	-5.48%
Housing price change			
-100 bp	1.42%	8.14%	7.73%
100 bp	-1.12%	-3.12%	-3.74%

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 0.1 and 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 59,605 million in 2020 (EUR 62,236 million in 2019), 99.35% of which have a mortgage guarantee (99.51% in 2019):

EUR million

	2020			
	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	59,605	1,850	58,079	1,784
Without mortgage guarantee	*387*	*75*	*387*	*75*
With mortgage guarantee	*59,218*	*1,775*	*57,692*	*1,709*

EUR million

	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	62,236	2,649	60,556	2,581
Without mortgage guarantee	*306*	*14*	*306*	*14*
With mortgage guarantee	*61,930*	*2,635*	*60,251*	*2,567*

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 27% (26% in 2019).
- The 86% 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):

EUR million

	2020					
	Loan to value ratio					
	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	15,570	18,028	17,585	5,205	2,830	59,218
Of which, watchlist /non-performing	*170*	*222*	*318*	*305*	*760*	*1,775*
Of which, Banco Santander, S.A.						
Gross amount	15,236	17,627	17,295	5,003	2,531	57,692
Of which, watchlist/ Non-performing	*166*	*213*	*305*	*295*	*730*	*1,709*

Businesses portfolio

Credit risk with SME and corporates amounted to EUR 149,646 million. Accounting for 68% of total credit risk, this is Santander Spain's main lending segment. Most of the portfolio corresponds to customers with an assigned credit analyst to monitor their loans throughout the risk cycle.

The portfolio is highly diversified and not concentrated in any sector.

The portfolio's NPL ratio stood at 7.04% in December 2020. Even though total risk decreased, the NPL ratio fell by 21 bp compared to December 2019 owning to better performance driven by customer support programmes, the cure of several restructured exposures in corporates and portfolio sales. 2020 growth was mainly focused in liquidity support programs (ICO).

Real estate activity

The Real Estate Unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in 2020). The part of the portfolio resulting from the past financial crisis and the new business that is identified as viable should be differentiated. 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

	2020	2019
Balance at beginning of year	2,939	4,812
Foreclosed assets	(6)	(29)
Reductions*	(24)	(1,685)
Written-off assets	(38)	(159)
Balance at end of year	**2,871**	**2,939**

*Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 6.13% (compared with 9.73% at December 2019) 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 32.95% (35.31% in 2019).

EUR million

	2020					
	Santander Group			Of which, 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)	2,871	397	70	2,946	399	-70
Of which watchlist/ non-performing	176	20	58	176	20	(58)
Memorandum items written-off assets	924			(924)		

Memorandum items: Data from the public consolidated balance sheet

EUR million

	2020	
	Carrying amount	
	Santander Group	Of which, Banco Santander, S.A.
Total loans and advances to customers excluding the Public sector (business in Spain) (Book value)	237,165	231,349
Total consolidated assets (Total business) (Book value)	1,508,250	629,369
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,591	1,249

At year-end, the concentration of this portfolio was as follows:

EUR million

	2020	
	Loans: Gross amount	
	Santander Group	Of which, Banco Santander, S.A.
1. Without mortgage guarantee	164	164
2. With mortgage guarantee	2,707	2,783
2.1 Completed buildings	1,454	1,470
2.1.1 Residential	844	854
2.1.2 Other	610	616
2.2 Buildings and other constructions under construction	1,185	1,244
2.2.1 Residential	1,124	1,183
2.2.2 Other	61	61
2.3 Land	68	68
2.3.1 Developed consolidated land	44	44
2.3.2 Other land	24	24
Total	**2,871**	**2,946**

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 2020, the net balance of these assets amounted to EUR 3,962 million (gross amount: EUR 7,937 million; recognised allowance: EUR 3,975 million, of which EUR 2,834 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 2020:

EUR million

	2020			
	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	6,810	3,568	2,563	3,242
Of which:				
Completed buildings	*2,140*	*846*	*644*	*1,294*
Residential	*527*	*171*	*130*	*356*
Other	*1,613*	*675*	*514*	*938*
Buildings under construction	*178*	*70*	*36*	*108*
Residential	*178*	*70*	*36*	*108*
Other	*—*	*—*	*—*	*—*
Land	*4,492*	*2,652*	*1,883*	*1,840*
Developed land	*1,656*	*888*	*559*	*768*
Other land	*2,836*	*1,764*	*1,324*	*1,072*
Property assets from home purchase mortgage loans to households	892	305	200	587
Other foreclosed property assets	235	102	71	133
Total property assets	**7,937**	**3,975**	**2,834**	**3,962**

The same information in the previous table reference to Banco Santander, S.A. is presented below:

EUR million

	2020			
	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	1,038	390	291	648
Of which:				
Completed buildings	*958*	*370*	*274*	*588*
Residential	*184*	*63*	*47*	*121*
Other	*774*	*307*	*227*	*467*
Buildings under construction	*—*	*—*	*—*	*—*
Residential	*—*	*—*	*—*	*—*
Other	*—*	*—*	*—*	*—*
Land	*80*	*20*	*17*	*60*
Developed land	*63*	*16*	*14*	*47*
Other land	*17*	*4*	*3*	*13*
Property assets from home purchase mortgage loans to households	704	240	161	464
Other foreclosed property assets	179	76	57	103
Total property assets	**1,921**	**706**	**509**	**1,215**

In addition, the Group has shareholdings in entities holding foreclosed assets amounting to EUR 961 million (mainly Project Quasar Investment 2017, S.L.), and equity instruments foreclosed or received in payment of debts amounting to EUR 66 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 (EUR billion):

	2020	2019
Gross additions	0.5	0.7
Disposals	(0.9)	(2.7)
Difference	(0.4)	(2.0)

3.2. Santander Corporate & Investment Banking

The exposure detail and impairment losses presented for the business unit by Santander España, 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 in 2020 for a period of five 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:

	2021 - 2025		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP growth	3.03%	3.39%	3.56%

The five-year projected development generated in 2019 to estimate the expected loss i shown below:

	2020 - 2024		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP growth	3.04%	3.55%	3.83%

Regarding the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for the next five years is shown below:

Variable	Long-run scenario
Global GDP Growth	1.54%

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.

	2020	2019
Pessimistic scenario	30 %	30 %
Base scenario	40 %	40 %
Optimistic scenario	30 %	30 %

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) n.º 575/2013, counterparty credit risk, which includes derivative instruments, transactions with a repurchase obligation, stock and commodities lending, transactions with deferred repayment and financing of guarantees, arises from the likelihood that a counterparty will default before the final settlement of the transaction's cash flows.

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 the Montecarlo simulation to calculate exposures for some countries and products. We also calculate capital at risk and unexpected loss, which is the difference between the economic capital, net of guarantees and recoveries, and expected loss.

After market close, the exposures are recalculated by adjusting transactions to their new time frame, adapting potential future exposure and applying mitigation measures (netting, collateral, etc.) to control exposures directly against the limits approved by senior management. Grupo Santander runs risk control with an integrated system in real time that enables us to know the exposure limit with any counterparty, product and maturity and in any of Santander's subsidiaries at any time.

4.2. Concentration risk

Concentration risk control is a vital part of our management. Grupo and Banco Santander, 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.

Grupo and Banco Santander 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 mitigation 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 2020.

The detail, by activity and geographical area of the Group's risk concentration at 31 December 2020 is as follows:

EUR million

	2020				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	278,343	69,467	49,359	75,831	83,686
Public sector	166,114	43,121	30,571	83,960	8,462
Of which:					
Central government	*143,003*	*32,070*	*28,988*	*74,032*	*7,913*
Other central government	*23,111*	*11,051*	*1,583*	*9,928*	*549*
Other financial institutions (financial business activity)	113,569	14,882	37,661	27,883	33,143
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	400,329	125,608	85,897	131,578	57,246
Of which:					
Construction and property development	*19,105*	*3,921*	*3,531*	*5,631*	*6,022*
Civil engineering construction	*5,723*	*2,924*	*1,864*	*798*	*137*
Large companies	*232,469*	*59,037*	*48,120*	*86,515*	*38,797*
SMEs and individual entrepreneurs	*143,032*	*59,726*	*32,382*	*38,634*	*12,290*
Households – other (broken down by purpose)	501,901	86,076	93,301	112,954	209,570
Of which:					
Residential	*324,193*	*60,556*	*34,102*	*38,762*	*190,773*
Consumer loans	*160,037*	*17,881*	*57,033*	*69,263*	*15,860*
Other purposes	*17,671*	*7,639*	*2,166*	*4,929*	*2,937*
Total	**1,460,256**	**339,154**	**296,789**	**432,206**	**392,107**

* 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:

EUR million

	2020				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	183,201	91,524	36,031	24,360	31,286
Public sector	38,169	28,325	3,795	2,497	3,552
Of which:					
Central government	*27,176*	*17,453*	*3,746*	*2,429*	*3,548*
Other central government	*10,993*	*10,872*	*49*	*68*	*4*
Other financial institutions (financial business activity)	146,136	47,780	38,822	34,763	24,771
Non-financial companies and individual entrepreneurs (Non-financial business activity) (broken down by purpose)	202,590	127,617	26,096	23,528	25,349
Of which:					
Construction and property development	*2,692*	*2,672*	*18*	*1*	*1*
Civil engineering construction	*3,733*	*2,619*	*461*	*516*	*137*
Large companies	*137,424*	*65,627*	*24,407*	*22,668*	*24,722*
SMEs and individual entrepreneurs	*58,741*	*56,699*	*1,210*	*343*	*489*
Households – other (broken down by purpose)	74,645	73,277	310	352	706
Of which:					
Residential	*59,102*	*58,015*	*251*	*207*	*629*
Consumer loans	*7,896*	*7,860*	*5*	*14*	*17*
Other purposes	*7,647*	*7,402*	*54*	*131*	*60*
Total	**644,741**	**368,523**	**105,054**	**85,500**	**85,664**

* 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.

4.3. Sovereign risk and exposure to other public sector entities

Sovereign risk occurs in transactions with a central bank. It includes the regulatory cash reserve, issuer risk with the Treasury (public debt portfolio) and risk from transactions with government institutions whose funding only come from the state's budgetary revenue and not commercial operations.

The historic criteria of Grupo and Banco Santander can differ from regular EBA stress test standards. Though the EBA does include national, regional and local government institutions, it does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments.

According to our management criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (EUR 12,080 million, 3.8% of total sovereign risk). Furthermore, exposure to non-local sovereign issuers involving cross-border risk[3] is even less significant (EUR 7,168 million, 1.8% of total sovereign risk).

Sovereign exposure in Latin America is mostly in local currency, and is recognized in the local accounts and concentrated in short- term maturities.

Over the past few years, total exposure to sovereign risk has remained in line with regulatory requirements and our strategy to manage this portfolio.

The shifts in our sovereign risk in our countries is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Grupo and Banco Santander are exposure spreads among countries with varied macroeconomic outlooks and dissimilar growth, interest and exchange rate scenarios.

The shifts observed in the different countries exposure is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Santander's exposure spreads among countries with varied macroeconomic outlooks and dissimilar scenarios in terms of growth, interest and exchange rates.

Our investment strategy for sovereign risk considers country's credit quality to set the maximum exposure limits:

[3] Countries that are not considered low risk by Banco de España.

	2020	2019
AAA	18%	20%
AA	25%	24%
A	25%	18%
BBB	14%	15%
Less than BBB	18%	23%

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 2020:

	2020					2019
	Portfolio					
Country	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure	Total net direct exposure
Spain	4,100	7,048	13,097	—	24,245	35,366
Portugal	(380)	4,148	4,962	—	8,730	8,689
Italy	249	2,468	1,298	—	4,015	2,735
Greece	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Rest Eurozone	(29)	1,687	2,396	—	4,054	1,809
UK	(1,672)	612	963	—	(97)	10,363
Poland	16	10,263	668	—	10,947	8,366
Rest of Europe	7	121	942	—	1,070	777
US	589	9,501	5,458	—	15,548	16,299
Brazil	5,127	17,281	5,309	—	27,717	28,998
Mexico	8,005	10,256	2,768	—	21,029	13,673
Chile	148	6,732	75	—	6,955	3,460
Rest of America	19	397	542	—	958	1,029
Rest of the world	—	3,776	976	—	4,752	4,813
Total	**16,179**	**74,290**	**39,454**	**—**	**129,923**	**136,377**

5. Forborne loan portfolio

Grupo and Banco Santander have an internal forbearance policy acts as a reference for our subsidiaries locally. It shares the principles of regulations and supervisory expectations. It includes the requirements of the EBA guidelines on management of non performing and forborne exposures. It defines forbearance as the modification of the payment conditions of a transaction to allow a customer experiencing financial difficulties (current or foreseeable) to fulfil their payment obligations. If forbearance is not allowed, there would be reasonable certainty that the customer would not be able to meet their financial obligations.

In addition, this policy also sets down rigorous criteria for evaluating, classifying and monitoring forbearances to ensure the strictest possible care and diligence in recovering due amounts. Thus, it dictates that we must adapt payment obligations to customers' current circumstances. Our forbearance policy also defines classification criteria to ensure we recognize risks appropriately. They must remain classified as non-performing or in watch-list for a prudential period for reasonable certainty of repayment.

Forbearances may never be used to delay the immediate recognition of losses or hinder the appropriate recognition of risk of default. Thus, we must recognize losses as soon as we deem any amounts irrecoverable.

The forborne portfolio stood at EUR 29,159 million at the end of December 2020. In terms of credit quality, 51% of the loans are classified as non-performing loans, with average coverage of 43% (28% of the total portfolio).

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 EUR million, except number of transactions that are in units

	2020													
	Total							Of which, non-performing/Doubtful						
	Without real guarantee		With real guarantee					Without real guarantee		With real guarantee				
					Maximum amount of the actual collateral that can be considered							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	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
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	40	21	17	9	7	—	1	19	1	9	3	3	—	1
Other financial institutions and: individual shareholder	615	22	565	123	38	55	29	323	12	358	79	26	49	27
Non-financial institutions and individual shareholder	176,310	4,936	45,872	9,872	6,444	828	4,475	103,692	3,160	31,861	6,147	3,944	355	4,091
Of which financing for constructions and property development	*6,395*	*131*	*1,557*	*802*	*599*	*38*	*246*	*3,838*	*50*	*1,023*	*509*	*255*	*14*	*225*
Other warehouses	2,569,758	4,059	427,282	10,117	6,239	1,561	3,657	1,299,317	1,762	148,862	3,831	2,703	241	2,272
Total	**2,746,723**	**9,038**	**473,736**	**20,121**	**12,728**	**2,444**	**8,162**	**1,403,351**	**4,935**	**181,090**	**10,060**	**6,676**	**645**	**6,391**
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 EUR million, except number of transactions that are in units

	2020													
	Total							Of which, non-performing/Doubtful						
	Without real guarantee		With real guarantee					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					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		Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees	
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	27	20	15	8	6	—	1	7	1	9	3	3	—	1
Other financial companies and sole proprietorships (financial business activity)	228	14	177	120	38	54	26	121	10	124	77	26	48	24
Non-financial corporations and sole proprietorships (non-financial business activity)	29,148	1,983	27,289	7,264	5,203	379	2,577	18,307	1,535	21,803	4,544	3,223	163	2,385
Of which, financing for construction and real estate development (including land)	*38*	*6*	*438*	*270*	*250*	*1*	*57*	*33*	*3*	*286*	*144*	*125*	*1*	*51*
Other warehouses	30,389	446	46,571	3,601	3,128	20	761	12,423	224	32,599	2,154	1,782	6	681
Total	**59,792**	**2,463**	**74,052**	**10,993**	**8,375**	**453**	**3,365**	**30,858**	**1,770**	**54,535**	**6,778**	**5,034**	**217**	**3,091**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—

In 2020, 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 4,454 million, without these modifications having a material impact on the income statement. Also, during 2020, 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 EUR 1,478 million.

The transactions presented in the foregoing tables were classified at 31 December 2020 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.

Attending to the credit attention 49% 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 43%of the non-performing portfolio).

The table below shows the changes in 2020 in the forborne loan portfolio (net of provisions):

EUR million

	2020	
	Loans: Book value	
	Santander Group Spain	Of which, Banco Santander, S,A,
Beginning balance	**23,430**	**11,468**
Refinancing and restructuring of the period	8,351	1,420
Memorandum item: impact recorded in the income statement for the period	2,249	293
Debt repayment	(5,449)	(1,301)
Foreclosure	(293)	(175)
Derecognised from the consolidated balance sheet	(1,314)	(495)
Others variations	(3,728)	(826)
Balance at end of year	**20,997**	**10,091**

c) Market risk, structural and liquidity risk

1. Activities subject to market risk and types of market risk

Activities subject to market risk encompass transactions where risk is assumed as a consequence of potential changes in interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices, volatility and other market factors; the liquidity risk from our products and markets, and the balance sheet liquidity risk. Therefore, they include trading risks and structural risks.

- **Interest rate risk** arises from changes in interest rates that could adversely affect the value of a financial instrument, a portfolio or the Group or the Bank as a whole. It affects loans, deposits, debt securities and most assets and liabilities in trading books and derivatives.
- **Inflation rate risk** originates from changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the Group or the Bank. It affects instruments such as loans, debt securities and derivatives, where returns are linked to future inflation values or a change in the current rate..
- **Exchange rate risk** is the sensitivity to movements in exchange rates of a position's value not denominated in the base currency. A long or open position in a foreign currency may produce a loss if it depreciates against the base currency. Exposures affected by this risk include non-euro investments in subsidiaries and transactions in foreign currency.
- **Equity risk** is the sensitivity of the value of an open positions in equities to adverse movements in their

market prices or future dividend expectations. This affects positions in shares, stock market indexes, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, etc.).

- **Credit spread risk** is the sensitivity of the value of an open positions in fixed income securities or credit derivatives to movements in the 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.
- **Commodity price risk** is the risk from changes in commodity prices. Our exposure to this risk is not significant, mainly coming from our customers' derivative transactions in commodities.
- **Volatility risk** is the sensitivity of the value of a portfolio to changes in the volatility of risk factors such as interest rates, exchange rates, shares and credit spreads. This risk is incurred by all financial instruments, in which volatility is a variable in valuation. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated with derivatives such as options, futures, forwards and swaps.

There are other types of market risk that require more complex hedging:

- **Correlation risk** is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation) of the same type (e.g., two exchange rates) or different types (e.g., an interest rate and the price of a commodity).
- **Market liquidity risk** originates when Grupo Santander or a subsidiary cannot reverse or close a position without 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. This risk could also increase depending on how exposures are distributed among products and currencies.
- **Pre-payment or cancellation risk** originates when on-balance- sheet instruments (such as mortgages or deposits) may have options that allow holders to buy or sell them or alter future cash flows. Potential mismatches on the balance sheet 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** arises from an entity's involvement in underwriting or placing securities or other types of debt when it assumes the risk of having to acquire issued securities partially if they have not fully been taken up by potential buyers.
- **Balance sheet liquidity risk** must also be considered. Unlike market liquidity risk, it is defined as the possibility of meeting payment obligations late or at an excessive cost. Losses may be caused by 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.

Grupo Santander ensures make sure we comply with the Basel Committee's Fundamental Review of the Trading Book and the EBA guidelines on balance-sheet interest-rate risk. Through several projects, Santander aims to provide risk managers and control teams with the best tools to manage market risks under the right governance framework for the models used, to report risk metrics, and help satisfy requirements on these risks.

2. Trading market risk management

Setting market risk limits is a dynamic process that follows predefined risk appetite levels. It is part of senior management's annual limits plan that extends to all subsidiaries.

The standard methodology for risk management and control in trading, measures the maximum expected loss with a specific level of confidence and time frame. The standard for historical simulation is a confidence level of 99% over one day. We apply statistical adjustments efficiently to incorporate recent developments affecting our levels of risk. Our time frame is two years or at least 520 days from the reference date of the VaR calculation.

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 metric VaR	Other	Main risk factor for 'Other' balance
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	153,839		153,839	Interest rate
Financial assets held for trading	114,945	114,945		Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	3,234	1,252	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	48,717	35,337	13,380	Interest rate
Financial assets designated at fair value through other comprehensive income	120,953	2,783	118,170	Interest rate, spread
Financial assets at amortized cost	958,378		958,378	Interest rate
Hedging derivatives	8,325		8,325	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980		1,980	Interest rate
Other assets	96,627			
Total assets	**1,508,250**			
Liabilities subject to market risk				
Financial liabilities held for trading	81,167	81,167		Interest rate, spread
Financial liabilities designated at fair value through profit or loss	48,038	14,641	33,397	Interest rate
Financial liabilities at amortized cost	1,248,188		1,248,188	Interest rate, spread
Hedging derivatives	6,869		6,869	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	286		286	Interest rate
Other liabilities	32,380			
Total liabilities	**1,416,928**			
Equity	**91,322**			

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 2020 and the ES at 97.5% as of the end of December 2020:

VaR statistics and expected shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2020					2019		2018	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**6.5**	**12.5**	**54.8**	**8.3**	**8.1**	**12.1**	**10.3**	**9.7**	**11.3**
Diversification effect	(6.0)	(13.1)	(15.8)	(11.8)	(12.6)	(8.2)	(9.9)	(9.3)	(11.5)
Interest rate	4.7	9.2	29.2	5.4	5.9	10.0	9.2	9.4	9.7
Equities	2.1	4.4	14.7	3.1	3.7	2.9	4.8	2.4	2.8
Exchange rate	2.6	5.9	12.9	6.0	5.5	3.9	2.6	3.9	6.2
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.4	4.1
Commodities	—	0.5	2.5	1.1	1.0	—	—	—	—
Total Europe	**5.0**	**10.5**	**39.1**	**8.0**	**9.3**	**6.3**	**10.1**	**5.0**	**5.5**
Diversification effect	(4.6)	(10.6)	(21.9)	(8.9)	(8.8)	(6.9)	(8.3)	(6.7)	(8.2)
Interest rate	3.2	7.9	24.0	6.5	7.2	6.0	8.2	5.0	5.8
Equities	2.1	4.3	15.0	3.0	3.6	1.9	4.9	1.1	1.2
Exchange rate	1.3	3.5	10.7	2.9	2.7	1.9	1.9	1.7	2.1
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.9	4.6
Commodities	—	—	—	—	—	—	—	—	—
Total North America	**2.8**	**6.6**	**13.7**	**2.9**	**2.7**	**3.5**	**3.8**	**7.2**	**8.3**
Diversification effect	0.7	(2.2)	(5.3)	(1.1)	(0.9)	(1.3)	(2.1)	(4.8)	(2.7)
Interest rate	1.6	3.4	7.1	3.3	3.0	2.6	3.4	6.4	7.7
Equities	—	0.3	1.2	0.1	0.1	0.2	0.1	0.1	—
Exchange rate	0.5	5.1	10.7	0.5	0.5	2.0	2.4	5.5	3.3
Total South America	**2.4**	**5.6**	**26.4**	**4.5**	**5.0**	**9.5**	**6.0**	**7.2**	**10.0**
Diversification effect	(0.8)	(3.4)	(13.8)	(4.3)	(3.7)	(2.9)	(3.8)	(3.5)	(2.3)
Interest rate	2.3	5.2	26.3	4.1	4.2	7.8	5.9	6.4	6.6
Equities	0.2	1.0	6.3	0.5	0.5	2.0	1.7	2.5	2.9
Exchange rate	0.8	2.7	7.6	4.2	4.2	2.6	2.1	1.9	2.9

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.

By the end of December, VaR had decreased by EUR 2 million vs. the end of 2019. Average VaR increased slightly by EUR 0.4 million. By risk factor, average VaR increased in most factors due to higher market volatility along the year. By geographic area, average VaR rose in Europe and North America but remained at low levels.

VaR by risk factor has generally remained stable over the last few years. Temporary rises are due more to temporary increases in the volatility of market prices than to significant changes in positions.

Grupo Santander's exposure to complex structured instruments and assets is very limited, this is a reflection of our risk culture and prudent risk management. At the end of December 2020, the exposures in this area were:

• Hedge funds: exposure was EUR 344 million (all indirect), acting as counterparty in derivatives transactions. We analyse the risk related to this type of counterparty on a case by case basis, establishing percentages of collateralization based on each fund's features and assets.

• Monolines: no exposure at the end of December 2020.

Grupo Santander's policy for approving new transactions in these products remains extremely prudent and conservative.

It is strictly supervised by top management.

Backtesting

Actual losses can differ from those forecast by VaR due to the aforementioned limitations of this metric. Grupo Santander regularly analyses the accuracy of the VaR calculation model to confirm its reliability. The most important tests have backtesting:

- For hypothetical P&L backtesting and for the total portfolio, we observed overshootings in VaR at 99% on 9 and 12 March and on 7 July and on 30 December.
- In the case of VaE at 99%, overshootings was observed on 20 March.
- Most of overshootings were due to the strong market variations caused by the health crisis.
- The overshootings we observed in 2020 are consistent with the assumptions in the VaR calculation model.

IBOR Reform

Since 2015, central banks and regulators in several major jurisdictions have convened Working Groups (WGs) to find and implement the transition to suitable replacements for some existing 'IBOR' benchmarks, such as Euro Overnight Index Average (EONIA) and London Interbank Offered Rates (LIBORs).

On 27 July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the FCA), which regulates the LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmarks after 2021. This announcement indicates that the continuation of LIBORs on the current basis cannot be guaranteed after 2021. Therefore, after 2021 LIBORs may cease to be calculated.

Additionally, on 13 September 2018 the WG euro RFR recommended that the Euro Short Term Rate (€STR) shall replace EONIA. Since 2 October 2019, the date on which the €STR became available, EONIA changed its methodology to be calculated as the €STR plus a spread of 8.5 basis points. This change in EONIA's methodology is intended to facilitate the market's transition from EONIA to €STR, with the former expected to be discontinued by the 3 January 2022.

On October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which will become effective on 25 January 2021, and will provide derivatives market participants with new IBOR fallbacks for legacy and new derivatives contracts. Banco Santander S.A. and several subsidiaries have adhered to this protocol.

On December 2020, ICE Benchmark Administration (IBA), the FCA-regulated and authorized administrator of LIBOR, announced its intention that one week and two months USD LIBOR settings will cease at end-2021, while the rest of USD LIBOR tenors (Overnight and 1, 3, 6 and 12 months) will cease at end-June 2023.

On December 2020, the European Union Council endorsed new rules amending of the EU Benchmark Regulation (BMR). The aim of the amendments to the Benchmark Regulation is to make sure that a statutory replacement benchmark can be established by the regulators by the time a systemically important benchmark is no longer in use, and thus protect financial stability on EU markets. It is likely that the regulators decide to use these powers in order to mitigate, as much as possible, systemic risks that might result from the phasing out of the London Inter-Bank Offered Rate (LIBOR) by the end of 2021. The new rules give the Commission the power to replace so-called 'critical benchmarks', which could affect the stability of financial markets in Europe, and other relevant benchmarks, if their termination would result in a significant disruption in the functioning of financial markets in the EU. The Commission will also be able to replace third-country benchmarks if their cessation would result in a significant disruption in the functioning of financial markets or pose a systemic risk for the financial system in the EU..

Interest rate benchmarks have an extended footprint in a significant number of contracts that Santander Group is holding and are used in multiple processes. The most relevant interest rate benchmarks for Santander are EURIBOR, EONIA, USD-LIBOR, GBP-LIBOR, and CHF-LIBOR. Santander Group uses these benchmarks as the reference rate not only for derivatives, but also for loans, discounting products, deposits, collateral agreements and floating rate notes, among others.

The main risks to which Santander is exposed arising from financial instruments because of the transition are: (i) legal risks arising from potential changes required to documentation for new and existing transactions; (ii) risk management, financial and accounting risks arising from market risk models and from valuation, hedging, discontinuation and recognition of financial instruments linked to benchmark rates; (iii) business risk of a decrease in revenues of products linked to indices that will be replaced; (iv) pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments; (v) operational risks arising from the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; (vi) conduct risks arising from the potential impact of communication with customers and engagement during the transition period and (vii)litigation risks regarding our existing products and services, which could adversely impact our profitability.

In order to monitor the risks and address the challenges of the transition, Santander launched the IBOR Transition Programme in 2019. This programme has a group wide scope and reports on a regular basis to Executive Management involving statutory committees. Its main objective is to ensure a smooth operational transition and to anticipate and address any potential customer and conduct related issues that could arise from the IBOR transition. It also aims to ensure that all impacted areas, business units and geographies understand the risks associated with the transition in a homogeneous way and can take appropriate measures to mitigate them.

Santander's IBOR Transition Programme is aligned with the recommendations, guidance and milestones defined by regulators and working groups of different jurisdictions and is structured around the following areas: Technology & Operations, Legal, Client Outreach, Risk Management & Models, Conduct & Communications and Accounting & Finance.

Santander is engaged with the public and private sector initiatives in connection with IBOR transition. As part of this involvement, Santander participates in the WG Risk Free Rate Groups of different jurisdictions in Europe and America. Santander provides active feedback on the multiple consultations issued by industry forums, market associations, bank associations and other public organisms on this issue.

3. Structural balance sheet risks

3.1. 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 2020, in line with previous years.

Structural VaR

A standardized metric such as VaR can be used for monitoring total market risk for the banking book (excluding the trading activity of SCIB). Santander distinguishes fixed income considering interest rates and credit spreads on ALCO portfolios, exchange rates and equities.

In general, structural VaR is not material in terms of our volume of total assets or equity.

Structural VaR

EUR million. Structural VaR 99% with a temporary horizon of one day.

	2020				2019		2018	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**611.4**	**911.0**	**1,192.1**	**903.1**	**511.4**	**729.1**	**568.5**	**556.8**
Diversification effect	(227.2)	(349.8)	(261.0)	(263.4)	(304.2)	(402.0)	(325.0)	(267.7)
VaR interest rate*	345.5	465.1	581.9	345.5	345.6	629.7	337.1	319.5
VaR exchange rate	317.8	499.9	547.0	502.6	308.1	331.7	338.9	324.9
VaR equities	175.3	295.9	324.2	318.5	161.9	169.8	217.6	180.1

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- **Europe**

The EVE and NII sensitivities of our main balance sheets (Santander Spain and Santander UK) are usually positive.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December 2020, considering the scenarios previously mentioned, the most significant risk of NII sensitivity was in the euro, at EUR 191 million; the Polish zloty, at EUR 66 million; the British pound yield curve at EUR 25 million; and the US dollar, at EUR 19 million, all relating to the risk of rate cuts.

The most significant risk in economic value of equity was in the euro interest rate curve, at EUR 2,236 million; the British pound at EUR 643 million; the US dollar at EUR 142 million; and the Polish zloty at EUR 22 million, all relating to the risk of rate cuts.

- **North America**

The EVE and NII of our North American balance sheets (excluding the EVE of Mexico) usually show positive sensitivities to interest rates.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly in the US (EUR 61 million).

The most significant risk to the economic value of equity was also in the US (EUR 1,035 million).

- **South America**

The economic value and net interest income in our South American balance sheets are usually positioned for interest rate cuts.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly located in Chile (EUR 80 million) and Brazil (EUR 68 million).

The most significant risk to the economic value of equity was also mainly in Chile (EUR 313 million) and Brazil (EUR 278 million).

Structural foreign currency rate risk/results hedging

The structural exchange rate risk is driven by transactions in foreign currencies related to permanent financial investments, their results and related hedges. The dynamic management of this risk seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In 2020, hedging of the core capital ratio for foreign exchange rate risk was kept close to 100%.

In December 2020, the largest exposures of permanent investments (with their potential impact on equity) were (in order) in US dollars, British pounds sterling, Brazilian real, Mexican pesos, Chilean pesos and Polish zlotys. Santander hedges some positions (which are permanent in nature) with foreign exchange-rate derivatives. The Finance Division is also responsible for foreign exchange rate risk management, hedging expected results and dividends in subsidiaries whose base currency is not the euro.

Structural equity risk

Grupo Santander maintains equity positions in its banking book as well as in its trading portfolio. These positions are maintained as equity instruments or equity stakes depending on the percentage owned or control.

The equity portfolio in the banking book at the end of December 2020 was diversified between securities in various countries, e.g. Spain, China, Morocco and Poland. Most of the portfolio is invested in the finance and insurance sectors. Among other sectors with lower exposure allocations real estate is included.

Structural equity positions are exposed to market risk. VaR is calculated for these positions with market price data series or proxies. By the end of September 2020, the VaR at 99% over a one day time horizon was EUR 319 million (EUR 170 million of 2019).

3.2. Methodologies

Structural interest rate risk

Grupo Santander analyses the potential impact of changes in interest rate levels on EVE and NII. Depending on the changes in rates, impacts will be different and therefore various subtypes of interest rate risk need to be monitored and managed, such as repricing, curve or basis risk.

Based on the balance-sheet interest rate position and the market situation and outlook, financial actions (such as transacting positions or setting interest rates for products marketed) may be needed to attain the desired risk profile determined by Grupo Santander.

The suite of metrics used to monitor interest rate risks includes the sensitivity of NII and EVE to changes in interest rates, and value at risk (VaR) for calculating economic capital.

Structural exchange-rate risk/hedging of results

These activities are monitored daily via position measurements, VaR and results.

Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

4. 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. Grupo Santander'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.

5. 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 2020 (EUR thousand of million):

Residual maturities of the liabilities	Unmatured	<=1month	>1 month <=3 months	>3 months <=12 months	>1 year <=2 years	>2 years <=3 years	3 years <=5 years	5 years <=10 years	>10 years	Total
Committed assets	35.7	40.2	10.2	35.5	32.4	106.4	50.5	23.9	15.6	350.4
Guarantees received	29.7	30.6	3.9	16.9	1.4	0.5	1.6	—	0.1	84.7

The reported Group information as required by the EBA at 2020 year-end is as follows:

On-balance-sheet encumbered assets

EUR billion	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	249.5		884.7	
Equity instruments	5.8	5.8	9.9	9.9
Debt securities	61.9	60.7	114.6	115.4
Other assets	33.2		148.7	
Total assets	**350.4**		**1,157.9**	

Encumbrance of collateral received

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	**84.7**	**43.0**
Loans and advances	—	—
Equity instruments	3.5	5.9
Debt securities	80.3	37.1
Other collateral received	0.9	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**0.9**

Encumbered assets and collateral received and matching 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)	**306.3**	**435.1**

On-balance-sheet encumbered assets amounted to EUR 350,400 million, of which 71% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 84,700 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 435,100 million of encumbered assets, which give rise to EUR 306,300 million matching liabilities.

As of December 2020, total asset encumbrance in funding operations represented 26.6% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,635,900 million as of

December 2020). This percentage has been increased from 24.1% that presented the Group as of December 2019. This increase was mainly due to Grupo Santander's use of the financing programmes launched by central banks in response to the pandemic.

d) Capital risk

In the second line of defence, capital risk management can independently challenge business and first-line activities by:

- Supervising capital planning and adequacy exercises through a review of the main components affecting the capital ratios.
- Identifying key metrics to calculate the Group's regulatory capital, setting tolerance levels and analysing significant variations, as well as single transactions with impact on capital.
- Reviewing and challenging the execution of capital actions proposed in line with capital planning and risk appetite.

Grupo Santander commands a sound solvency position, above the levels required by regulators and by the European Central bank.

Regulatory capital

At 1 January 2021, at a consolidated level, the Group must maintain a minimum capital ratio of 8.85% of CET1 (4.50% being the requirement for Pillar I, 0.84% being the requirement for Pillar 2R (requirement), 2.50% being the requirement for capital conservation buffer, 1.00% being the requirement for G-SIB and 0.01% being the requirement for anti-cyclical capital buffer).

Grupo Santander must also maintain a minimum capital ratio of 10.63% of tier 1 and a minimum total ratio of 13.01%.

In 2020, the solvency target set was achieved. Santander's CET1 ratio stood at 12.34% (figures calculated by applying the transitional provisions of Bank of Spain Circular 4/2017 and IFRS 9) 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

EUR million

	2020	2019	2018
Subscribed capital	8,670	8,309	8,118
Share premium account	52,013	52,446	50,993
Reserves	62,777	56,526	53,988
Treasury shares	(69)	(31)	(59)
Attributable profit	(8,771)	6,515	7,810
Approved dividend	0	(1,662)	(2,237)
Shareholders' equity on public balance sheet	**114,620**	**122,103**	**118,613**
Valuation adjustments	(33,144)	(22,032)	(22,141)
Non-controlling interests	9,846	10,588	10,889
Total Equity on public balance sheet	**91,322**	**110,659**	**107,361**
Goodwill and intangible assets	(15,711)	(28,478)	(28,644)
Eligible preference shares and participating securities	9,102	9,039	9,754
Accrued dividend	(478)	(1,761)	(1,055)
Other adjustments*	(5,734)	(9,923)	(9,700)
Tier 1**	**78,501**	**79,536**	**77,716**

* Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.
** Figures calculated by applying the transitional provisions of Bank of Spain Circular 4/2017 and IFRS 9.

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The following table shows the capital coefficients and a detail of the eligible internal resources of the Group:

	2020	2019	2018
Capital coefficients			
Level 1 ordinary eligible capital (EUR million)	69,399	70,497	67,962
Level 1 additional eligible capital (EUR million)	9,102	9,039	9,754
Level 2 eligible capital (EUR million)	12,514	11,531	11,009
Risk-weighted assets (EUR million)	562,580	605,244	592,319
Level 1 ordinary capital coefficient (CET 1)	12.34 %	11.65 %	11.47 %
Level 1 additional capital coefficient (AT1)	1.61 %	1.49 %	1.65 %
Level 1 capital coefficient (TIER1)	13.95 %	13.14 %	13.12 %
Level 2 capital coefficient (TIER 2)	2.23 %	1.91 %	1.86 %
Total capital coefficient	**16.18 %**	**15.05 %**	**14.98 %**

Eligible capital

EUR million

	2020	2019	2018
Eligible capital			
Common Equity Tier I	**69,399**	**70,497**	**67,962**
Capital	8,670	8,309	8,118
(-) Treasure shares and own shares financed	(126)	(63)	(64)
Share Premium	52,013	52,446	50,993
Reserves	64,766	57,368	55,036
Other retained earnings	(34,937)	(22,933)	(23,022)
Minority interests	6,669	6,441	6,981
Profit net of dividends	(9,249)	3,092	4,518
Deductions	(18,407)	(34,163)	(34,598)
Goodwill and intangible assets	*(15,711)*	*(28,478)*	*(28,644)*
Others	*(2,696)*	*(5,685)*	*(5,954)*
Additional Tier I	**9,102**	**9,039**	**9,754**
Eligible instruments AT1	8,854	9,209	9,666
T1-excesses-subsidiaries	248	(170)	88
Residual value of dividends	—	—	—
Others	—	—	—
Tier II	**12,514**	**11,531**	**11,009**
Eligible instruments T2	13,351	12,360	11,306
Gen. funds and surplus loans loss prov. IRB	—	—	—
T2-excesses - subsidiaries	(837)	(829)	(297)
Others	—	—	—
Total eligible capital	**91,015**	**91,067**	**88,725**

Note: Banco Santander 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).

With the publication of Regulation (EU) 2019/876 of 20 May, 2019, amending Regulation (EU) n.º 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-SIB, 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-SIB) from January 2023.

EUR million

	2020	2019
Leverage		
Level 1 Capital	78,501	79,536
Exposure	1471480	1544614
Leverage Ratio	**5.33 %**	**5.15 %**

Global systemically important banks

Grupo Santander 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.

Appendix I

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)			EUR million (b)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Capital + reserves	Net results	Carrying amount
2 & 3 Triton Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	66	6	11
A & L CF (Guernsey) Limited (f)	Guernsey	0.00%	100.00%	100.00%	100.00%	Leasing	1	(1)	0
A & L CF June (2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
A & L CF June (3) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	6	(1)	0
A & L CF March (5) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	1	0	0
A & L CF September (4) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	19	0	0
Abbey Business Services (India) Private Limited	India	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(a)	-	-	Securitization	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(a)	-	-	Securitization	8	63	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%	Financial services	4	0	4
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	531	2	154
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	0	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	335	(125)	714
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	Holding company	2,547	(9)	1,864
Aduro S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payments and collections services	0	0	0
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 (b)	Isle of Man	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	Holding company	1,202	(7)	1,148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (c)			EUR million (b)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Capital + reserves	Net results	Carrying amount
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	(226)	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	(151)	(219)	0
Alternative Leasing, FIL	Spain	99.99%	0.00%	99.99%	-	Investment fund	63	0	63
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	2	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Services	2	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.	Portugal	0.00%	99.91%	100.00%	100.00%	Inactive	3	0	0
Argenline S.A. (b)	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	53	(17)	38
Athena Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(3)	(5)	0
Atlantes Azor No. 1	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Azor No. 2	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(a)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(a)	-	-	Securitization	0	0	0
Atual - Fundo de Invest Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.99%	100.00%	-	Investment fund	198	10	187
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Financial services	262	14	246
Auto ABS Belgium Loans 2019, SA/NV	Belgium	-	(a)	-	-	Securitization	0	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(a)	-	-	Securitization	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(a)	-	-	Securitization	0	0	0
Auto ABS French Leases 2018	France	-	(a)	-	-	Securitization	0	0	0
Auto ABS French Loans Master	France	-	(a)	-	-	Securitization	0	0	0
Auto ABS French LT Leases Master	France	-	(a)	-	-	Securitization	0	0	0
Auto ABS Italian Balloon 2019-1 S.R.L.	Italy	-	(a)	-	-	Securitization	0	0	0
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(a)	-	-	Securitization	0	0	0
Auto ABS Italian Rainbow Loans 2020-1 S.R.L.	Italy	-	(a)	-	-	Securitization	0	0	0

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Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	0	0	0
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	0	0	0
Auto ABS Spanish Loans 2020-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	0	0	0
Auto ABS Swiss Leases 2013 GmbH	Switzerland	-	(a)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(a)	-	-	Securitization	(2)	0	0
Auto ABS UK Loans 2019 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2019 Plc	United Kingdom	-	(a)	-	-	Securitization	(1)	(3)	0
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(a)	-	-	Securitization	(12)	2	0
Autodescuento, S.L.	Spain	0.00%	93.89%	93.89%	93.89%	Vehicles purchase	1	0	18
Autohaus24 GmbH	Germany	0.00%	46.95%	100.00%	-	Renting	(3)	0	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	3	1	4
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	49	4	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	19	4	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	34	(26)	0
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting	7	0	8
Aviación Intercontinental, A.I.E.	Spain	99.97%	0.03%	100.00%	100.00%	Renting	77	(11)	63
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	3	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	13	(3)	10
Aviación Santillana, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Renting	1	0	2
Aviación Suances, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	2	0	3
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	23	(1)	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company	153	117	218
Azor Mortgages PLC	Ireland	-	(a)	-	-	Securitization	0	0	0
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	Banking	442	57	153
Banco Bandepe S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Banking	828	14	759
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	14	0	9
Banco Hyundai Capital Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking	47	4	23
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	1,083	(7)	1,076
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking	39	4	19
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	Banking	3,677	594	3,226
Banco Santander (Brasil) S.A.	Brazil	0.04%	89.95%	90.58%	90.52%	Banking	10,219	2,206	11,070
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company	74	14	81
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	92.47%	100.00%	100.00%	Holding company	6	0	6
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	92.68%	100.00%	100.00%	Finance company	8	0	8

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	185	1	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	Banking	142	4	140
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	Banking	958	98	1,057
Banco Santander International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Banking	1,065	(1)	793
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	16.68%	75.11%	91.80%	91.77%	Banking	5,663	832	6,547
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	Banking	172	27	121
Banco Santander Río S.A.	Argentina	0.00%	99.31%	99.26%	99.25%	Banking	1,100	122	527
Banco Santander S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	Banking	317	78	191
Banco Santander Totta, S.A.	Portugal	0.00%	99.86%	99.96%	99.96%	Banking	3,715	275	3,415
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Real estate	22	0	23
BEN Benefícios e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Payment services	11	0	10
Bilkreditt 6 Designated Activity Company (b)	Ireland	-	(a)	-	-	Securitization	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company	29	18	34
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	61	(178)	0
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	312	(34)	267
Canyon Multifamily Impact Fund IV LLC	United States	0.00%	98.00%	98.00%	98.00%	Real estate	21	(1)	22
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	13	0	13
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	1,116	3	1,119
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Carfax (Guernsey) Limited (f)	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	58	0	72
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	Finance company	48	8	42
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	99.97%	99.97%	99.97%	Securities company	49	3	52
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	607	33	248
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%	80.24%	100.00%	100.00%	Leasing	(20)	42	18
Centro de Capacitación Santander, A.C.	Mexico	0.00%	91.79%	100.00%	100.00%	Non-profit institute	1	0	1
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Aircraft rental	(66)	(7)	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Chrysler Capital Auto Funding I LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	11	17	0
Chrysler Capital Auto Funding II LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	4	0	0
Chrysler Capital Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	0	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(157)	(43)	0
Chrysler Capital Master Auto Receivables Funding 4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	32	(35)	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(40)	(25)	0
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	85.00%	100.00%	100.00%	Collection services	3	0	3
Community Development and Affordable Housing Fund LLC (g)	United States	0.00%	96.00%	96.00%	-	Asset management	-	-	-
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	Banking	363	79	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	Banking	20	2	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, en liquidación (b)	Spain	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Consulteam Consultores de Gestão, Lda.	Portugal	100.00%	0.00%	100.00%	100.00%	Real estate	0	0	0
Consumer Lending Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization	0	0	0
Crawfall S.A. (b)	Uruguay	100.00%	0.00%	100.00%	100.00%	Services	0	0	0
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	Reinsurances	8	0	7
Decarome, S.A.P.I. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Finance company	16	0	16
Deva Capital Advisory Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services	1	0	1
Deva Capital Holding Company, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	140	(12)	140
Deva Capital Investment Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	49	0	48
Deva Capital Management Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services	12	(8)	4
Deva Capital Servicer Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	72	2	74
Digital Procurement Holdings N.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Holding company	4	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	Cards	12	(3)	8
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Dirgenfin, S.L., en liquidación (b)	Spain	0.00%	100.00%	100.00%	100.00%	Real estate development	(8)	1	0
Drive Auto Receivables Trust 2016-C	United States	-	(a)	-	-	Securitization	(9)	31	0
Drive Auto Receivables Trust 2017-1	United States	-	(a)	-	-	Securitization	(20)	35	0
Drive Auto Receivables Trust 2017-2	United States	-	(a)	-	-	Securitization	(11)	32	0
Drive Auto Receivables Trust 2017-3	United States	-	(a)	-	-	Securitization	(15)	50	0
Drive Auto Receivables Trust 2017-A	United States	-	(a)	-	-	Securitization	(18)	28	0
Drive Auto Receivables Trust 2017-B	United States	-	(a)	-	-	Securitization	(9)	28	0

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Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (c): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Drive Auto Receivables Trust 2018-1	United States	-	(a)	-	-	Securitization	-20	43	0
Drive Auto Receivables Trust 2018-2	United States	-	(a)	-	-	Securitization	-74	68	0
Drive Auto Receivables Trust 2018-3	United States	-	(a)	-	-	Securitization	-99	70	0
Drive Auto Receivables Trust 2018-4	United States	-	(a)	-	-	Securitization	-100	62	0
Drive Auto Receivables Trust 2018-5	United States	-	(a)	-	-	Securitization	-87	53	0
Drive Auto Receivables Trust 2019-1	United States	-	(a)	-	-	Securitization	-88	61	0
Drive Auto Receivables Trust 2019-2	United States	-	(a)	-	-	Securitization	-124	78	0
Drive Auto Receivables Trust 2019-3	United States	-	(a)	-	-	Securitization	-160	97	0
Drive Auto Receivables Trust 2019-4	United States	-	(a)	-	-	Securitization	-185	100	0
Drive Auto Receivables Trust 2020-1	United States	-	(a)	-	-	Securitization	0	(112)	0
Drive Auto Receivables Trust 2020-2	United States	-	(a)	-	-	Securitization	0	(124)	0
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	0	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	91.79%	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%	100.00%	Finance company	23	4	28
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	Inactive	1	0	1
Esfera Fidelidade S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Services	16	42	52
Evidence Previdência S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance	130	3	112
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	Finance company	11	0	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Finance company	244	52	140
Finsantusa, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	1,269	(10)	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	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(a)	-	-	Securitization	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity	EUR million (b) Capital + reserves	Net results	Carrying amount
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 13	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 14	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 15	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(a)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(a)	-	-	Securitization	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (b)	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	-	(a)	-	-	Securitization	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(124)	(2)	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	5	0	0
Fosse PECOH Limited	United Kingdom	-	(a)	-	-	Securitization	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	0	0	0
Fundo de Investimento em Direitos Creditórios Atacado- Não Padronizado	Brazil	-	(a)	-	-	Investment fund	126	1	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado	Brazil	-	(a)	-	-	Investment fund	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado	Brazil	-	(a)	-	-	Investment fund	63	16	0
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Securitization	7	0	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	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	1	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services	1	0	0

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Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (c) Year 2020	Year 2019	Activity	EUR million (b) Capital + reserves	Net results	Carrying amount
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	100.00%	0.00%	100.00%	100.00%	Services	5	0	5
Gestora de Procesos S.A. en liquidación (b)	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%	89.99%	100.00%	100.00%	Payment services	280	45	293
Global Vosgos, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	Holding company	1	0	0
Golden Bar (Securitisation) S.R.L.	Italy	-	(a)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(a)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2018-1	Italy	-	(a)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2019-1	Italy	-	(a)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2020-1	Italy	-	(a)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2020-2	Italy	-	(a)	-	-	Securitization	0	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	Holding company	3,484	33	2,483
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	4,297	626	4,195
GTS El Centro Equity Holdings, LLC	United States	0.00%	58.40%	58.40%	57.40%	Holding company	27	(1)	27
GTS El Centro Project Holdings, LLC	United States	0.00%	58.40%	100.00%	100.00%	Holding company	28	(1)	27
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Automotive	2	—	2
Hipototta No. 13	Portugal	-	(a)	-	-	Securitization	—	—	—
Hipototta No. 4 FTC	Portugal	-	(a)	-	-	Securitization	(48)	—	—
Hipototta No. 4 plc	Ireland	-	(a)	-	-	Securitization	(5)	1	—
Hipototta No. 5 FTC	Portugal	-	(a)	-	-	Securitization	(40)	—	—
Hipototta No. 5 plc	Ireland	-	(a)	-	-	Securitization	(11)	1	—
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	404	60	533
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	72	141	750
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(10)	8	—
Holmes Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(6)	(4)	—
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
HQ Mobile Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Internet technology	—	2	8
Hyundai Capital Bank Europe GmbH	Germany	0.00%	51.00%	51.00%	51.00%	Banking	705	(5)	391
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-commerce	6	1	6
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	3,567	(277)	3,290
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	—	—	—
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	148	(41)	120
Inversiones Marítimas del Mediterráneo, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Inactive	3	2	—
Isar Valley S.A.	Luxembourg	-	(a)	-	-	Securitization	—	—	—

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
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%	50.10%	50.10%	Insurance brokerage	9	(2)	2
Landcompany 2020, S.L.	Spain	17.22%	82.78%	100.00%	100.00%	Real estate management	1,739	(35)	1,702
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(25)	5	—
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Langton PECOH Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	1	—	—
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	1	—	—
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Langton Securities Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
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	(1)	—	—
Luri 1, S.A., en liquidación (b) (e)	Spain	46.00%	0.00%	46.00%	46.00%	Real estate	—	—	—
Luri 6, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Real estate investment	1,358	8	1,371
MAC No. 1 Limited	United Kingdom	-	(a)	-	-	Mortgage 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%	0.10%	100.00%	100.00%	Financial advisory	1	—	1
Mercury Trade Finance Solutions, S.A. de C.V.	Mexico	0.00%	50.10%	100.00%	-	IT services	—	—	—
Mercury Trade Finance Solutions, S.L.	Spain	0.00%	50.10%	50.10%	-	IT services	11	(1)	30
Mercury Trade Finance Solutions, S.p.A.	Chile	0.00%	50.10%	100.00%	-	IT services	—	—	—
Merlion Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting	17	5	—
Moneybit, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Services	31	(6)	25
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(3)	(4)	—
Motor 2015-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
Motor 2016-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Motor 2017-1 Holdings Limited	United Kingdom	-	(a)	-	-	Securitization	—	—	—
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(5)	(1)	—
Motor Securities 2018-1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization	—	(1)	—
Mouro Capital I LP	United Kingdom	0.00%	100.00%	100.00%	-	Investment fund	—	22	—
Multiplica SpA	Chile	0.00%	100.00%	100.00%	100.00%	Payment services	5	—	5

Santander

Subsidiaries of Banco Santander, S.A. [1]

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		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Finance company	—	—	—
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	15	(2)	44
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	22	—	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	24	1	17
Naviera Trans Wind, S.L. (b)	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	5	—	4
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	1	—	1
NeoAuto S.A.C.	Peru	0.00%	55.00%	55.00%	-	Vehicles purchase by internet	1	—	1
Newcomar, S.L., en liquidación (b)	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)	92
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.63%	78.74%	78.74%	Investment fund	304	—	239
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-commerce	5	—	2
Open Bank Argentina S.A.	Argentina	0.00%	99.66%	100.00%	-	Banking	10	(2)	9
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	217	5	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	129	(114)	—
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	7	—	4
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Fund management company	25	7	23
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund	Ireland	0.00%	57.20%	54.10%	54.10%	Fund management company	4	—	—
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund	Ireland	0.00%	44.49%	51.93%	51.57%	Fund management company	5	—	—
PagoFX Europe S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Payment services	2	(1)	1
PagoFX HoldCo, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Payment services	65	(23)	42
PagoFX UK Ltd	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payment services	3	(1)	2
PagoNxt Merchant Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	302	(32)	269
PagoNxt, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	1,081	(133)	901
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Holding company	1,051	59	917
PBD Germany Auto 2018 UG (Haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
PBD Germany Auto Lease Master 2019	Luxembourg	-	(a)	-	-	Securitization	—	—	—
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	102	—	102
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	44	2	4
Phoenix C1 Aviation Designated Activity Company	Ireland	-	(a)	-	-	Renting	7	5	—
PI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Leasing	51	(8)	38
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Services	—	—	—

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Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Popular Spain Holding de Inversiones, S.L.U.	Spain	100.00%	0.00%	100.00%	40.00%	Insurance	726	(225)	502
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%	89.99%	100.00%	100.00%	Investment fund	34	(1)	28
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Banking	517	50	229
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	Banking	1,113	82	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	100.00%	100.00%	Finance company	1	1	—
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	Finance company	116	17	42
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	50.00%	50.00%	Finance company	36	5	10
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	Finance company	332	42	122
PSA Financial Services Nederland B.V.	Netherlands	0.00%	50.00%	50.00%	50.00%	Finance company	76	15	14
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Finance company	289	101	174
PSA Renting Italia S.p.A.	Italy	0.00%	50.00%	100.00%	100.00%	Renting	7	6	3
PSRT 2018-A	United States	-	(a)	-	-	Securitization	76	41	—
PSRT 2019-A	United States	-	(a)	-	-	Securitization	40	14	—
Punta Lima Wind Farm, LLC	United States	0.00%	100.00%	100.00%	100.00%	Electricity production	19	(9)	41
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	44	(4)	41
Retop S.A.	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	9	16	63
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Collection services	—	3	3
Return Gestão de Recursos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Fund management company	—	—	—
Riobank International (Uruguay) SAIFE (b)	Uruguay	0.00%	100.00%	100.00%	100.00%	Inactive	—	—	—
Roc Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting	(2)	—	—
Roc Shipping One Designated Activity Company	Ireland	-	(a)	-	-	Renting	(3)	(1)	—
Rojo Entretenimento S.A.	Brazil	0.00%	85.13%	94.60%	94.60%	Services	21	—	18
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	3	18	161
SAM Investment Holdings, S.L.	Spain	92.37%	7.62%	100.00%	100.00%	Fund management	1,389	(13)	1,597
SAM UK Investment Holdings Limited (b)	United Kingdom	92.37%	7.63%	100.00%	100.00%	Holding company	—	—	—
SANB Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company	2	—	1
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company	147	38	147
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	—	—	—
Santander (CF Trustee) Limited	United Kingdom	-	(a)	-	-	Asset management	—	—	—
Santander (UK) Group Pension Schemes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Asset management	—	—	—

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Subsidiaries of Banco Santander, S.A. [1]

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		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
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 Alternatives SICAV RAIF	Luxembourg	0.00%	100.00%	100.00%	-	Investment company	0	0	4
Santander Asesorías Financieras Limitada	Chile	0.00%	67.44%	100.00%	100.00%	Securities company	59	-1	39
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	64	4	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	257	11	162
Santander Asset Management - S.G.O.I.C., S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Fund management company	4	3	12
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	6	1	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company	14	9	132
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	195	18	186
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	46	2	201
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Management	2	0	1
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company	263	50	393
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%	Advisory	2	—	1
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	51	15	22
Santander Bank Polska S.A.	Poland	67.41%	0.00%	67.41%	67.47%	Banking	5,414	172	4,288
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	Banking	11,160	(1,444)	9,712
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Services	67	40	96
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Securities investment	337	47	487
Santander Brasil Tecnologia S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	20	9	26
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Venture capital	5	—	3
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Investment company	10	1	—
Santander Capitalização S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance	15	43	52
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	93	—	94
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	151	1	108
Santander Chile Holding S.A.	Chile	22.11%	77.73%	99.84%	99.84%	Holding company	1,499	223	1,434
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	681	116	290

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Subsidiaries of Banco Santander, S.A. [1]

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		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(256.3435	(4)	—
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(13.31379	107	—
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	90	78	—
Santander Consumer Auto Receivables Funding 2018-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	36	22	—
Santander Consumer Auto Receivables Funding 2018-L4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	33	(13)	—
Santander Consumer Auto Receivables Funding 2018-L5 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	26	23	—
Santander Consumer Auto Receivables Funding 2019-B1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(170.6173	42	—
Santander Consumer Auto Receivables Funding 2019-L2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	35	18	—
Santander Consumer Auto Receivables Funding 2019-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	26	3	—
Santander Consumer Auto Receivables Funding 2020-B1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	(91)	—
Santander Consumer Auto Receivables Funding 2020-L1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	65	—
Santander Consumer Auto Receivables Funding 2020-L2 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	6	—
Santander Consumer Auto Receivables Grantor Trust 2021-A	United States	-	(a)	-	-	Inactive	—	—	—
Santander Consumer Auto Receivables Grantor Trust 2021-B	United States	-	(a)	-	-	Inactive	—	—	—
Santander Consumer Auto Receivables Trust 2021-A	United States	-	(a)	-	-	Inactive	—	—	—
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	Banking	3,313	404	5,070
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	Banking	2,429	163	2,188
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Banking	381	36	363
Santander Consumer Bank S.A.	Poland	0.00%	80.44%	100.00%	100.00%	Banking	712	68	486
Santander Consumer Bank S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Banking	1,168	3	1,170
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	Banking	898	66	603
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	Banking	506	40	492
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	(36)	—	—
Santander Consumer Finance Benelux B.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Finance company	108	15	190
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT	6	2	5
Santander Consumer Finance Limitada	Chile	49.00%	34.23%	100.00%	100.00%	Finance company	57	13	37
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	Finance company	287	27	166
Santander Consumer Finance Schweiz AG	Switzerland	0.00%	100.00%	100.00%	100.00%	Leasing	41	7	60
Santander Consumer Finance, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	9,995	145	10,021
Santander Consumer Financial Solutions Sp. z o.o.	Poland	0.00%	80.44%	100.00%	-	Leasing	2	—	2
Santander Consumer Finanse Sp. z o.o. (b)	Poland	0.00%	80.44%	100.00%	100.00%	Services	14	1	12
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Holding company	364	18	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Holding company	5,455	225	6,077
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	80.24%	100.00%	100.00%	Services	7,142	3,000	8,092

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		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Leasing	20	74	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%	80.44%	100.00%	100.00%	Leasing	24	3	5
Santander Consumer Operations Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Services	10	1	18
Santander Consumer Receivables 10 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	625.1743	82	—
Santander Consumer Receivables 11 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	249.0215	139	—
Santander Consumer Receivables 3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	200.4226	90	—
Santander Consumer Receivables 7 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	359.2207	(81)	—
Santander Consumer Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	1	—
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Leasing	38	(1)	39
Santander Consumer S.A.	Argentina	0.00%	99.32%	100.00%	100.00%	Finance company	2	(1)	2
Santander Consumer S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Financial advisory	1	—	1
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	9	1	6
Santander Consumer Spain Auto 2019-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Consumer Spain Auto 2020-1, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Consumer Technology Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT services	15	5	22
Santander Consumer USA Holdings Inc.	United States	0.00%	80.24%	80.24%	72.40%	Holding company	3,839	742	4,281
Santander Consumer USA Inc.	United States	0.00%	80.24%	100.00%	100.00%	Finance company	4,765.997	(382.3592	3,517.221
Santander Consumo 3, F.T.	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Cards	871	193	977
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	Insurance brokerage	81	(2)	53
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	Securities company	52	1	44
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Securities company	101	14	103
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company	475	90	505
Santander Customer Voice, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	Services	2	—	2
Santander de Titulización, S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	Fund management company	5	3	2
Santander Digital Assets, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	94	(97)	—
Santander Drive Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	—	—
Santander Drive Auto Receivables Trust 2016-3	United States	-	(a)	-	-	Securitization	54.81207	25	—
Santander Drive Auto Receivables Trust 2017-1	United States	-	(a)	-	-	Securitization	27.91428	23	—
Santander Drive Auto Receivables Trust 2017-2	United States	-	(a)	-	-	Securitization	20.18853	33	—

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (d): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Santander Drive Auto Receivables Trust 2017-3	United States	-	(a)	-	-	Securitization	16.384809	31	—
Santander Drive Auto Receivables Trust 2018-1	United States	-	(a)	-	-	Securitization	(4.131394	42	—
Santander Drive Auto Receivables Trust 2018-2	United States	-	(a)	-	-	Securitization	(23.47049	40	—
Santander Drive Auto Receivables Trust 2018-3	United States	-	(a)	-	-	Securitization	(49.39187	51	—
Santander Drive Auto Receivables Trust 2018-4	United States	-	(a)	-	-	Securitization	(37.76117	42	—
Santander Drive Auto Receivables Trust 2018-5	United States	-	(a)	-	-	Securitization	(51.93208	48	—
Santander Drive Auto Receivables Trust 2019-1	United States	-	(a)	-	-	Securitization	(61.82044	48	—
Santander Drive Auto Receivables Trust 2019-2	United States	-	(a)	-	-	Securitization	(84.91295	64	—
Santander Drive Auto Receivables Trust 2019-3	United States	-	(a)	-	-	Securitization	(100.7520	65	—
Santander Drive Auto Receivables Trust 2020-1	United States	-	(a)	-	-	Securitization	—	(102)	—
Santander Drive Auto Receivables Trust 2020-2	United States	-	(a)	-	-	Securitization	—	(121)	—
Santander Drive Auto Receivables Trust 2020-3	United States	-	(a)	-	-	Securitization	—	(223)	—
Santander Drive Auto Receivables Trust 2020-4	United States	-	(a)	-	-	Securitization	—	(223)	—
Santander Drive Auto Receivables Trust 2021-1	United States	-	(a)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-2	United States	-	(a)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-3	United States	-	(a)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-4	United States	-	(a)	-	-	Inactive	—	—	—
Santander Energías Renovables I, S.C.R., S.A.	Spain	49.48%	10.19%	59.66%	59.66%	Venture capital	14	2	11
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	55	(15)	28
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Payment services	214	14	185
Santander España Servicios Legales y de Cumplimiento, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Services	8	—	8
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	3	—	—
Santander F24 S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Finance company	—	—	—
Santander Facility Management España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	414	3	393
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	Factoring	40	1	41
Santander Factoring Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services	22	6	1
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Factoring	191	64	126
Santander FI Hedge Strategies	Ireland	0.00%	89.99%	100.00%	100.00%	Investment company	491	(248)	219
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	2	—	2
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	355	(13)	375

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Finance company	255	(33)	225
Santander Finanse Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services	55	6	19
Santander Fintech Holdings, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Holding company	13	—	13
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	219	(15)	144
Santander Fundo de Investimento Santillana Multimercado Crédito Privado Investimento No Exterior	Brazil	-	(a)	-	-	Investment fund	308	100	—
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado	Brazil	0.00%	89.10%	100.00%	100.00%	Investment fund	1,121	28	993
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	Financial services	6	—	5
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	108	11	120
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	236	(163)	71
Santander Global Operations, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	33	—	24
Santander Global Services S.A. (b)	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	23	(2)	21
Santander Global Technology Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services	3	1	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	395	16	346
Santander Global Trade Platform Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT services	98	(22)	76
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	4	—	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(a)	-	-	Securitization	—	—	—
Santander Holding Imobiliária S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Real estate	60	1	54
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	Holding company	3,355	1,177	2,355
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	Holding company	16,775	(685)	12,221
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company	14	(9)	5
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	Insurance	1	—	1
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Asset management	40	1	41
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance brokerage	22	2	18
Santander International Products, Plc. (d)	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	1,506.042	176	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	575	3	529
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Finance company	520	17	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	218	—	29

Santander

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	Securities company	399	35	434
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	1,405	3	245
Santander Investments GP 1 S.à.r.l.	Luxembourg	0.00%	100.00%	100.00%	-	Fund management	1	—	1
Santander Inwestycje Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Securities company	11	—	7
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	28	7	6
Santander Lease, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	66	(5)	51
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(a)	-	-	Securitization	—	—	—
Santander Leasing S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Leasing	131	3	28
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.99%	100.00%	99.99%	Leasing	907	12	827
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	—	—	—
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Mortgage credit company	229	(3)	231
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance intermediary	5	44	3
Santander Merchant Platform Operations, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services	—	—	1
Santander Merchant Platform Services, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services	—	—	1
Santander Merchant Platform SoluçõesTecnológicas Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services	29	(6)	23
Santander Merchant Platform Solutions México, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Holding company	13	15	73
Santander Merchant Platform Solutions S.A.	Argentina	0.00%	99.66%	100.00%	-	Payment methods	7	(2)	6
Santander Merchant Platform Solutions Uruguay S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payment methods	—	—	—
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	—	(1)	—
Santander Paraty Qif PLC	Ireland	0.00%	89.99%	100.00%	100.00%	Investment	491	(248)	219
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	100.00%	Pension fund management company	91	18	184
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	-	(a)	-	-	Securitization	(20)	6	—
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(a)	-	-	Securitization	(11)	(5)	—
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(a)	-	-	Securitization	(2)	(3)	—
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(a)	-	-	Securitization	(16)	(6)	—
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(a)	-	-	Securitization	(1)	(8)	—
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	Fund management company	42	10	35

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (d)			EUR million (b)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Capital + reserves	Net results	Carrying amount
Santander Private Banking s.p.a. in Liquidazione (b)	Italy	100.00%	0.00%	100.00%	100.00%	Finance company	13	—	7
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	284	—	388
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Real estate	4	—	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	13	—	14
Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Inactive	1	—	1
Santander Retail Auto Lease Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization	—	—	—
Santander Retail Auto Lease Trust 2018-A	United States	-	(a)	-	-	Securitization	82	43	—
Santander Retail Auto Lease Trust 2019-A	United States	-	(a)	-	-	Securitization	38	24	—
Santander Retail Auto Lease Trust 2019-B	United States	-	(a)	-	-	Securitization	26	13	—
Santander Retail Auto Lease Trust 2019-C	United States	-	(a)	-	-	Securitization	28	13	—
Santander Retail Auto Lease Trust 2020-A	United States	-	(a)	-	-	Securitization	—	44	—
Santander Retail Auto Lease Trust 2020-B	United States	-	(a)	-	-	Securitization	—	24	—
Santander Retail Auto Lease Trust 2021-A	United States	-	(a)	-	-	Inactive	—	—	—
Santander Retail Auto Lease Trust 2021-B	United States	-	(a)	-	-	Inactive	—	—	—
Santander Revolving Auto Loan Trust 2019-A	United States	-	(a)	-	-	Securitization	(126.3697	23	—
Santander Revolving Auto Loan Trust 2021-A	United States	-	(a)	-	-	Inactive	—	—	—
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Fund management company	4	4	3
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	Services	—	—	—
Santander Río Valores S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	Securities company	2	1	2
Santander RMBS 6, Fondo de Titulización	Spain	-	(a)	-	-	Securitization	—	—	—
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	44	(8)	36
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance	1,301	151	1,188
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Services	6	4	9
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Financial services	2	1	2
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	IT services	85	(11)	74
Santander Tecnología Argentina S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	IT services	2	1	1
Santander Tecnologia e Inovação Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	1	1	1
Santander Tecnología España, S.L.U.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	45	4	45
Santander Tecnología México, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	IT services	38	4	36
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.91%	100.00%	100.00%	Insurance	144	27	47

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Totta, SGPS, S.A.	Portugal	99.85%	0.06%	99.91%	99.91%	Holding company	3,805	7	5,551
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	33.70%	100.00%	100.00%	Fund management company	4	25	15
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	Inactive	16	1	16
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	Finance company	14,823	269	15,056
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	49	—	45
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	23	3	17
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	15,732	289	14,725
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT services	27	9	6
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(a)	-	-	Securitization	7	—	—
Santander Wealth Management International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Asset management	1	(1)	2
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	Holding company	5,905	2,440	6,477
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(a)	-	-	Securitization	—	—	—
SC Austria Finance 2020-1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization	—	—	—
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Auto 2018-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	(1)	—	—
SC Germany Auto 2019-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Mobility 2019-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany S.A.	Luxembourg	-	(a)	-	-	Securitization	—	—	—
SC Germany S.A., Compartment Consumer 2020-1	Luxembourg	-	(a)	-	-	Securitization	—	—	—
SC Germany S.A., Compartment Mobility 2020-1	Luxembourg	-	(a)	-	-	Securitization	—	—	—
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(a)	-	-	Securitization	—	—	—
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(a)	-	-	Securitization	—	—	—
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(a)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto I Limited (b)	Ireland	-	(a)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto II Limited	Ireland	-	(a)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto IX Limited	Ireland	-	(a)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(a)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto VII Limited	Ireland	-	(a)	-	-	Securitization	—	—	—

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
SCF Ajoneuvohallinto VIII Limited	Ireland	-	(a)	-	-	Securitization	—	—	—
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate management	—	—	—
SCF Rahoituspalvelut I Designated Activity Company (b)	Ireland	-	(a)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut IX DAC	Ireland	-	(a)	-	-	Securitization	1	0	0
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut VIII Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
SCM Poland Auto 2019-1 DAC	Ireland	-	(a)	-	-	Securitization	0	0	0
SDMX Superdigital, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	-	Payment platform	0	0	0
Secucor Finance 2013-I Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	60	2	62
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	53	2	55
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Security	2	0	1
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	Finance company	32	1	28
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	279	20	299
Silk Finance No. 5	Portugal	-	(a)	-	-	Securitization	0	1	0
Sixt Leasing (Schweiz) AG	Switzerland	0.00%	46.95%	100.00%	-	Renting	12	0	0
Sixt Leasing GmbH	Austria	0.00%	46.95%	100.00%	-	Renting	(2)	0	0
Sixt Leasing SE	Germany	0.00%	46.95%	92.07%	-	Leasing	191	1	175
Sixt Location Longue Durée S.à.R.L.	France	0.00%	46.95%	100.00%	-	Renting	9	1	0
Sixt Mobility Consulting AG	Switzerland	0.00%	46.95%	100.00%	-	Consulting services	1	0	0
Sixt Mobility Consulting B.V.	Netherlands	0.00%	46.95%	100.00%	-	Consulting services	(2)	0	0
Sixt Mobility Consulting GmbH	Germany	0.00%	46.95%	100.00%	-	Consulting services	1	3	0
Sixt Mobility Consulting Österreich GmbH	Austria	0.00%	46.95%	100.00%	-	Consulting services	0	0	0
Sixt Mobility Consulting S.à.R.L.	France	0.00%	46.95%	100.00%	-	Consulting services	0	0	0
SMPS Merchant Platform Solutions México, S.A de C.V	Mexico	0.00%	95.98%	100.00%	-	Collection and payment services	12	14	25
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Appraisals	1	0	1
Sociedad Operadora de Tarjetas de Pago Santander Getnet Chile S.A.	Chile	0.00%	67.12%	100.00%	-	Collection and payment services	19	(1)	12
Socur S.A.	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	29	23	59

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	% of ownership held by Banco Santander: Indirect	% of voting power (d): Year 2020	% of voting power (d): Year 2019	Activity	EUR million (b): Capital + reserves	EUR million (b): Net results	EUR million (b): Carrying amount
Sol Orchard Imperial 1 LLC	United States	0.00%	58.40%	100.00%	100.00%	Electricity production	27	(1)	26
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	35	0	35
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	Holding company	122	1	124
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	184	20	204
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	6,833	90	6,923
Sovereign Spirit Limited (f)	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	3,954	211	10,521
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Securities investment	23	(1)	23
Summer Empreendimentos Ltda.	Brazil	0.00%	89.99%	100.00%	-	Real estate management	3	0	8
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Payment services	9	(2)	57
Superdigital Argentina S.A.U.	Argentina	0.00%	100.00%	100.00%	-	IT services	0	0	0
Superdigital Colombia S.A.S.	Colombia	0.00%	99.97%	99.97%	-	IT services	0	0	0
Superdigital Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	84	(2)	82
Superdigital Perú S.A.C.	Peru	0.00%	100.00%	100.00%	-	Financial services	0	0	0
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	Intermediation	7	2	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(a)	-	-	Securitization	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Holding company	10	8	0
SXT Dienstleistungen GmbH & Co. KG	Germany	0.00%	46.95%	100.00%	-	Services	1	0	0
SXT Leasing Verwaltungs GmbH	Germany	0.00%	46.95%	100.00%	-	Portfolio management	0	0	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	1,434	236	2,145
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	1
Tikgi Aviation One Designated Activity Company	Ireland	-	(a)	-	-	Renting	(2)	0	0
Time Retail Finance Limited (b)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
TIMFin S.p.A.	Italy	0.00%	51.00%	51.00%	-	Finance company	6	(2)	3
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%	89.99%	100.00%	100.00%	Telemarketing	11	(1)	9
Tornquist Asesores de Seguros S.A. (b)	Argentina	0.00%	99.99%	99.99%	99.99%	Advisory services	0	0	0
Totta (Ireland), PLC	Ireland	0.00%	99.86%	100.00%	100.00%	Finance company	451	9	450

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	% of ownership held by Banco Santander Indirect	% of voting power (d) Year 2020	% of voting power (d) Year 2019	Activity	EUR million (b) Capital + reserves	EUR million (b) Net results	EUR million (b) Carrying amount
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Real estate	127	1	100
Trabajando.com Mexico, S.A. de C.V. en liquidación (b)	Mexico	0.00%	100.00%	100.00%	99.87%	Services	0	0	0
Trabajando.com Perú S.A.C.	Peru	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(a)	-	-	Securitization	0	0	0
Trade Maps 3 Ireland Limited (b)	Ireland	-	(a)	-	-	Securitization	0	0	0
Trans Rotor Limited (b)	United Kingdom	100.00%	0.00%	100.00%	100.00%	Renting	7	0	5
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Leasing	62	5	17
Tresmares Growth Fund Santander, SCR, S.A.	Spain	100.00%	0.00%	100.00%	-	Holding company	1	0	1
Tresmares Santander Direct Lending, SICC, S.A.	Spain	99.60%	0.00%	99.60%	-	Fund management	149	0	148
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
Universia Chile S.A.	Chile	0.00%	86.84%	86.84%	86.84%	Internet	0	0	0
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	18	(9)	15
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%	100.00%	100.00%	99.73%	Internet	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Uro Property Holdings, SOCIMI, S.A.	Spain	99.99%	0.00%	99.99%	22.77%	Real estate	163	9	179
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Financial services	(937)	0	0
Wave Holdco, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	54	(16)	38
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	8	0	8
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	13	1	9

a. Amount according to the provisional books of each company at the date of publication of these annexes generally referring to 31 December 2020 without taking into account, where applicable, interim dividends paid during the year. In the carrying amount (cost net of provision), the Group's percentage ownership has been applied to the figure for each holding company, disregarding goodwill impairments made in the consolidation process. The figures for foreign companies are converted into euro at the year-end exchange rate.
b. Companies over which effective control is exercised.
c. Data as at 31 December 2019, latest available accounts.
d. Data as at 31 March 2020, latest available accounts.
e. Data as at 30 June 2020, latest available accounts.
f. Data as at 30 September 2020, latest available accounts.
g. Data as at 31 July 2020, latest available accounts.
h. Data as at 30 November 2020, latest available accounts.
i. Date as at 31 October 2020, latest available accounts.
j. Company in liquidation as at 31 December 2020.
k. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a Group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the share capital of the latter.
l. Company with Tax Residence in Spain.
m. See note 2.b.i.
n. Company with Tax Residence in the United Kingdom.
o. Company recently incorporated to the Group, with no available accounts.
p. Data as at 31 May 2020, latest available accounts.
q. Data as at 31 January 2020, latest available accounts.
r. Data as at 31 December 2004, latest available accounts.
1. The companies issuing preference shares and participating interests are listed in Annex III, together with other relevant information.

Appendix II

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Abra 1 Limited (f)	Caymand Island	-	(e)	-	-	Leasing	Joint venture	-	-	-
Achmea Tussenholding, B.V.	Netherlands	8.89%	0.00%	8.89%	-	Holding company	—	356	356	20
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	Payment and collection services	Associated	57	20	2
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	53	17	4
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	133	22	15
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (b)	Portugal	0.00%	19.97%	20.00%	20.00%	Inactive	—	0	0	0
Aguas de Fuensanta, S.A. (f)	Spain	36.78%	0.00%	36.78%	36.78%	Food	—	-	-	-
Alcuter 2, S.L. (f)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—	-	-	-
Altamira Asset Management, S.A.	Spain	0.00%	15.00%	15.00%	15.00%	Real estate	—	403	104	(42)
Apolo Fundo de Investimento em Direitos Creditórios	Brazil	0.00%	30.00%	33.33%	33.33%	Investment fund	Joint venture	565	519	46
Arena Communications Network, S.L. (consolidado)	Spain	20.00%	0.00%	20.00%	20.00%	Advertising	Associated	328	101	1
Attijariwafa Bank Société Anonyme (consolidado)	Morocco	0.00%	5.11%	5.11%	5.11%	Banking	—	48,831	4,307	637
Autopistas del Sol S.A.	Argentina	0.00%	14.17%	14.17%	14.17%	Motorway concession	—	154	104	(33)
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.	Poland	0.00%	6.74%	10.00%	10.00%	Pension fund management	—	107	99	24
Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	6.74%	10.00%	10.00%	Insurance	—	3,271	264	129
Banco RCI Brasil S.A.	Brazil	0.00%	35.90%	39.89%	39.89%	Banking	Joint venture	1,898	192	28
Banco S3 Caceis México, S.A., Institución de Banca Múltiple	Mexico	0.00%	50.00%	50.00%	50.00%	Banking	Joint venture	158	59	4

Santander

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance company	Associated	1,052	102	6
Bank of Shanghai Co., Ltd. (consolidado)	China	6.54%	0.00%	6.54%	6.54%	Banking	—	278,755	19,490	2,529
CACEIS (consolidado)	France	0.00%	30.50%	30.50%	30.50%	Custody services	Associated	120,704	4,020	189
Câmara Interbancária de Pagamentos - CIP	Brazil	0.00%	15.88%	17.65%	17.61%	Payment and collection services	—	253	171	28
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	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%	Payment and collection services	Associated	13	8	2
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A.	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	960	164	31
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	1,378	229	48
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%	8.37%	12.47%	12.45%	Financial services	Associated	29	12	1
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	Financial services	Joint venture	1	(1)	0
Compañía Española de Financiación de Desarrollo, Cofides, S.A., SME	Spain	20.18%	0.00%	20.18%	20.18%	Finance company	—	145	131	10
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado)	Spain	23.33%	0.55%	23.88%	23.88%	Credit insurance	—	927	351	24

Santander

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	Real estate	Associated	507	328	7
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (b)	Spain	21.98%	0.00%	21.98%	21.98%	Real estate development	—	38	(324)	0
Condesa Tubos, S.L.	Spain	32.21%	0.00%	36.21%	36.21%	Services	—	87	25	(1)
Connecting Visions Ecosystems, S.L.	Spain	19.90%	0.00%	19.90%	-	Consulting services	Joint venture	2	0	0
Corkfoc Cortiças, S.A.	Portugal	0.00%	27.54%	27.58%	27.58%	Cork industry	—	3	20	0
Corridor Texas Holdings LLC (consolidado)	United States	0.00%	36.30%	36.30%	33.60%	Holding company	—	185	170	(5)
Ebury Partners Limited (consolidado) (a)	United Kingdom	0.00%	45.45%	45.45%	6.39%	Payment services	Associated	445	28	(34)
Eko Energy Sp. z o.o (b)	Poland	0.00%	13.13%	22.00%	21.99%	Electricity production	—	0	(1)	1
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	Payment services	Associated	83	58	(12)
FAFER-Empreendimentos Urbanísticos e de Construção, S.A. (b)	Portugal	0.00%	36.57%	36.62%	36.62%	Real estate	—	0	1	0
Federal Reserve Bank of Boston	United States	0.00%	25.73%	25.73%	23.56%	Banking	—	89,406	1,440	51
Fondo de Titulización de Activos UCI 11	Spain	-	(e)	-	-	Securitizations	Joint venture	150	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(e)	-	-	Securitizations	Joint venture	406	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(e)	-	-	Securitizations	Joint venture	487	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(e)	-	-	Securitizations	Joint venture	678	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(e)	-	-	Securitizations	Joint venture	570	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(e)	-	-	Securitizations	Joint venture	85	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(e)	-	-	Securitizations	Joint venture	217	0	0
Fondo de Titulización, RMBS Prado II	Spain	-	(e)	-	-	Securitizations	Joint venture	387	0	0

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Fondo de Titulización, RMBS Prado III	Spain	-	(e)	-	-	Securitizations	Joint venture	321	0	0
Fondo de Titulización, RMBS Prado IV	Spain	-	(e)	-	-	Securitizations	Joint venture	318	0	0
Fondo de Titulización, RMBS Prado V	Spain	-	(e)	-	-	Securitizations	Joint venture	341	0	0
Fondo de Titulización, RMBS Prado VI	Spain	-	(e)	-	-	Securitizations	Joint venture	372	0	0
Fondo de Titulización, RMBS Prado VII	Spain	-	(e)	-	-	Securitizations	Joint venture	0	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	2,205	303	42
Fremman limited	United Kingdom	33.00%	0.00%	4.99%	-	Finance company	Associated	1	3	(3)
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	18.00%	20.00%	20.00%	Collection services	Joint venture	198	37	(15)
Gire S.A.	Argentina	0.00%	57.93%	58.33%	58.33%	Payment and collection services	Associated	123	22	12
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(e)	-	-	Securitizations	Joint venture	779	0	0
Healthy Neighborhoods Equity Fund I LP	United States	0.00%	22.37%	22.37%	22.37%	Real estate	—	14	14	(1)
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance company	Joint venture	3,787	256	45
Hyundai Corretora de Seguros Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance brokerage	Joint venture	0	0	0
Imperial Holding S.C.A. (b)	Luxemborg	0.00%	36.36%	36.36%	36.36%	Securities investment	—	0	(112)	0
Imperial Management S.à r.l. (b)	Luxemborg	0.00%	40.20%	40.20%	40.20%	Holding company	—	0	0	0
Índice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	Information system	Joint venture	1	(5)	(1)
Inmoalemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	Holding company	—	0	0	0
Innohub S.A.P.I. de C.V.	Mexico	0.00%	20.00%	20.00%	20.00%	IT services	Associated	2	4	(2)
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	0
Inversiones en Resorts Mediterraneos, S.L., en liquidación (b)	Spain	0.00%	43.28%	43.28%	43.28%	Real estate	Associated	0	(3)	1

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Inversiones Ibersuizas, S.A.	Spain	25.42%	0.00%	25.42%	25.42%	Venture capital	—	20	21	(1)
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated	297	297	37
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated	365	325	35
J.C. Flowers I L.P.	United States	0.00%	10.60%	0.00%	0.00%	Holding company	—	2	3	(1)
JCF AIV P L.P.	Canada	0.00%	7.67%	4.99%	4.99%	Holding company	—	4	4	0
LB Oprent, S.A.	Spain	38.33%	0.00%	38.33%	-	Industrial machinery rent	Associated	3	1	0
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.12%	35.70%	35.70%	Business services	Joint venture	6	3	(1)
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	Investment fund	Associated	107	101	1
Mapfre Santander Portugal - Companhia de Seguros, S.A.	Portugal	0.00%	49.94%	49.99%	100.00%	Insurance	Associated	14	9	(1)
Massachusetts Business Development Corp. (consolidado)	United States	0.00%	21.61%	21.61%	21.60%	Finance company	—	66	8	1
MB Capital Fund IV, LLC	United States	0.00%	21.51%	21.51%	21.51%	Finance company	—	23	18	2
Merlin Properties, SOCIMI, S.A. (consolidado)	Spain	19.00%	5.81%	24.81%	22.78%	Real estate investment	Associated	13,306	6,145	564
Metrovacesa, S.A. (consolidado)	Spain	31.94%	17.52%	49.45%	49.46%	Real estate development	Associated	2,679	2,345	(4)
New PEL S.à r.l. (b)	Luxemborg	0.00%	7.67%	0.00%	0.00%	Holding company	—	0	0	0
NIB Special Investors IV-A LP	Canada	0.00%	99.49%	4.99%	4.99%	Holding company	—	16	15	1
NIB Special Investors IV-B LP	Canada	0.00%	91.89%	4.99%	4.99%	Holding company	—	4	4	0
Niuco 15, S.L. (f)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—	-	-	-
Nowotna Farma Wiatrowa Sp. z o.o	Poland	0.00%	12.97%	21.73%	21.73%	Electricity production	—	92	12	8
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A.	Brazil	0.00%	18.17%	20.19%	20.19%	Technology	—	1	1	(1)

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
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 Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	Electricity production	Joint venture	24	1	0
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	Software	Associated	2	2	0
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.70%	50.00%	50.00%	Management	Associated	26	20	0
Popular Vida 2020, Compañía de Seguros y Reaseguros, S.A.U.	Spain	0.00%	49.00%	49.00%	-	Insurance	Joint venture	2,889	73	21
Procapital - Investimentos Imobiliários, S.A. (b)	Portugal	0.00%	39.96%	40.00%	40.00%	Real estate	—	2	13	0
Project Quasar Investments 2017, S.L. (consolidado)	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	—	9,435	3,870	(1,229)
Promontoria Manzana, S.A. (consolidado)	Spain	20.00%	0.00%	20.00%	20.00%	Holding company	Associated	1,126	353	(32)
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Joint venture	0	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	249	66	25
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	104	10	15
PSA UK Number 1 plc (b)	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	29	10	0
Redsys Servicios de Procesamiento, S.L. (consolidado)	Spain	20.00%	0.06%	20.06%	20.08%	Cards	Associated	105	69	2
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Joint venture	34	(43)	(1)
Rías Redbanc S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	Services	—	3	1	0
RMBS Green Belem I	Portugal	-	(e)	-	-	Securitizatio ns	Joint venture	362	0	0
Santander Assurance Solutions, S.A.	Spain	0.00%	73.99%	73.99%	-	Insurance intermediary	Joint venture	8	4	0
Santander Auto S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Associated	16	6	(1)
Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated	305	32	25
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated	115	50	14

Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity	Type of company	EUR million		
		Direct	Indirect	Year 2020	Year 2019			Capital + reserves	Net results	Carrying amount
Santander Caceis Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Securities investment	Joint venture	183	138	13
Santander Caceis Brasil Participações S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	154	140	14
Santander Caceis Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	8	9	(1)
Santander Caceis Latam Holding 1, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	714	714	0
Santander Caceis Latam Holding 2, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	2	2	0
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	657	207	22
Santander Mapfre Seguros y Reaseguros, S.A.	Spain	0.00%	49.99%	49.99%	49.99%	Insurance	Associated	45	35	(9)
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	816	371	38
Sepacon 31, S.L. (f)	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%	12.48%	Services	Associated	17	14	0
SIBS-SGPS, S.A.	Portugal	0.00%	16.52%	16.55%	16.56%	Portfolio management	—	148	67	10
Siguler Guff SBIC Fund LP	United States	0.00%	20.00%	20.00%	20.00%	Investment fund	—	2	2	(1)
Sistema de Tarjetas y Medios de Pago, S.A.	Spain	18.11%	0.00%	18.11%	18.11%	Payment methods	Associated	464	4	0
Sistemas Técnicos de Encofrados, S.A. (consolidado)	Spain	27.15%	0.00%	27.15%	27.15%	Building materials	—	97	7	7
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	45.70%	0.00%	45.70%	42.50%	Payment services	Joint venture	101	34	1
Sociedad de Garantía Recíproca de Santander, S.G.R.	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.	Spain	22.21%	0.00%	22.21%	22.21%	Financial services	—	31,470	1,177	(947)

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Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by Banco Santander		% of voting power (c)		Activity	Type of company	EUR million		
		Direct	Indirect	Year 2020	Year 2019			Capital + reserves	Net results	Carrying amount
Sociedad Española de Sistemas de Pago, S.A.	Spain	21.32%	0.00%	21.32%	21.32%	Payment services	—	11	9	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	Securities deposit	Associated	7	6	1
Solar Maritime Designated Activity Company	Ireland	-	(e)	-	-	Leasing	Joint venture	25	0	0
Stephens Ranch Wind Energy Holdco LLC (consolidado)	United States	0.00%	19.20%	19.20%	21.30%	Electricity production	—	210	209	(6)
Syntheo Limited (b)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Payment services	—	1	0	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Security	Associated	86	54	2
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Telecommunications	Associated	60	57	2
Tecnologia Bancária S.A.	Brazil	0.00%	17.83%	19.81%	19.81%	ATM	Associated	369	86	20
Teka Industrial, S.A. (consolidado)	Spain	0.00%	9.42%	9.42%	9.42%	Household appliances	—	938	167	(10)
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	Holding company	Joint venture	461	140	(65)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	Services	Associated	1	(2)	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associated	1,154	81	0
Tresmares Growth Fund II, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—	29	16	(2)
Tresmares Growth Fund III, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—	22	13	(1)
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Joint venture	424	62	10
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	1	(1)	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	Insurance brokerage	Joint venture	0	0	0
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate services	Joint venture	2	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	Finance company	Associated	371	87	23

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Societies of which Grupo Santander owns more than 5% (d) , entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (c)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage credit company	Joint venture	12,218	363	(25)
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	-	(e)	-	-	Securitizations	Joint venture	102	98	3
Volvo Car Financial Services UK Limited	United Kingdom	0.00%	50.00%	50.00%	-	Leasing	Joint venture	76	76	0
Webmotors S.A.	Brazil	0.00%	62.99%	70.00%	70.00%	Services	Joint venture	43	24	9
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	11,557	535	119
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	151	1	31
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	1,074	936	138
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	386	384	0
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated	1,679	1,490	165
Zurich Santander Seguros Argentina S.A.	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	38	8	12
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	240	36	34
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	236	47	15
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	780	144	97
Zurich Santander Seguros Uruguay S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	29	13	7

a. Amount according to the provisional books at the date of publication of these annexes of each company generally referring to 31 December 2020, unless otherwise indicated because the annual accounts have not yet been prepared. Data for foreign companies are converted into euros at the year-end exchange rate.

b. Data as at 31 December 2019, latest available accounts.

c. Data as at 31 December 2018, latest available accounts.

d. Grupo Santander has the right to receive 50.38% of the dividends distributed by the company.

e. Company in liquidation as at 31 December 2020.

f. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the capital of the latter.

g. Excluding the Group companies listed in Appendix I, as well as those which are of negligible interest with respect to the true and fair view that the consolidated accounts must express (in accordance with articles 48 of the Commercial Code and 260 of the Corporate Enterprises Act).

h. Companies over which joint control is maintained.

i. Data as at 31 October 2020, latest available accounts.

j. Data as at 30 June 2020, latest available accounts.

k. Company with no financial information available.

l. Data as at 30 November 2017, latest available accounts.

m. Data as at 30 April 2019, latest available accounts.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by Banco Santander			EUR million (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	4,552	(2,971)	55	19

a. Amount according to the books of each interim company as at 31 December 2020, converted into euro (in the case of foreign companies) at the year-end exchange rate.

Appendix IV

Notifications of acquisitions and disposals of investments in 2020 and 2019

(Article 155 of the Spanish Corporate Enterprises Act and article 125 of the Spanish Securities Market Law)

With respect to compliance with Article 125 of the Securities Market Law, no communications required under this article were made in 2020.

In relation to the information required by 155 of the Corporate Enterprises Act, on the shareholdings in which Grupo Santander owns more than 10% of the capital of another company, and the successive acquisitions of more than 5% of the share capital, see appendices I, II and III.

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.

Based on the provisions of the Transitional Provision 24th of Law 27/2014 on income eligible for the reinvestment of extraordinary profits provided for in article 42 of the previous Consolidated Text of the Corporation Tax Law, which states that such income shall be regulated by the provisions of the aforementioned article 42, and in particular compliance with paragraph 10 of that provision, which provides for the obligation to detail the amount of the income received from the deduction provided for in that Article, as well as the year in which the reinvestment took place, all of this as long as the period for maintaining the investment has not yet been met provided for in paragraph 8 of the aforementioned provision, the following information is collected concerning capital gains generated up to the financial year 2014, with a reinvestment period from the financial year 2014 to 2017.

The detailed information refers to both Banco Popular and other companies in its Fiscal Consolidated Group up to 2017, inclusive, which obtained income eligible for the reinvestment deduction and/or have made investments in assets referred to in Article 42 (3).

Amount of income received to the 12% deduction in 2017: EUR 21,333,543.67.

Reinvestments made in 2017: EUR 47,546,533.73.

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Appendix VI

List of Transactions subject to the Special Regime for Mergers, Divisions, Assets Contributions and Exchange of Securities in which the company has acted as an Acquiring Entity or Partner

In compliance with the reporting obligations established in Article 86 of Law 27/2014, of 27 November, on Corporate Tax (LIS), the following information is provided on the transactions subject to the tax regime of mergers, divisions, contributions of assets and exchange of securities, provided for in Chapter VII of Title VII of the LIS, in which BANCO SANTANDER, S.A. has intervened during the financial year 2020:

I. According to Article 86 (1) of the LIS, it is reported that the company BANCO SANTANDER, S.A. has intervened as an acquirer in the following transactions:

- Merger by absorption of SANTANDER GLOBAL PROPERTY, S.L.U., INMOBILIARIA VIAGRACIA, S.A.U. and BPE FINANCIACIONES, S.A.U., by the company BANCO SANTANDER, S.A. which held all the shares of the entities absorbed. This transaction constitutes a merger of those regulated in Article 76.1 (c) of the LIS. The information required in Article 86.1 of the LIS is incorporated into this report.

II. According to Article 86 (2) of the LIS, it is reported that BANCO SANTANDER, S.A. has intervened as a partner in the following operations:

- Merger by absorption of INMO FRANCIA 2, S.A. by INVERSIONES CAPITAL GLOBAL S.A.U.. This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from INMO FRANCIA 2, S.A. was EUR 51,465,595.23, while their tax value amounted to EUR 55,596,316,14. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity INVERSIONES CAPITAL GLOBAL S.A.U. is EUR 51,465,595.23.

- Merger by absorption of SANTANDER OPERACIONES ESPAÑA, S.L.U. by SANTANDER TECNOLOGÍA ESPAÑA This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from SANTANDER OPERACIONES ESPAÑA, S.L.U. was EUR 15,153,569.86, while their tax value amounted to EUR 33,003,261.91. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity SANTANDER TECNOLOGÍA ESPAÑA S.L.U. is EUR 15,153,569.86.

- Merger by absorption of ALISEDA REAL ESTATE, S.A. by ALTAMIRA SANTANDER REAL ESTATE, S.A.U.. This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from ALISEDA REAL ESTATE, S.A. was EUR 0, while their tax value amounted to EUR 50,060,000.00. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity ALTAMIRA SANTANDER REAL ESTATE, S.A.U. is EUR 0.

- Exchange of securities regulated in Article 76.5 of the LIS whereby PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) acquires the majority of voting rights in the entities PagoNxt MERCHANT SOLUTIONS, S.L. (before SANTANDER MERCHANT PLATFORM SOLUTIONS, S.L.) and MONEYBIT, S.L. by attribution to its partner BANCO SANTANDER, S.A. securities of the acquiring institution. The book value for which BANCO SANTANDER, S.A. had the securities delivered from PagoNxt (before MERCHANT SOLUTIONS, S.L.) and MONEYBIT, S.L. was EUR 137,105,367.00 and EUR 29,472,320, while its tax value was EUR 150.275,836.09 and EUR 30.521,875,07, respectively. The value for which BANCO SANTANDER, S.A. has accounted for the securities received from PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) is EUR 166.577,687.00.

- Exchange of securities regulated in Article 76.5 of the LIS whereby PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) acquires most of the voting rights in the entities PAGOFX HOLDCO, S.L. by attributing its partner BANCO SANTANDER, S.A., representative securities of the acquiring entity. The book value for which BANCO SANTANDER, S.A. had the securities delivered from PAGOFX HOLDCO, S.L. accounted for was EUR 33,616,460,00, while its tax value amounted to EUR 49.876.702.55, The value for which BANCO SANTANDER, S.A. has accounted for the securities received from PagoNxt MERCHANT SOLUTIONS, S.L. is EUR 33,616,460,00.

- Complete the non-cash contribution of all assets, liabilities, rights, obligations and expectations that included the branch of activity of the real estate business on the land by BANCO SANTANDER, S.A., ALTAMIRA SANTANDER REAL ESTATE, S.A. and ALISEDA REAL ESTATE, S.A., to which SANTANDER CONSUMER EFC, S.A., SANTANDER LEASE EFC, S.A., to the entity LANDCOMPANY 2020, S.L. (formerly LANDMARK IBERIA, S.L.) This transaction constitutes a non-cash contribution from the branch of activity of those covered by Article 76.3 of the LIS and did not benefit from the scheme provided for in Article 77.1 of that rule. The net value of the assets and liabilities for the industry contributed amounts to EUR 31,980,681.69. The value for which BANCO SANTANDER, S.A. has counted securities received from LANDCOMPANY 2020, S.L. is EUR 31,980.681.69.

– Non-cash contribution of goods by BANCO SANTANDER, S.A., ALTAMIRA SANTANDER REAL ESTATE, S.A. and ALISEDA REAL ESTATE, S.A. to the entity LANDCOMPANY 2020, S.L. (formerly LANDMARK IBERIA, S.L.) This transaction constitutes a non-monetary contribution of those covered by Article 87 of the LIS and did not benefit from the scheme provided for in Article 77.1 of that rule. The net value of the goods provided is 1,488,372.00€. The value for which BANCO SANTANDER, S.A. has counted the securities received from LANDCOMPANY 2020, S.L. is EUR 1,488.372.00.

III. In compliance with Article 86.3 of the LIS, it is noted that the particulars required by Article 86 (1) and (2) relating to transactions subject to the tax regime for mergers, divisions, contributions of assets and exchange of securities provided for in Chapter VII of Title VII of the LIS, in which BANCO SANTANDER , S.A. has intervened as an acquirer or as a partner during previous years, they are listed in the first annual report approved after each of the aforementioned operations.

Appendix VII

Information to include in compliance with Article 12.3 of the TRLIS

Attached is the information requested in Article 12.3 of the Consolidated Text approving the Law on Corporation Tax in accordance with the wording established by Law 4/2008 of 23 December, with effect for the tax periods that began from January 1, 2008, until its repeal by Law 16/2013 of 29 October:

EUR million

	2020				
Participated entities	Deducted in previous years	Change own funds for the attributable year	Deduction or integration of the financial year	RDL Integration 3/2016	Deduction pending integration
Santander Ahorro Inmobiliario 2, S.A.	(1)	—	—	(1)	—
Santander Private Banking s.p.a. in Liquidazione	(9)	—	—	9	—
TOTALS	**(10)**	**—**	**—**	**10**	**—**

Appendix VIII

Information concerning the merger by absorption of Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.U. and BPE Financiaciones, S.A.U., according to Article 86.1 of Law 27/2014 on Corporate Tax.

a. A year in which the transferring entity acquired the transferred assets that are liable to amortization.

EUR Thousand

	Real Estate Viagracia, S.A.U.		
Year acquisition	Cost	Accumulated depreciation	Net book value
1992	110	51	59
2001	69	7	62
2011	94	54	40
2014	5,916	427	5,489
2015	2,040	88	1,952
TOTALS	**8,229**	**627**	**7,602**

There are no assets in Santander Global Property, S.L.U. and BPE Financiaciones, S.A.U. entities that are subject to amortization.

b. Last balance sheet closed by transmitting entities.

The latest balance sheets of transmitting entities are contained in note 1.i.

c. A list of assets acquired which have been incorporated into the accounting books for a value other than the value listed in the transferring entity prior to the completion of the transaction, expressing both values as well as the value corrections made in the accounting books of the two entities.

There are no goods of this nature.

d. List of tax profits enjoyed by the transferring entity, for which the acquiring entity must assume compliance with certain requirements.

There are no tax benefits in the transferring entity over which Banco Santander, S.A. must assume compliance with certain requirements.

Appendix IX

Agent network - Collaborating agents, Agents empowered at 31 of December 2020.

JUAN SOTELO LORENZO
CARLOS GAVIN LORIENTE
NEOBAN SL
ROSA MARIA BLAY PASCUAL
JUAN MARINO JUAREZ GARCIA
YOLANDA ALVAREZ RODRIGUEZ
JAVIER TERAN CAMUS
DAVID GONZALEZ SANZ
OLGA LLORENTE DA COSTA
HELLEN JANETH MENDEZ MURCIA
LUIS MIGUEL BERNAL CAMPOS
MARIA LUISA VALIENTE LORENZO
MARIA ANTONIA ROVIROSA PIÑOL
OSCAR MANUEL ALFAGEME MARTIN
ROBERTO MARTIN RIVERO
SAUL ANTONIO TOVAR ASENSIO
PATRICIA FRIERO BRAGADO
SOLEDAD GALAN FREJO
MARIA DE LA LUZ PEREZ RAMOS
MIGUEL JOSE MALAVE FERNANDEZ
GERENCIA & DESARROLLO DE SUCURSALES S.L.
MIGUEL ANGEL FUENTE REGO
MARIA JOSE SALGADO ALVAREZ
SALVADOR CEA PEREZ
CRISTINA TORIJA PRIETO
ANABEL SANCHEZ MARTIN
FRANCISCO JAVIER MARTINEZ FERNANDEZ
ALEXANDRE DELGADO CASEIRO
RAFAEL ROMERO RODRIGUEZ
HECTOR DIAZ DIEZ
CECILIO ALVARADO GARCIA
CRISTINA PURROY CASTELLO
ANTONIO GUILLEN RAMIREZ
MARIA ANGELES RODRIGUEZ DIAZ
JOSE MANUEL BRUNA CEREZO
MONICA ALVAREZ ALVAREZ
MARIA VISITACION BECARES MARTINEZ
OLGA MARIA SANCHO ARASA
MIGUEL ANGEL ORTIZ DE MIGUEL
ANTONIO SANCHEZ ARGÜELLES
EDUARD MAS POMES
LUIS MIGUEL VEGA JANILLO
JOSEFA ALBERO TORRES
MARIA PILAR UROZ PASCUAL
MARIA DOLORES MORERA SOLA
CESAR RODRIGUEZ SOTELO
MANSANET RIPOLL SL
HECTOR EDO ALEGRE
JOSE MANUEL HORNERO HORNERO
SANCHEZ CHAPARRO, S.L.
ANTONI MONSO BONET
PEDRO MARIA MARINA MEDRANO
JUAN MIGUEL GOMEZ LOPEZ
EQUITY CONSULTING FINANCIERO, S.L.
JOSE IGNACIO BORDALLO MEDINA
EMILIO MARTIN LANCHAS
MONICA CANO CANO
MARIA SASTRE GONZALEZ
ELVIRA BORRALLO SANCHEZ
JAVIER GONZALVEZ BOTELLA
ALCARRAZ PERALTA, S.L.
0880 SANTANDER SANTIBAÑEZ, S.L.
PATRICIA GUIJO LOZANO
PABLO HERRERO ALONSO
MARIA LUZ IMIA RIVERA
JOSE LUIS EXPOSITO PITA
ANA BELEN PAMPLONA CALAHORRA
JUSTO SANCHEZ HERNANDEZ
JAVIER GURIDI EZQUERRO
ANGEL MOLLEDA VELEZ
ELVIRA DE CASTRO FERNANDEZ
MARIA VICENTA VIDAL VICENT
PAULA EIRIZ OTERO
CARLOS MESA DIEZ
MANUELA BUERA GILABERT
MATEU & SANTANDER, S.L.
ALEJANDRA SANCHEZ JUAN
MARIA MANUELA SANCHEZ CASTAÑO
OSCAR RODRIGUEZ ROMERO
BIERTEC ENERGY SL
CONCEPCION ISOLINA SOMOZA CALVIÑO
DAVID RUIZ MARCHESE
LUIS ALFONSO MARTINEZ JIMENEZ
ALBERTO RIAÑO MOROCHO
ARCADIO SAEZ SANZ
ISABEL CARMEN DOMINGUEZ ZANON
MERCEDES GARCIA DURAN
MARIA PILAR FERNANDEZ CARRASCO
ENRIQUE CHACON FERNANDEZ
PATRICIA SOUTO LOPEZ
OSCAR PARDAL ANIDO
MARIA DE LOS ANGELES ESCUDERO ORTEGA
FRANCISCO JAVIER ARTEAGA LOPEZ
RAUL DE PABLO DEL OLMO
JOSE ANTONIO LOPEZ LOPEZ
FRANCISCO ALBARRÁN PELAYO
RAQUEL BARBA ARRANZ
JOSE LUIS COUCEIRO DORELLE
CECILIO PARRO CORTES
LOURDES IGLESIAS ALONSO
RAFAEL SALGUERO VARGAS
JAIME RIVERO CALVO
1321 SANTANDER LA ALBERCA S.L.
JOSE JOAQUIN DELGADO EGIDO
VICTOR TOME LLANOS
VANESSA SORO GINER
MARIA AFRICA CARDIEL COLL
NOELIA SANCHEZ SANCHEZ
MARIA ELENA TREMPS ALDEA
LIDIA RIVAS JODAR
FRANCISCO FLORES ROMERO
MARIA DE LOS ANGELES RODRIGO GUTIERREZ
MIGUEL GUERRERO RODRIGUEZ
ARREAZA SERVICIOS FINANCIEROS, S.L.
LIDYA FERNANDEZ AMURRIO
SERBAN AGUIÑO S.L.
MARIA VICTORIA IGLESIAS MATEOS
ROSA ESTHER COSTA NOGUERA
MONTSERRAT SABATE BORRELL
MARIA BELEN SANTAMARIA GRAU
MAXIMO PLUMED LUCAS
OSCAR SOTELO SALINAS
MARIA ROSA AMPARO BLAZQUEZ FRAILE
JOSE ALFONSO FUENTE PARGA
MARIA FERNANDEZ DE LA UZ
NATALIA DIOS OUTEDA
ARACELI GONZALEZ GONZALEZ
VANESSA VAZQUEZ RODRIGUEZ
MARIA DEL ROSARIO ALVAREZ LORENZO
NAVARRETE GESTION 2018 SL
BEATRIZ LOPEZ MONTEJO

CARLOS ARCAS CHECA
FRANCISCO JAVIER AURENSANZ MARCEN
ALBERTO ANDION ACEDOS
RAQUEL GAVELA SANCHEZ
Bierfinantec S.L.
ÓRDAS CASADO S.L.
MARTA ISABEL MARTINEZ ESCOBAR
ROGER BELLET SANJUAN
JUAN MIGUEL ALFARO GONZALEZ
MARIA DEL CARMEN CARBALLO GOMEZ
ANGELA MUÑIZ ARROJO
JESUS MAILLO NIETO
ANDREA PRATS SEGURA
MARIA LETICIA GUTIERREZ SANZ
CARLOS ALBERTO PALACIOS MARTIN
VICENTE MANUEL MARTI SEGARRA
JOSE IGNACIO CANTO PEREZ
RAFAEL BELLMUNT BELLMUNT
JAIME BENLLOCH GRIMALT
FERNANDO DONET ALBEROLA
LORENA MARI PUERTA
YOLANDA CASTILLO VILA
MARIA TERESA BROCH RUBERT
SILVANA JAIME GARCES
FERNANDO ENRIQUE RODRIGUEZ PEREZ
ALBERTO SANTIAGO LLORENTE MARTINEZ
ANGELA FIGAROLA TARDIU
FELIX ALFONSO TORRADO DIAZ
MARIA EVA NUÑEZ GONZALEZ
JOSE ANTONIO ESCUDERO ORTEGA
JOAQUIN GALVEZ RODRIGUEZ
CRISTOPHER DIAZ MUÑOZ
ALBERTO LOPEZ CARDENAS
LARA & RAUL ASOCIADOS S.L.
JUCAR ASESORES, S.L.
FRANCISCO JIMENEZ PERALVAREZ
JOAN FELIU PUIGVERT
RAFAEL JESUS VILLARREAL ARIZA
SARA GIL LECHADO
ALEXANDRE COLL QUINTANA
ISABEL OLMO VIBORAS
ENRIQUE JUAN MARTINEZ PEREZ
CARBALLO & CARO 2019, S.L.
JUAN ROSSELLO AMENGUAL
PABLO GODAYOL RUIZ
DAVID RIDER JIMENEZ
LIDIA CARRASCO MARIN
OSCAR CAUDELI BOLO
ERNESTO MARTINEZ FERNANDEZ
MIRIAM PEREZ SORIA
ALVARO DELGADO DE MENDOZA CORTES
BRIGIDA MARIA ROMERO SALADO

FRANCISCA MARIA LOPEZ PEREZ
ANA MARIA RODRIGUEZ MORENO
MARIA CARMEN CEREIJO VARGAS
MARIA PILAR ALMARAZ FERNANDEZ
MARIA TERESA SALGADO RODRIGUEZ
ALFREDO ROLDAN FERNANDEZ
JUAN JOSE GISBERT FERRERES
JOSE MANUEL MARTINEZ MILLAN
MARIA VICTORIA DURAN ALVEZ
MIGUEL ANGEL MARTIN ISERTE
MADRIGAL FINANCIERO SL
BEATRIZ GALLEGO MARTIN
AGUSTI MONTANE DELCOR
JOSE RAMON DOMONTE RODRIGUEZ
MARIA ANGELES GONZÁLEZ IBÁÑEZ
JESUS CANTON GONZALEZ
EUSEBIO PASTRANA CASADO
MARIA CAMINO BUENAGA PEÑA
SONIA LANDROVE MARTINEZ
VANESA VEGA BLANCO
GALIMANY&MORILLO S.L.
MARIA PRAXEDES FRANCISCO FERNANDEZ
MARIA DEL PILAR RAMIREZ DIEZ
ALICIA ESTEBAN GARRIDO
BARBARA FARIÑA REBOREDO
MARIA HERNANDEZ ALONSO
RUBEN LOPEZ CARMONA
MAYKA GONZALEZ HEREDIA
AYZA FINANZAS S.L.
S & G SERVICIOS FINANCIEROS Y CONTABLES S L
CRISTINA GONZALEZ MARTIN
CARMEN MARIA MARTINEZ BOHORQUEZ
LIDIA MONTILLA GONZALEZ
ROSA ARCE LANDETE
LUIS FERNANDO ANDRES VILLALBA
MARIA SALOME DE LA ROSA DIEZ
MARIA MERCEDES RIERA RIERA
SONIA BELLMUNT SAURA
LANZA MENDOZA GESTION FINANCIERA, S.L.
LOURDES GIMENO TIRADO
GEMMA ARRUFAT RAFALES
JOSE GABRIEL PASTOR MANZANO
DIEGO CARCAS SANCHEZ
SONSOLES RIVERO HERNANDEZ
MARIA CARMEN GONZALEZ BARRAL
MARIA NIEVES RODRIGUEZ CARTON
FEDERICO SOROLLA LLAQUET
IRENE ABIZANDA VAL
JOAN ANDREU GABARRI LLOP
FERNANDO AREVALO GOMEZ
TERESA ROLDAN QUINQUER

JORGE ALONSO ARRIBAS
JOSEFA SIMON YEBENES
MARIA TERESA FRUTOS BERNAL
ANTONIO BERNAL MERINO
ASUNCION MATEOS PASCUAL
MARIA ELENA BRAVO SAN INOCENTE
FELIPE CHILLARON CASTILLO
SONIA ARNAO VILLANUEVA
JAVIER GUTIERREZ ARAGON
MARIA JOSE AUSEJO MARTINEZ
2927 GESTION SANTANDER SL
ANA MARIA GARCIA DOMINGUEZ
MANUEL BARRIGA DORADO
SAUSOLUCIONS SL
ASIS DE FEREZ S.L.
FERNANDO GONZALEZ SANCHEZ
MARIA AURORA TORRES GARCIA
JUANA MARTINEZ MARTINEZ
MARIA DE LOS ANGELES CABALLERO DURAN
INMACULADA TORRES BERMUDEZ
LAURA MARTINEZ ZUBIRI
ALVARO MOLINER ABADIA
CARLOS MORENO LOPEZ SOLORZANO
YEBEGEST S.L.
40165 AGENTE COLABORADOR PRADENA, S.L.
CARLOS PEREZ IÑIGO
ROSA MARIA CARMONA HIDALGO
CORDOBESA DE INVERSIONES PUNTAS LEÓN S.L.
JESSICA MARIA SEGADOR RISCO
AAFF RUTE S.L.
FINANTOR 2017, S.L.
ANDONI ABRIL GOICOECHEA
ROLARG SERVICIOS FINANCIEROS, S.L.
BURMA AGENTES FINANCIEROS S.L.
ITURISSA PRODUCTOS FINANCIEROS S.L.U.
MONICA CARRANZA S.L.U.
TINTO SANTA ROSA S.L.
ALBA SANCHEZ MATEOS
MARIA INES VALCUENDE GARMON
SERSAF S.L.
FINANCIACIONES LAS CABEZAS SL
BOPECON INVERSIONES S.L.
CHARUMA S.L.
ELENA FERNANDEZ ORTIGOSA
CETINVE, S.L.
PEDRO CONDE DIEZ
CLARA POO GARCIA
JOLUANCA 2006 S.L.
TREZAVILLA SLU
FINANSANDO S.L

SANPIBO SL

NUBARPOL S.L.

ALEJANDRO GOMEZ CORRALES

MARIA ANGELICA RODRIGUEZ OLIVEROS

CRISTINA LOPEZ GRANADO

ESTEVE UTSET BADIELLA

EDUARD RAMON NADEU ABENOZA

ANA MARIA RODRIGUEZ VARGAS

CRISTOBAL NAVARRO DE VEGA

JUAN MARIA VALDES MARTIN

VIRGINIA LEDESMA ARCOS

SERVICIOS FINANCIEROS SANLO, S.L.

GRANDERSAN SLU

FRANCISCO MUÑOZ PUERTO

VINUESA & MOCHON 2014, S.L.L.

ISMAEL PALACIOS AGUDO

ISAMER FINANCIEROS S.L.

AGUSTINA AGUDO FRANCIA

JIA AGENTS SL

ABU ROAD, S.L.

ALBERO PAYA FINANCIEROS, S.L.

RODRIGUEZ CALS FINANCIERA S.L.

GESTIÓN FINANCIERA MALACITANA 2007 S.L.

RC 2007 FINANCIEROS SL

IGNACIO MARIA ANTOLIN FERNANDEZ

ESTEPONA FINANCIEROS, S.L.

BNT 2008 AGENTES FINANCIEROS SL

ASESORAMIENTOS FINANCIEROS TEM 2012, S.L.L.

JULIANA BERLANA DEL POZO

SERVICIOS FINANCIEROS CERES SL

ANXO VAZQUEZ BLANCO

EVA LEON BELINCHON

MARIA VICTORIA SAN ROMAN FERNANDEZ

NOELIA SANZ VILLARREAL

DRIMTY S.L.

VERIS SERVICIOS FINANCIEROS S.L.

TRAMYGEST FINANCIERA S.L.

SAVINGS ELX 2014, S.L.

ERNESTO DAIMAN MARQUES ASENSIO

ASEMAR FINANCIERA, S.L.

GESTIONES FINANCIERAS FERRER Y GARCIA 2015, S.L.

JORGE APARICIO GONZALEZ

ANA ISABEL MONTULL CACHO

AGENTES XIRIVELLA, S.L.

AGENCIA FINANCIERA ANNA FRANCO, S.L.

HOTRARESCON SL

OSCAR MANUEL MATA VIDAL

DANIEL NAVAS ALONSO

DOLORES MARIA RAMIREZ PEREA

MARIA MERCEDES GARCIA SANTANA

VIMAGARMA A.F. SL

JUAN MANUEL MARTIN DURAN

LASTRAS AGENTE FINANCIERO SLP

RUSALEA FINANCE, S.L.

REYES MARTIN MORENO

ZONA 4 SERVICIOS FINANCIEROS S.R.L.

BUZABRIN, S.L.

MIGUEL ANGEL CASASOLA CASASOLA

MARIA DOLORES ROCA BLANCH

DE-TWO Y MAS INVESTMENT SERVICES S.L.

COFARESA SERVICIOS FINANCIEROS COMPLEMENTARIOS, S.A.U.

G.S.G. GRUPO CORPORATIVO DE SERVICIOS S.L.

MIRIAM GARCIA ALFARO

ANGELA MAGDALENO GONZALEZ

RAMON DANIEL MUNUERA SANZ

BANFORTUNIA S.L.

SOLUCIONES DE PATRIMONIO E INVERSIÓN, S.L.

TABULA AGO,S.L.

DAMIÁ RIERA ALBAREDA

MIRIAM JIMENEZ GARCIA

OFISFIN S.L.

MARTA GONZALEZ CUESTA

JOSE MANUEL AMEAL MAS

MARIA LUISA VALIÑO IGLESIAS

ALBERTO MORAN PEREZ

MARIA JESUS MONROY CARNERO

DIPTOS, S.L.

EDUARDO GONZALEZ MARTIN

PILAR UREÑA QUEROL

ALBARRAN FIGAL S.L.

AA FF NV FINANCERA 2018 SL

PEDRO CARO CANO

GONZALO PEREZ JOSE

GESTION INVERGARA S.L.

MARTI FORTUNY PLANAS

MARIA ELISA ROSON FERRERO

MARTA HERNANDEZ PEREZ

ANA MARIA SIERRA HERNANDEZ

47193 SANTANDER LA CISTERNIGA, S.L.

A.C. SANTOVENIA DE PISUERGA SL.

MARIA DE RUS MONTERO ORTEGA

AGUEDA MARTIN RAMIREZ

ROCIO NAVARRETE MARTÍNEZ

FINANZAS SAN ANDRÉS S.L.

FRANCISCO JOSE LOPEZ SILVENTE

ALBALATE SERVICIOS FINANCIEROS Y DE GESTION

EVA CASAHUGA FUSET

MARTA GARRIDO FERNANDEZ

ROSA MARIA LOPEZ GOMEZ

SOLEDAD LAMBERTO GARCIA

SISMOINT, S.L.

EMA VILATORRADA 2007, S.L.

ALMA 812 S.L

ANTONIO DE PADUA BELLAUBI MIRO

MARIA FERNANDEZ RUFO

MATARÓ ASESORES LEGALES Y TRIBUTARIOS, S.L.

ANTONIO TORRES LOZANO

BANEST BLANES, S.L.

MARIA DE LAS NIEVES CALDERON IZQUIERDO

AINOA LORAS COLL

Glinkgo Biloba Properties S.L.

JORGE JAVIER SANCHEZ SECO

BEATRIZ GARRIDO SANTANDER S.L.

SERVEIS FINANCERS DE BANYOLES, S.L.

PUNT FINANCER GESTIO I ASSESSORAMENT, S.L.

FRANQUICIES BELL-LLOCH, S.L.

ALEXANDRE UTSET BADIELLA

ANA MARIA JIMENEZ AGUAYO

CRISTINA HUERTOS CABEZA

JAVIER COBO GARCIA

INVERSIONES TERRA FERMA, S.L.

FINANCERES ARO, S.L.

FRANQUICIES FINANCERES LLEIDA S.L.

GRUP BBR GESTIO PRIVADA, S.L.

24198 SANTANDER LA VIRGEN DEL CAMINO, S.L.

GAGO Y SOUTO FINANCIAL SERVICES S.L.

IVAN GUIU FARRE

JOSE MARIA CABERO MATA

MARMA MALLORCA, S.L.

PILAR RIVAS BOTELLA

GESBANCYL, S.L.

PAOLA GARCIA NUÑEZ

JAVIER PONTANILLA MARTINEZ

JOSE BERZAL MIGUEL

CARLA SANJULIAN MENDEZ

4079 SANTANDER-SACRAMENIA S.L.

AGENCIA FINANCIERA ULLOA S.L.

MARTA FAUS BLANES

SERCOM ASFICO AGENTES FINANCIEROS, S.L.

MEDA FINANCIERA, S.L.

INTERMEDIACION FINANCIERA RIAS BAIXAS, SLL

BUSINESS AND PERSONAL SERVICE S.A.

LAP ASTURIAS S.L.

GONZALEZ Y NAVES, S.L.

JOSE MANUEL CAPON FERNANDEZ
JOSE SANTAMARIA CABRERA
MARIA CORO DOMINGUEZ ALFAYA
ALEIX SUBIRA SOLER
VANESA GONZALEZ VILA
MARIA MARTINA GONZALEZ ANDRADE
OIHANE AICUA RODRIGUEZ
MIGUEL LLANO ABAITUA
PAU FONT RODES
MONTSERRAT OLIVA MANDAÑA
MARTA ZAMBRANO PEREZ
LORENZO BARREIRA VIA
ÓSCAR NÚÑEZ PUGA
FELIX CARPINTERO DELEITO
GESTIONES MORENO E HIJOS S.L.
ELENA GOMIS MARSAL
JUAN JOSE DURAN AGUNDEZ
JOSE LUIS HERNANDEZ-SONSECA MIRANDA
INVERSIONS RIBAGORÇA S.L.
TANIA GELPI ESCANDIL
JORDI BRULL MARGALEF
BBR BATEA GROUP S.L.
AAFF OLESA 2019,S.L.
SUSANA DONAT DE LA CRUZ
MANUEL GARCIA MONTOLIO
BELEN PALACIO TORRES
JULIAN HERNANDEZ RANZ
JOSE CARLOS VENERO TANCO
MIGUEL RODRIGUEZ GARCIA
JOSE MARIA MANZANO CIDONCHA
PEDRO MANUEL BALSERA GARCIA
JOSE CARLOS GARCIA SANCHEZ
RAQUEL BARRERO GORDILLO
ELENA DIAZ FERNANDEZ
ANA MARIA MORALES NUÑEZ
ANGEL LUIS GIL PEÑA
NOEMI VIVAS SANCHEZ
ALMUDENA GARCIA SANCHEZ
PATRICIA ACOSTA SERRADILLA
PILAR VILA AYERBE
DAVID GONZALEZ BECEIRO
JOSE MANUEL FURELOS FERREIRA
ANGELINA CUESTA BERAMENDI
ALEJANDRO PIÑOL PEREZ
NURIA VAZQUEZ YAÑEZ
LETICIA MARÍA MARTINEZ ABAD
JOSE CARLOS LOZANO CANO
LUIS JAVIER NAVARRO SIMON
MARIA TRINIDAD SORIANO RAMIREZ
JUAN MONTERO RODENAS
GREGORIO LEAL MORALEDA
SUSANA MARIA JOVANI BELTRAN
MARIA PAZ CULEBRAS RAMOS
LUCIA PEREZ CUELLAR
DAVID MOYA LUCAS
AROA GOMEZ LOZANO
MARTA TRIGUERO RUIZ
DIEGO GALLEGO VALVERDE
ANGELA ZURITA MARTINEZ
GEMMA GUTIERREZ BAJO
MARTA LUJAN FERNANDEZ
ANTONIO MARIN VALIENTE
PEDRO CUESTA BAUTISTA
MARIA EUGENIA DE LA CRUZ DE LA ROSA
SARA PULIDO PANADERO
JESUS ALVARADO CAMARA
MIGUEL MORENO ALONSO
MARIA LUISA SANGUINO GUTIERREZ
ANTONIO ALFONSO HERRERA RAMIREZ
MARIA DEL CARMEN GONZALEZ SANCHEZ
MARIA DEL PILAR MARTIN SANCHEZ
MARIA PILAR PEREZ NAVARRO
GONZALO PRIEGO LOPEZ
ROBERTO BLANCO GARCIA
ALEJANDRO GARCIA GUERRERO
AGURTZANE ITZIAR AGUIRRE COLECHA
AINARA GONZALEZ ANGULO
IÑIGO MARTINEZ GARCIA
BRUNO MARTIN GARCIA
JOSE JOAQUIN APARISI GRAU
MIGUEL GARCIA TAPIA
JUAN HERNANDEZ DE TORRES
JESUS MATEO HIDALGO MARTIN
SERGIO GONZALEZ PALACIO
ANPADU INVERSIONES, S.L.
MARIA-TERESA JIMENEZ PACIOS
MARIA EUGENIA GONZALEZ SANCHEZ
MARIA DANIELA URUÑUELA NAJERA
JOSE JAVIER MAZUELA CREGO
RUBEN TRAVER SALES
VICTOR JIMENEZ VERANO
ANTONIO CEREZUELA RUIZ
Oliver Labarta S.L.
6155 SANTANDER LEDESMA, S.L.
FRANCISCO JOSE GARCIA MORA
ENCARNACION BONILLA MARTINEZ
MARIO ALVAREZ RUANO
MULTIALGAIDA, S.L.
MARIA LUISA PEREZ GUILLEN
CRISTINA NADALES PEREZ
JUAN DIEGO PALACIOS GARCIA
MARIA DEL MAR CARRETERO FERNANDEZ
SERVICIOS FINANCIEROS PEDRO ABAD, S.L.
FRANCISCO JOAQUIN LOPEZ RUIZ
JOSE MARIN PEREZ
JUAN CARLOS GOMEZ GARCIA
FANDILA GARCIA MOLINA
MARIA PAZ IBARRA RECHE
JOSE MANUEL GUEVARA GONZALEZ
INGRID QUILES SANCHEZ
SERVICIOS FINANCIEROS DEL CONDADO S.L.U.
ASESORIA GESTION GLOBAL S.L.
ANA MARIA DIAZ SANTANA
NURIA MONTERO GONZALEZ
MARIA ISABEL GARCIA GONZALEZ
MARIA ISABEL RAMIREZ RODRIGUEZ
MARIA ASUNCION PALOMARES RUIZ
NURIA FERNANDEZ REYES
MARIA DEL PILAR PLAZA MUÑOZ
MARIA JOSE CHARNECO HERRERO
FRANCISCA MARQUEZ CONTRERAS
RAFAEL TORRUBIA ORTIGOSA
CARMEN PINTO DIAZ
ELISABET PUGA JODAR
LOURDES ROMERO LOPEZ
REQUERTILLO, S.L.
JORGE BARRERA PEREZ
SUSANA CASADO FERRERO
SERVICIOS INTEGRALES DOÑANA S.L.
MARIA DOLORES MORIANA RODRIGUEZ
ANA MARIA RUBIO PALACIOS
ELSA TORRES MOLINA
ROSA ANA FATAS LAPLANA
LAURA ALTABA ASENJO
MARIA TERESA MARTIN MUNIESA
JOSE DANIEL GARCES VIRGOS
ADRIAN MILIAN GONZALEZ
INTERMEDIACION NASARRE S.L.
JESUS QUINTANA MAULEON
PASCUAL HIGINIO DOMINGO PEÑA
CLARA URGEL CASEDAS
VERONICA REMIRO BASANTA
MARIA MERCEDES SALAS BAENA
JOSE IGNACIO GUTIERREZ GUTIERREZ
LUCAS RIVAS PORTILLO
JOSE MARIA ANTON GARCIA
MARIA ESTHER FERRANDEZ PARDOS

RICARDO PIÑERO GARCIA
JUAN CARBONELL SOCIAS S.L.
FRANCISCO CASTILLO CONTRERAS
MARTA DOLORES CASTRO HIDALGO
JOSE LUIS BLAZQUEZ FERNANDEZ
OSCAR ADAN CABEZON
MARIA JESUS MARTIN RODRIGUEZ
JOSE CABRERA COSANO
JOSE ENRIQUE ARBONAS MAS
SERVICIOS FINANCIEROS FORCAREI, S.L.
JOMICACE, S.L.
CARLOS ALVARO BLASCO
CLARA HERNANDEZ NOVOA
LAURA MACIA GONZALEZ
DAVID INCHAUSPE PEÑA
VICTOR GONZALEZ CABO
SERGIO BUIL GARCIA
VICENTE CANO CAMARA
RUBEN MATIAS NOGUERON MARTINEZ
LUCIA CARO ESPARCIA
JUAN FRANCISCO GARCIA JUNCOS
ARACELI CARAVANTES CASTILLO
BRAULIO ALMENA AMARO
MIGUEL ANGEL RUIZ LOPEZ
MARIA JOSE PACHECO GALLEGO
EMPRESA GESTORA JUAN JOSE MUÑOZ S.L.
ESTHER PEIRO ORTEGA
FRANCISCO DAVID SAIZ CANO
ANTONIO MOTOS RECUENCO
PATRICIA MONTERO DURAN
MARIA TERESA OLMEDA PICAZO
VERONICA PUEY MUÑOZ
JAVIER MONGE LOPEZ
JUAN CARLOS LAZARO BERDEJO
BARRIOS DE LA CRUZ, S.L.
AGUADO Y ORTEGA ASESORES S L
JAIME VALDES BRAVO
LORENZO CANDELAS MIRANDA GARCIA CARO
ROSA ISABEL BENEITEZ SALINERO
ALFONSO RODRIGUEZ MADROÑAL
SUSANA FARIÑA FERNANDEZ
MARIA CARMEN SANCHEZ PEÑA
MIGUEL ANGEL GARCIA RODRIGUEZ
FERNANDO GARCIA BARATAS

MARIA DEL CARMEN PALMERO MORENO CID
MARCIAL SANTOS SANCHEZ
CARLES ROYO DELPOZO
6395 Poyales del Hoyo Agente Colaborador S.L.
6396 SANTANDER NAVALUENGA, S.L.
ANA MARIA SAN MILLAN COBO
IGNACIO ARROYO RODRIGUEZ
SANTOS BOL GARCIA
ANNA BATALLA FARRE
FELIPE PARRA CARRERA
RAQUEL MAQUEDA MUÑOZ
NURIA COBELO DE ANDRES
BERTA RIERA FERRAN
GLORIA AYMERICH GAZQUEZ
DANIEL VIEIROS CAMPOS
MARIA DEL CARMEN CAMUS SAN EMETERIO
ROSA MARIA PADROS ANGUITA
MARIA EUGENIA BOZAL HUGUET
MIGUEL ANGEL PRIETO CORDERO
A.C. LAGUNA DE NEGRILLOS S.L.
MARTA ESPINAR SANCHEZ
MARIA SAZO SALGUERO
LORENA PUMAR ROSENDE
MERINO LOBATO S.L.
MARIA MERCEDES GUZON LIEBANA
JACINTO MANUEL PALOMERO PALOMERO
MARIA DEL SOCORRO BENAVIDES SANCHEZ
GESTION SANTANDER CARBAJOSA, S.L.
MANUEL DOMINGUEZ BEATO
SEBASTIAN PAVON CAMPOY
MIKEL ANDRES SANCHEZ CASTILLO
BENEDICTO GUTIERREZ BERNAL
ANTONIO JOSE JIMENEZ CHICO
ANNA LOURDES MATEOS SANCHEZ
JUAN PEDRO BENITEZ GARCIA
ARACELI GONZALEZ MEJIAS
JUAN ANTONIO ARRIBAS CRISTOBAL
ANA MARIA MARTIN LOBO
MARCOS ASENJO HERNANDO
AREVALO Y MONGE, S.L.
EDUARDO LERONES AGUADO
MIRIAM CARRO HERNANDO
MARIA BELEN GONZALEZ RAMIREZ
JUAN ANTONIO SALGADO HERNANDEZ

ALICIA FADRIQUE PICO
MARTA MARIA GARCINUÑO CASELLES
GESTION INTEGRAL SANTANDER, S.L.
ENRIQUE Y SINDE ASOCIADOS SL
MARIA TERESA RODRIGUEZ FUENTES
MARIA CONCEPCION TELLEZ RUIZ
LORENA HERNANDEZ ATIENZA
CARLOS GARCIA RODRIGUEZ
ASESORES FINANCIEROS VIANA SL
NOELIA MARTIN BOLIVAR
MARIA ROCIO LOPEZ TABOADA
NURIA DEL AMO LETON
CARMEN CARLA PEREZ CUESTA
DANIEL TORRES MUIXI
DAMIA GUILLAUMES MASSO
GRUPO ALMARES 2015 S.L.
JOSE JAVIER SALAVERRI MARTINEZ
FRANCISCO JOSE VIEJO GONZALEZ
CRISTINA CRUZ SANCHEZ
MARC TARRES MALE
COMAS ENCINAS GESTIO, SL
OSCAR PLANES NOVAU
JORDI RIBALTA ARIAS
MARC MAYORAL SERRET
JOSE MARIA FONT VILASECA
ANNA SANS GARDEÑES
SONIA ROIGE VIDAL
ANTONIO FORNOS ISERN
SERGIO MUÑOZ RAMIREZ
BORRELL-ALUJA S.L.
ISIDRE CALBO PELLICER
MARIA CRISTINA SANCHEZ UZAL
ABEL ISERN ROIG
MARIA ROSA BERTRAN CASALS
GUADALUPE FORNE TENA
ANA CRISTINA FERRE BERTOMEU
JOAQUIN SERRA BERTRAN
LAURA MARTIN PALOMO
ROBERTO CABALLERO MARTIN
ANGEL ARMENTEROS CUESTA
SERVICIOS FINANCIEROS AHIGAL, S.L.
CARLOS RUIZ BURDALO
VIRGINIA VELASCO MAJADA
LAURA FERNANDEZ TORIBIO

AMBROSIO TORNAVACAS VINAGRE

BELEN GONZALEZ BERMEJO

DAMIAN CEBALLOS SORIA

OFILAR 2020 S.L.

CELIA MONICA MARTINEZ OTERO

MARIA ELISA CAMBEIRO CAAMAÑO

MANUEL MARIA GARCIA FERNANDEZ

JOSE LUIS FARIÑAS PEREZ

MARCOS VICENTE PEREZ

MANUEL ARTURO DOVALE VAZQUEZ

JOSE JIMENEZ OVEJAS

IVAN GONZALEZ MARTINEZ

ADRIAN TELLA VILLAMARIN

MARTA FEIJOO ARIAS

LUCIA ALVAREZ GONZALEZ

QUIRINO MASCITTI

JOSE BENITO SAMPEDRO FEIJOO

ESTHER LOPEZ GONZALEZ

JOSE LUIS PRIETO PARADA

BERNABE JOSE VALLECILLO MUÑOZ

MARIA DEL PILAR ALVAREZ RODRIGUEZ

CARLOS GONZALEZ FERNANDEZ

CANDIDO JUNCAL RUA

MARIA BELEN GARCIA BLANCO

MARIA TERESA BORRELL MICOLA

CELAVEDRA S.L

NIEVES NUÑEZ PUGA

BLANCA FERNANDEZ MURAS

OFICINA 6788, S.L.

ENRIC PUJOL ROVIRA

MIRIAM SAMPAYO IGLESIAS

BEATRIZ TORREÑO NIETO

ALFONSOCRIADO SL

DIEGO CAÑAMERO NAVARRO

RAUL RIVAS VAL

RUBEN BERNALDO DE QUIROS DE DOMPABLO

PATRICIA CONDE GARCIA BLANCO

JULIAN VILLANUEVA DOMINGUEZ

FRANCISCO MUÑOZ GARCIA

LUCIA DIAZ PRUDENCIO

JOSE MANUEL AYALA ARNALDOS

SAGRARIO MAQUEDA RUIZ

MIGUEL ANGEL FERNANDEZ MENDEZ

JUAN ANTONIO CANTERO SANCHEZ

ALEJANDRO SANCHEZ BERMUDEZ

GRATIANA TORRES ROSA

ANA MARIA LOPEZ MARTINEZ

IVAN GODINEZ GUERRERO

MARIA DOLORES FOLLA-CISNEROS GARCIA

CRISTINA ZABALA USTARIZ

ACTIFISUR SRL

SHEILA DEL BARRIO SAENZ

A&C TIERRA SUR INVERSIONES, S.L.U.

FERNANDO POLO MATEOS

RICARDO CORREA FOLGAR

JOSE MANUEL TORRES MIGUEL

ESTIBALIZ ZAYAS GOMEZ

BERPISTE S.R.L.

MARIA SOLE RIBERA

ANDRES RIVERO JIMENEZ

MIGUEL ANGEL VIDAL JOVER

VEGUILLAS Y VEGUILLAS SL

JOSE ALFONSO TARI ESCLAPEZ

MAGDALENA JOVER SELLER

PAULA GRACIA CABRERA COLONQUES

GESFINPRO, S.L

BEATRIZ PEREZ GARCIA

MIGUEL ALCALDE PITARCH

ANTONIO LUIS CASTELLO APARISI

MISTERA BUSINESS SOLUTIONS S.L.

JUAN ANTONIO ALCAIDE NAVARRO

MIGUEL GARCIA ABAD

VICENTE MOSCARDO TORRES

ROSA CARRERES LUCAS

JUAN JOSE MONTEAGUDO MARTINEZ

MARIA TRINIDAD BRIEVA DOMINGUEZ

MARIA MARTIN SANCHEZ

MARIA ANGELES GOMEZ TOSTON LOPEZ

BARBARA FERNANDES DIAS

VALENZUELA MARTIN ASESORES S.L.

ANSELMO HERNANDEZ RANZ

JOSE GAMERO MUÑIZ

ASEVAL ASESORES S.L

JOAQUIN SANCHEZ GRANDE TOVAR

OSCAR MUSTE ROIG

SEMAGERA, S.L.L.

ALESA CAPITAL, S.L.

AYALA MARTINEZ MELERO, SLL

GHG COPERNICO, S.L.L.

SERVIBAN OURENSE, S.L.

ERNESTO DOMINGUEZ SLU

MARIA JOSE DE LA DUEÑA FUSTER

DAMIAN DAVID PONCELL OLIVER

PALOMA MILAGROS BLANCO GONZALEZ

ANA BELEN DUARTE FIGUEIRAS

JOSE DANIEL PICANS TROITIÑO

ANA LUISA GONZALEZ COSTA

ANDREA SAYANS RIVEIRO

FABIAN MANTEIGA VARELA

OSCAR CAÑIBANO ALVAREZ

MARIA MANUELA GONZALEZ CUESTA

VANESA RODRIGUEZ ESTERIO

JOSE MANUEL SOBREDO SIGUEIRO

JOSE MANUEL VAZQUEZ BERTOA

JAIME AÑON ROIBLA

ANABEL PALLAS FUENTES

MARGARITA LUZ BOLINCHES IBAÑEZ

IVÁN LÓPEZ DURÁ

SANMAFRAILES SL

LUIS ALBERTO SALA GARCIA

FRANCISCO VICENTE RENAU GARCERA

ALBERTO SAEZ CLEMENTE

BEATRIZ GARCIA ESTELLER TORRES

SILVIA GARCIA SENDRA

JESUS BERZAL MIGUEL

NATALIA LOPEZ LOPEZ

JAVIER NOVIO MIDON

JOSE MARIA FERNANDEZ RAMIREZ

PLAZA SERVICIOS FINANCIEROS SL

JOSE GARDUÑO CALVO

SEILA GARRIDO GALINDO