Banco Santander, S.A.

Auditor's report
on the annual accounts
and the Directors' report
December 31, 2018

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 or Banco Santander), which comprise the balance sheet as of December 31, 2018, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Banco Santander, S.A. as of December 31, 2018, 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´s 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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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Impairment of financial assets at amortised cost – loans and advances	

The estimation of the impairment of financial assets at amortised cost - loans and advances - for credit risk is one of the most significant and complex estimates in the preparation of the annual accounts as of December 31, 2018.

On January 1, 2018, the Bank of Spain introduced Circular 4/2017, which, among other things, modifies the impairment calculation models to consider expected losses instead of incurred losses. The operation of these models requires an increased level of judgement in the determination of the expected losses from impairment, considering factors such as:

- The classification of the different credit portfolios by their risk and asset type.
- The identification and classification by stages of the impaired assets or assets with a significant increase in credit risk.
- The use of assumptions such as macroeconomic scenarios, expected life and segmentation criteria.
- Development of parameters for these models such as the probabilities of default (PD) and loss given default (LGD).
- Regularly retrospective testing (back-testing and monitoring) on the different parameters included within the models.

In this context, the Bank has developed a general framework for its internal expected loss models. These internal models allow the Bank to estimate provisions for credit impairment both collectively and in an individualized manner.

Refer to Notes 1 b), 2, 6 and 10 of the annual accounts as of December 31, 2018.

Our work over the estimation of the impairment of financial assets at amortised cost for credit risk has focused on the analysis, evaluation and testing of internal controls, as well as the performance of tests of details over credit risk provisions estimated collectively and individually. We have also analyzed the impact of the initial application of the Bank of Spain's Circular 4/2017.

With respect to internal control, we have focused on the design and operating effectiveness of the controls in the following areas:

- Calculation methodologies, calibrations, and monitoring and back-testing performed by Management.
- Compliance with and operation of the internal models approved by Management.
- Reliability of the data sources used in the calculations and the suitability of the models taking into account the circumstances.
- Process for periodic review of counterparty classification.
- The review process of model calculations and principal portfolios.

In addition, we performed the following tests of details:

- Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology utilized for the estimation of the expected loss parameters; iii) methodology used for the generation of the macroeconomic scenarios; iv) information used in the calculation and generation; and v) criteria for significant increase in credit risk and loan staging classification.
- Verify the impairment calculation for the principal credit portfolios.

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Key audit matter	How our audit addressed the key audit matter
	• On a sample basis, evaluating individual credit files to determine the adequacy of their accounting and classification, discounted cash flows and, where appropriate, corresponding impairment. We have not identified exceptions outside of a reasonable range in the tests outlined above.
Recoverability of deferred tax assets	
Assessing the recoverability of deferred tax assets is a complex exercise and requires a high degree of judgement and estimation. In line with the recoverability model defined by the Bank´s Management, with respect to the Tax Group, on an annual basis Management of each business unit compiles the assumptions that underpin the business plans that are projected over the time horizon established for that business. This process implies specific and complex considerations that Management takes into account in order to assess the initial and ongoing recognition of deferred tax assets. The most significant considerations made by the Bank in this respect are: • Assuring that the tax regulations are applied correctly and the temporary differences that qualify as deductibles are duly recognised. • Maintaining a control environment, running the models and validating the calculations deriving therefrom to ensure that the tax assets are properly recognised and measured and that the conclusions drawn regarding their recoverability are accurate. • Reviewing that the projections that are part of the defined model which is in turn used to estimate the tax profits used to infer the amount of deferred tax assets that will be recoverable in future periods in relation to deductible temporary differences and unused tax losses are indeed achievable.	We have evaluated, in collaboration with our tax experts, and obtained our understanding of the estimation exercise undertaken by Management. With respect to the internal control environment we have focused on the design and operating effectiveness of controls in the following areas: • Budgeting process on which projections employed in the recovery of deferred tax assets are based on. • Calculation of deferred tax assets. We also performed the following tests of details: • Evaluation of the assumptions used by the Tax Group to calculate and estimate the deductible temporary differences to determine whether they are comprehensive and appropriate. • Analysis of the key data used by Management to estimate the various deferred tax assets and track their subsequent recoverability, including: - Obtaining and analysing the Group's review of the income projections carried out by Management and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis (inflation, interest rates, etc.); - Obtaining the necessary management information that support the business plan (budgets, future economic forecasts, estimations of financial products to be contracted, etc);

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Key audit matter	How our audit addressed the key audit matter
Refer to Notes 2 and 24 of the annual accounts.	- Analysis of the tax strategy planned by the Bank for the recoverability of the deferred tax assets. We have obtained adequate audit evidence throughout our procedures to corroborate the estimates made by the Bank with respect to the recoverability of its deferred tax assets.
Litigation provisions	
The Bank is party to a range of tax and legal proceedings - administrative and judicial - which primarily arose in the ordinary course of its operations. There are also situations not yet subject to any judicial proceedings that have nevertheless required the Bank to recognise provisions; these include customer conduct related matters and the related compensation. These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the applicable legislation. The Bank's Management decides when to recognise a provision for these proceedings based on estimates made using reasonable calculation procedures that are consistent with the uncertainty intrinsic to the obligations they cover. Among these provisions, the most significant are those for customer compensation for the sale of certain; these estimates are based on the number of claims expected to be received, the number expected to be accepted, and the estimated average payout per case. Refer to Notes 2 and 23 d) of the annual accounts.	We have obtained our understanding and evaluated the estimation process undertaken by Management. With respect to internal control, we have focused on the design and operating effectiveness of the controls in the following areas: • Update of the databases that contain the ongoing litigations. • Evaluation of adjustments to the provisions for regulatory, legal or tax procedures and their recognition. • Reconciliation between the minute of the inspections and the amounts registered. In addition, we performed test of details consisting of the following: • Understanding of the policy for classifying litigations and allocating provisions. • Monitoring of the ongoing tax inspections. • Analysis for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the Bank's tax obligations for the years open to inspection. Obtaining confirmation letters from external lawyers and tax advisors who work with the Bank to compare their assessment of the outcome of the litigations, all of the information used, the correct recognition of the various provisions and the identification of potentially omitted liabilities.

Key audit matter	How our audit addressed the key audit matter
	• Verification of the communications with the regulatory bodies, analysis of the ongoing regulatory inspections and size of the impact of any regulatory finding on the audit. • Analysis of the recognition and reasonableness of the provisions recorded for accounting purposes and the movements therein. In the procedures described above, no exceptions were identified outside of a reasonable range.
Information technology systems The Bank's financial information is highly dependent on information technology (IT) systems and therefore an adequate control of these systems is crucial to ensuring correct data processing. In this context, it is vital to evaluate aspects such as the organisation of the Bank's Technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations. In this respect, Management has developed a system efficiency and transformation plan. This plan contains aspects such as the remediation of the access control deficiencies identified in previous years and the relationship between the governance framework, which includes the new cybersecurity model, and the Bank's entities that manage the IT processes that support the Bank.	We have evaluated, in collaboration with our IT system experts, the internal controls over the IT systems and applications that support the core business activity and have an impact on the Bank's financial reporting. For this purpose, we carried out the following internal control procedures and test of details related to: • Functioning of the IT governance framework. • Access and logical security controls over the applications, operating systems and databases that support the relevant financial information. • Application development and change management. • Maintenance of the IT operations. Additionally, considering the efficiency and transformation plan developed by the Bank, our approach and audit plan focused on the following aspects: • Evaluation of the plan executed, and the new controls implemented, by the Bank in 2018. • Testing of a sample of the new controls implemented by the Bank. The results of our procedures were satisfactory and we have no relevant comments in this regard.

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in Bank´s subsidiaries, joint ventures and affiliates	
As indicated in Note 1 of the annual accounts, Banco Santander, S.A. is the parent company of a group of entities, whose fundamental activities are in the financial sector. The accounting value of the investments Bank´s subsidiaries, joint ventures and affiliates as of December 31, 2018 is €81.7 billion, as indicated in Note 13 of the annual accounts. Management performs an analysis of the potential losses in investments in Group entities that it has registered in its accounting records. This analysis is performed using different parameters such as the market price and the recoverable value, which is obtained from the estimation of the expected cash flows or the net equity adjusted for the unrealized gains existing at the valuation date, including goodwill net of its corresponding amortization. The valuation or analysis of the impairment of these investments requires the use of significant judgment. Refer to Note 13 of the annual accounts as of December 31, 2018.	We have obtained an understanding of the estimation process performed by Management. In addition, where the valuation of investments requires the use of significant judgment, we have relied on the assistance of our valuation experts. With respect to internal control, we have focused on the design and operating effectiveness of the controls in the valuation process and over the methodology, inputs and relevant assumptions used by Management for the year-end estimates, including the controls in place to supervise the process and the related approvals. Additionally, we have performed test of details consisting of the following: • Verify the valuation performed by the Bank, using as a reference the recoverable balance of the investments in Group entities. • Verify that Management's valuation methodology is in line with applicable accounting standards, market practices and the specific expectations of the sector. • For investments whose valuation is calculated including goodwill, we verified the mathematical accuracy of the discounted cash flow projections, including the validation of the key inputs with external data and performing a sensitivity analysis on them. We have not identified exceptions, outside a reasonable range, in the tests described above.

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Key audit matter	How our audit addressed the key audit matter
Acquisition of Banco Popular Español, S.A.U.	

On April 23, 2018, the Board of Directors of Banco Popular Español, S.A.U. (Banco Popular), Banco Pastor, S.A.U. (Pastor) and Popular Banca Privada, S.A.U. (Popular Banca Privada) agreed to a merger through absorption of Pastor and Popular Banca Privada by Banco Popular (the Merger of the Subsidiaries), and that, in addition and subject to the execution of the former, the Board of Directors of Banco Santander, S.A. and that of Banco Popular agreed on the same date the merger by absorption of Banco Popular by the Bank (the Main Merger). This process was completed on September 28, 2018, and the deed of the merger through absorption of Banco Popular by the Bank was registered at the Cantabria Mercantile Registry.

Every bank merged were already considered Group entities, therefore those mergers were not new business combinations for the Bank.

In accordance with the applicable accounting standards, the aforementioned mergers are effective January 1, 2018. After that date, operations of Pastor and Popular Banca Privada should be considered to be conducted by Banco Popular and the operations of Banco Popular, including the operations of Pastor and Popular Banca Privada, should be considered to be conducted by the Bank.

Per the annual accounts as of December 31, 2017, total assets of Banco Popular were €113.14 billions, total assets of Pastor were €10.25 billions and total assets of Popular Banca Privada were 1,003 million Euros, therefore is a relevant impact for the annual accounts.

See Note 2 of the annual accounts as of December 31, 2018.

As of December 31, 2018, the Bank had not yet completed the integration of Banco Popular's systems. Therefore, we have obtained an understanding of Management's process for the aggregation of the accounting balances.

We have also performed the following procedures, among other, for the balances as of January 1, 2018 and December 31, 2018:

- Reconciliation of the financial statements on January 1, 2018 used in the merger with those included in the 2017 audited annual accounts of the Bank, Banco Popular, Pastor and Popular Banca Privada and with the adjustments assigned to each balance within the 2017 Banco Santander, S.A. annual accounts.
- Reconciliation of the financial statements as of December 31, 2018 used in the merger with those obtained from the accounting records of the Bank and Banco Popular.
- Verification of the accounting merger process of Banco Popular, Pastor and Popular Banca Privada, consisting mainly of:
    - Verification of the aggregation of the balances in the financial statements.
    - Understanding and verification of the identification and elimination process existing for related party transactions between Banco Popular, Pastor and Popular Banca Privada.
    - Assessment of the accounting entries for the merger and their impact on the financial statements of Banco Popular, previously merged with Pastor and Popular Banca Privada.
- Verification of the aggregation of the balances of the financial statements of the Bank and Banco Popular once merged with Pastor and Popular Banca Privada.

Key audit matter	How our audit addressed the key audit matter
	- Understanding of the identification of existing related party transactions between the Bank and Banco Popular, previously merged with Pastor and Popular Banca Privada and verification of their elimination. - Reasonability analysis of the account mapping by Management. - Assessment of the accounting entries for the merger and their impact on Bank's financial statements. During our procedures, we have observed that the criteria used by the Bank and the support for the journal entries performed are reasonable.

Other information: Directors' report

Other information comprises only the Directors' report for the 2018 financial year, the formulation of which is the responsibility of the Bank's directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the Directors' report. Our responsibility regarding the Directors' report, in accordance with legislation governing the audit practice which establishes two distinct levels in this regards:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, defined in article 35.2. b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Directors' report or, if appropriate, that the Directors' report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the Directors' report that consists of evaluating and reporting on the consistency between that information and the annual accounts, as a result of the knowledge of the Bank obtained during the audit of the aforementioned financial statements and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the Directors' report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the Directors' report and that the rest of the information contained in the Directors' report is consistent with that contained in the annual accounts for the 2018 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Bank's directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of 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 Bank´s audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Bank's audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Bank's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Banks's audit committee dated February 28, 2019.

Appointment period

During the General Shareholder's Meeting held on March 18, 2016 we were appointed as the Bank's auditors for a three-year period from the fiscal year ended December 31, 2016.

Services provided

Services, different to the audit, provided to the Bank are described in Note 43 of the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal (19930)

February 28, 2019

Banco Santander, S.A.

Annual accounts and Directors´ report for the year ended 31 December 2018

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2017

(Millions of euros)

ASSETS (*)	Note	2018	2017 (**)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND		51,931	33,734
FINANCIAL ASSETS HELD FOR TRADING		70,825	64,326
Derivatives	9	51,637	
Equity instruments	8	8,644	
Debt instruments	7	10,525	
Loans and advances	10	19	
Central banks		-	
Credit institutions		-	
Customers		*19*	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*13,819*	
NON_TRADING FINANCIAL ASSETS MANDATORILY AT FAUR VALUE THROUGH PROFIT OR LOSS		3,751	
Equity instruments	8	224	
Debt instruments	7	1,976	
Loans and advances		1,551	
Central banks		-	
Credit institutions	6	2	
Customers	10	1,549	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		41,326	
Equity instruments			
Debt instruments		-	
Loans and advances		41,326	
Central banks	*6*	*103*	
Credit institutions	*6*	*17,536*	
Customers	*10*	*23,687*	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31	*5,332*	
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		35,915	
Equity instruments	8	1,751	
Debt instruments	7	32,741	
Loans and advances		1,423	
Central banks		-	
Credit institutions	6	185	
Customers	10	1,238	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		15,129	
FINANCIAL ASSETS AVAILABLE-FOR-SALE			
Equity instruments	8		
Debt instruments	7		
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31		
FINANCIAL ASSETS AT AMORTISED COST		296,943	
Debt instruments	7	24,372	
Loans and advances		272,571	
Central banks	6	46	
Credit institutions	6	35,856	
Customers	10	236,669	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		6,155	
LOANS AND RECEIVABLES			
Debt instruments	7		
Loans and advances			
Central banks	*6*		
Credit institutions	*6*		
Customers	*10*		
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31		
INVESTMENTS HELD-TO-MATURITY	7		1,892
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	31		*286*
HEDGING DERIVATIVES	32	2,108	2,073
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		268	65
INVESTMENTS		81,734	85,428
Group entities	13	76,324	*82,927*
Joint ventures entities		310	*302*
Associated companies	13	5,100	*2,199*
TANGIBLE ASSETS	15	2,410	1,929
Property, plant and equipment:		2,136	1,690
For own use		*1,641*	*1,331*
Leased out under an operating lease		*495*	*359*
Investment property:		274	239
Of which: Leased out under an operating lease		*274*	*239*
Memorandum items:acquired in financial lease		*565*	*574*
INTANGIBLE ASSETS	16	778	225
Goodwill		583	-
Other intangible assets		195	*225*
TAX ASSETS	24	13,320	10,009
Current tax assets		2,993	*2,240*
Deferred tax assets		10,327	*7,769*
OTHER ASSETS		5,027	3,165
Insurance contracts linked to pensions	14	1,654	*1,732*
Inventories		-	-
Other	17	3,373	*1,433*
NON-CURRENT ASSETS HELD FOR SALE	12	2,040	1,720
TOTAL ASSETS		**608,376**	**492,415**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.
BALANCE SHEETS AS AT 31 DECEMBER 2018 AND 2017
(Millions of euros)

LIABILITIES (*)	Note	2018	2017 (**)
FINANCIAL LIABILITIES HELD FOR TRADING		58,021	47,952
Derivatives	9	51,698	39,234
Short positions	9	6,323	8,718
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Marketable debt securities		-	-
Other financial liabilities		-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		35,079	32,314
Deposits		35,079	32,314
Central banks	*18*	*12,377*	*7,913*
Credit institutions	*18*	*8,772*	*15,209*
Customers	*19*	*13,930*	*9,192*
Marketable debt securities		-	-
Other financial liabilities		-	-
Memorandum items:subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST		430,675	327,020
Deposits		*345,095*	264,582
Central banks	*18*	*48,519*	*25,016*
Credit institutions	*18*	*55,883*	*60,008*
Customers	*19*	*240,693*	*179,558*
Marketable debt securities	20	*77,095*	53,058
Other financial liabilities	22	8,485	9,380
Memorandum items:subordinated liabilities	*20 y 21*	*17,984*	*15,413*
HEDGING DERIVATIVES	32	3,506	4,014
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE		-	-
PROVISIONS	23	6,681	6,615
Provision for pensions and similar obligations		3,895	*4,141*
Other long term employee benefits		1,111	*1,231*
Provisions for taxes and other legal contingencies		498	*316*
Provisions for commitments and guarantees given		263	*196*
Other provisions		914	*731*
TAX LIABILITIES	24	1,303	1,208
Current tax liabilities		-	-
Deferred tax liabilities		1,303	*1,208*
OTHER LIABILITIES	17	4,344	2,725
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**539,609**	**421,848**
SHAREHOLDERS' EQUITY	26	69,226	70,717
CAPITAL		8,118	8,068
Called up paid capital	27	8,118	8,068
Unpaid capital which has been called up		-	-
Memorandum items: uncalled up capital		-	-
SHARE PREMIUM	28	50,993	51,053
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	30	565	686
Equity component of compound financial instruments		-	-
Other equity instruments		565	686
OTHER EQUITY INSTRUMENTS		170	150
ACCUMULATED RETAINED EARNINGS	29	7,805	7,796
REVALUATION RESERVES		-	-
OTHER RESERVES	29	511	1,987
(-) OWN SHARES		-	-
RESULTS FOR THE PERIOD		3,301	3,006
(-) DIVIDENDS	4	(2,237)	(2,029)
OTHER COMPREHENSIVE INCOME		(459)	(150)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	25	(722)	(1,096)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	25	263	946
TOTAL EQUITY		**68,767**	**70,567**
TOTAL LIABILITIES AND EQUITY		**608,376**	**492,415**
MEMORANDUM ITEMS			
Financial guarantees granted	31	6,508	7,212
Loans commitment granted	31	72,208	62,233
Other commitments granted	31	57,855	40,860

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Millions of euros)

(*)	Note	(Debit) / Credit 2018	2017 (**)
Interest income	34	7,381	5,460
Financial assets at fair value through other comprehensive income		702	587
Financial assets at amortized cost		5,506	3,983
Other interest income		1,173	890
(Interest expense)	35	(3,860)	
Net interest income		**3,521**	**2,257**
Dividend income	36	4,151	3,593
Commission income	37	2,853	2,282
(Commission expense)	38	(439)	(310)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	516	367
Financial assets at amortized cost		12	
Other financial assets and liabilities		504	
Gains or losses on financial assets and liabilities held for trading, net	39	74	348
Reclassification of financial assets at fair value through other comprehensive income		-	
Reclassification of financial assets at amortized cost		-	
Other gains (losses)		74	
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss		(61)	
Reclassification of financial assets at fair value through other comprehensive income		-	
Reclassification of financial assets at amortized cost		-	
Other gains (losses)		(61)	
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	2	(32)
Gains or losses from hedge accounting, net	39	(28)	(11)
Exchange differences, net	40	(49)	(245)
Other operating income	41	458	302
(Other operating expenses)	41	(641)	(506)
Gross income		**10,357**	**8,045**
(Administrative expenses)		(5,472)	(4,060)
(Staff costs)	42	*(2,817)*	*(2,109)*
(Other general administrative expenses)	43	*(2,655)*	*(1,951)*
Depreciation and amortisation cost	15 &16	(313)	(193)
Provisions or reversal of provision	23	(630)	(495)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes		(686)	(524)
Financial assets at fair value through other comprehensive income		-	
Financial assets at amortized cost		(686)	
Financial assets measured at cost			
Financial assets available-for-sale			
Loans and receivables	10		*(451)*
Held-to-maturity investments			-
Impairment of investments in subsidiaries, joint ventures and associates, net	44	(79)	(273)
Impairment on non-financial assets, net		-	-
Tangible assets		-	-
Intangible assets		-	-
Others		-	-
Gains or losses on non-financial assets and investments, net	45	68	572
Negative goodwill recognised in results			-
Gains or losses on non-current assets held for sale classified as discontinued operations	12 & 46	(18)	(95)
Profit or loss before tax from continuing operations		**3,385**	**2,977**
Tax expense or income from continuing operations	24	(84)	29
Profit for the period from continuing operations		**3,301**	**3,006**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**3,301**	**3,006**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Millions of euros)

(*)	Note	2018	2017 (**)
PROFIT FOR THE YEAR		**3,301**	**3,006**
OTHER RECOGNISED INCOME AND EXPENSES	23	**(410)**	**(356)**
Items that will not be reclassified to profit or loss		**(62)**	**(15)**
Actuarial gains/ (losses) on defined benefit pension plans		(43)	(23)
Other recognised income and expense of investments in subsidiaries, joint venture and associates		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income, net		(78)	
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		-	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		-	
Income tax relating to items that will not be reclassified to profit or loss	24	(27)	8
Items that may be reclassified to profit or loss		**(348)**	**(341)**
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		137	(7)
Revaluation gains or (losses)		*153*	*(7)*
Amounts transferred to income statement		*(16)*	-
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Financial assets available-for-sale			(625)
Revaluation gains or (losses)			*(283)*
Amounts transferred to income statement			*(342)*
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		*(634)*	
Revaluation gains (losses)		*(135)*	
Amounts transferred to income statement		*(499)*	
Other reclassifications		-	
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	149	291
Total recognised income and expenses for the year		**2,891**	**2,650**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).
(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Millions of euros)

(*)	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/17 (**)	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,987**	**-**	**3,006**	**(2,029)**	**(150)**	**70,567**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(518)	-	-	-	(12)	(530)
Adjusted initial balance	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,469**	**-**	**3,006**	**(2,029)**	**(162)**	**70,037**
Total recognised income and expense	-	-	-	-	-	-	-	-	3,301	-	(410)	2,891
Other changes in equity	**50**	**(60)**	**(121)**	**20**	**9**		**(958)**	**-**	**(3,006)**	**(208)**	113	**(4,161)**
Issuance of ordinary shares	50	(60)	-	-	-	-	10	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(968)	-	-	-	-	(2,237)	-	(3,205)
Purchase of equity instruments	-	-	-	-	-	-	-	(816)	-	-	-	(816)
Disposal of equity instruments	-	-	-	-	-	-	-	816	-	-	-	816
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	977	-	-	-	(3,006)	2,029	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(53)	-	-	-	-	-	-	-	(53)
Others increases or (-) decreases of the equity	-	-	(121)	73	-	-	(968)	-	-	-	113	(903)
Balance at 31/12/18	**8,118**	**50,993**	**565**	**170**	**7,805**	**-**	**511**	**-**	**3,301**	**(2,237)**	**(459)**	**68,767**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).
(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (CONTINUED)

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/16 (*)	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance as at 01/01/2017 (*)	**7,291**	**44,912**	**-**	**135**	**7,785**	**-**	**2,092**	**-**	**2,481**	**(1,667)**	**206**	**63,235**
Total recognised income and expense	-	-	-	-	-	-	-	-	**3,006**	-	**(356)**	**2,650**
Other changes in equity	**777**	**6,141**	**686**	**15**	**11**	**-**	**(105)**	**-**	**(2,481)**	**(362)**	**-**	**4,682**
Issuance of ordinary shares	777	6,141	-	-	-	-	6	-	-	-	-	6,924
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	686	-	-	-	-	-	-	-	-	686
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(803)	-	-	-	-	(2,029)	-	(2,832)
Purchase of equity instruments	-	-	-	-	-	-	-	(972)	-	-	-	(972)
Disposal of equity instruments	-	-	-	-	-	-	23	972	-	-	-	995
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	814	-	-	-	(2,481)	1,667	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(46)	-	-	-	-	-	-	-	(46)
Others increases or (-) decreases of the equity	-	-	-	61	-	-	(134)	-	-	-	-	(73)
Balance at 31/12/17	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,987**	**-**	**3,006**	**(2,029)**	**(150)**	**70,567**

(*) Restated balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2017.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017
(Millions of euros)

(*)	Note	2018	2017 (**)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**10,443**	**15,476**
Profit for the year	4	**3,301**	**3,006**
Adjustments made to obtain the cash flows from operating activities		**11,576**	**1,823**
Depreciation and amortisation charge	15 & 16	*313*	*193*
Other adjustments		*11,263*	*1,630*
Net increase/(decrease) in operating assets		**(17,566)**	**(10,429)**
Financial assets held-for-trading		*(5,348)*	*4,829*
Non-trading financial assets mandatorily at fair value through profit or loss		*(767)*	
Financial assets designated at fair value through profit or loss		*(12,600)*	*(8,752)*
Financial assets at fair value through other comprehensive income		*13,331*	
Financial assets available-for-sale			*(4,445)*
Financial assets at amortized cost		*(9,298)*	
Loans and receivables			*(2,318)*
Other operating assets		*(2,884)*	*(257)*
Net increase/(decrease) in operating liabilities		**13,411**	**21,915**
Liabilities held-for-trading financial		*9,017*	*(6,597)*
Financial liabilities designated at fair value through profit or loss		*3,359*	*17,189*
Financial liabilities at amortised cost		*2,982*	*11,854*
Other operating liabilities		*(1,947)*	*(531)*
Income tax recovered/(paid)		**(279)**	**(839)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**8,725**	**(3,823)**
Payments		**1,472**	**8,818**
Tangible assets	15	*459*	*455*
Intangible assets	16	*96*	*138*
Investments	13	*917*	*8,225*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments			-
Other payments related to investing activities		-	-
Proceeds		**10,197**	**4,995**
Tangible assets	15	*160*	*231*
Intangible assets	16	-	-
Investments	13	*1,671*	*4,355*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		*8,366*	*340*
Held-to-maturity investments			*69*
Other proceeds related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**(1,208)**	**7,101**
Payments		**4,763**	**4,554**
Dividends	4	*3,118*	*2,665*
Subordinated liabilities	21	*827*	*764*
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		*816*	*972*
Other payments related to financing activities		*2*	*153*
Proceeds		**3,555**	**11,655**
Subordinated liabilities	21	*2,750*	*2,894*
Issuance of own equity instruments		-	*7,072*
Disposal of own equity instruments		*805*	*1,004*
Other proceeds related to financing activities		-	*685*
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**237**	**(655)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**18,197**	**18,099**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**33,734**	**15,635**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**51,931**	**33,734**
Memorandum items			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*1,375*	*772*
Cash equivalents at central banks		*45,232*	*30.800*
Other financial assets		*5,324*	*2.162*
Less - Bank overdrafts refundable on demand		-	-

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).
(**) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2018.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

Notes to the financial statements (annual accounts) for the year ended 31 December 2018

1. Introduction, basis of presentation of the financial statements (annual accounts) and other information

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Bank's financial statements for 2017 were approved by the shareholders at the Bank's annual general meeting on 23 March 2018. The 2018 consolidated financial statements of the Group, the financial statements of the Bank and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, the Bank's board of directors considers that the aforementioned financial statements will be approved without any significant changes.

In the Appendix IX, it is detailed the list of agents that assist the Bank on the performance of its business activities in Spain.

b) Basis of presentation of the financial statements (annual accounts)

The Bank's financial statements for 2018 were formally prepared by the Bank's directors (at the board meeting on 26 February 2019) in accordance with Bank of Spain Circular 4/2017, taking into account the subsequent amendments to and the Spanish corporate and commercial law applicable to the Bank, using the accounting policies and measurement criteria detailed in Note 2. Accordingly, the financial statements fairly presented the Bank's equity and financial position at 31 December 2018 and the results of its operations, of the recognised income and expenses, of the changes in equity and of cash flows in 2018. These financial statements were prepared using the Bank accounting record.

The notes to the financial statements contain supplementary information to that presented in the balance sheet, income statement, statement of recognised income and expense, statement of changes in total equity and statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these financial statements.

Adoption of new standards and interpretations issues

The following is a summary of the main applicable Bank of Spain Circulars, issued and that come into force in the financial year 2018:

Bank of Spain Circular 1/2017, of January 31, with amends Circular 5/2016, of May 27, on the calculation method so that contributions of the entities adhered to the Deposit Guarantee Fund of Credit Institutions are proportional to their risk profile; and Circular 8/2015, of December 18, to entities and branches adhered to the Deposit Guarantee Fund of Credit Institutions to determine on information to determine the calculation bases of the contribution to the Deposit Guarantee Fund of Credit Institutions. (BOE of February 9, 2018).

From the application of this circulars, no significant effects have been identified in the Bank's financial statements.

Likewise, the following regulations are operating at the moment of the formulation, which effective date is after December 31, 2018:

Bank of Spain Circular 4/2017 of November 27, to credit institutions, on rules of public and reserved financial information and models of financial statements.

On December 6, 2017, Circular 4/2017, of November 27, of Bank of Spain, was published in the BOE to credit institutions, on rules of public and reserved financial information and models of financial statements. The objective of this circular is to adapt the accounting system of Spanish credit institutions to changes in the European accounting system resulting from the adoption of two new International Financial Reporting Standards (IFRS) -IFRS 15 and IFRS 9.

The main aspects contained in IFRS9 and IFRS15, to which aforementioned Circular 4/2017 is adapted, are the following:

- IFRS 9 Financial instruments

  On 1 January 2018, IFRS9 Financial instruments entered into force. IFRS9 establishes the requirements for recognition and measurement of both financial instruments and certain types of non-financial-purchase contracts. The aforementioned requirements should be applied retrospectively, adjusting the opening balance at 1 January 2018, not requiring restatement of the comparative financial statements.

  The adoption of IFRS9 has resulted in changes in the Banks' accounting policies for the recognition, classification and measurement of financial assets and liabilities and financial assets impairment. IFRS9 also significantly modifies other standards related to financial instruments such as IFRS7 "Financial instruments: disclosure".

  Additionally, IFRS9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, allowing to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy. The treatment of macro-hedges is being developed as a separate project under IFRS9. Entities have the option of continuing to apply IAS39 (also included in Bank of Spain Circular 4/2004 and subsequent amendments) with respect to accounting hedges until the project has been completed. According to the analysis performed until now, the Bank applies IAS39 in hedge accounting.

  For breakdowns of the notes, according to the regulations in force, the amendments relating to IFRS7 have only been applied to the current period. The breakdowns of the comparative information period notes maintain the breakdowns made in the previous period.

The following breakdowns relate to the impact of the adoption of Bank of Spain Circular 4/2017 in the Bank:

a) Classification and measurement of financial instruments

The following table shows a comparison between Bank of Spain Circular 4/2004 and subsequent amendments as of December 31, 2017 and Bank of Spain Circular 4/2017 as of January 1, 2018 of the reclassified financial instruments in accordance with the new requirements of Bank of Spain Circular 4/2017 regarding classification and measurement (without impairment), as well as its book value:

	Circular 4/2004 (31/12/2017)		Circular 4/2017 (01/01/2018)			
Balance	**Portfolio**	**Book value Banco Santander, S.A. (Million of euros)**	**Portfolio**	**Book value Banco Santander, S.A. (Million of euros)**	**Book value Merger Effect (Million of euros) (*)**	**Book value Banco Santander, S.A. (after merger) (Million of euros)**
Equity instruments	Financial assets available for sale (including those that were valued at cost at December)	51	Non-trading financial assets mandatorily at fair value through profit or loss	79	8	87
			Financial assets at fair value through other comprehensive income	-	186	186
Debt instruments	Loans and receivables	306	Non-trading financial assets mandatorily at fair value through profit or loss	284	80	364
			Financial assets at fair value through other comprehensive income	23	484	507
	Financial assets available for sale	395	Non-trading financial assets mandatorily at fair value through profit or loss	17	1	18
			Financial assets at amortized cost	165	-	165
			Financial assets held for trading	203	-	203
	Investments held-to-maturity	1,892	Financial assets at amortized cost	1,881	-	1,881
Loans and advances	Loans and receivables	2,955	Non-trading financial assets mandatorily at fair value through profit or loss	2,379	137	2,516
			Financial assets at fair value through other comprehensive income	574	-	574

(*) See further detail Note 1.d and Note 1.i.

b) Reconciliation of impairment provisions from Bank of Spain Circular 4/2004 and subsequent amendments to Bank of Spain Circular 4/2017

The following table shows a comparison between Bank of Spain Circular 4/2004 and subsequent amendments as of December 31, 2017 and Bank of Spain Circular 4/2017 as of January 1, 2018 of the impairment provisions of the financial instruments in accordance with the new requirements of Bank of Spain Circular 4/2017:

	EUR million				
	Banco Santander, S.A.			Merger Effect (*)	Banco Santander, S.A. (after merger)
	Circular 4/2004 31-12-2017	Impairment impact	Circular 4/2017 01-01-2018	Circular 4/2017 01-01-2018	Circular 4/2017 01-01-2018
Financial assets at amortized cost	**4,720**	**385**	**5,105**	**4,780**	**9,885**
Loans and advances	4,632	385	5,017	4,780	9,797
Debt instruments	88	-	88	-	88
Financial assets at fair value through other comprehensive income	-	-	-	3	3
Debt instruments	-	-	-	3	3
Commitments and guarantees granted	195	12	207	122	329
Total	**4,915**	**397**	**5,312**	**4,905**	**10,217**

(*) See further detail Note 1.d and Note 1.i.

Additionally, there is not an impairment impact on Investments in joint ventures and associates.

c) Balance sheet reconciliation from Bank of Spain Circular 4/2004 and subsequent amendments to Bank of Spain Circular 4/2017

The following table shows in detail the reconciliation the consolidated balance sheet under Bank of Spain Circular 4/2004 and subsequent amendments as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 distinguishing between the impacts due to classification and measurement and due to impairment once adopted Bank of Spain Circular 4/2017:

	Banco Santander, S.A.				Banco Santander, S.A.	Merger Effect (***)	Banco Santander, S.A. (after merger)
ASSETS (EUR million)	**Circular 4/2004 31-12-2017**	**Naming modifications (*)**	**Classification and measurement impact**	**Impairment impact**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**
Cash, cash balances at central banks and other deposits on demand	33,734	-	-	-	33,734	10,078	43,812
Financial assets held for trading	64,326	-	203	-	64,529	948	65,477
Derivatives	38,894	-	-	-	38,894	982	39,876
Equity instruments	10,168	-	-	-	10,168	0	10,168
Debt instruments	15,242	-	203	-	15,445	(34)	15,411
Loans and advances	22	-	-	-	22	-	22
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	2,759	-	2,759	226	2,985
Equity instruments		-	79	-	79	8	87
Debt instruments		-	301	-	301	81	382
Loans and advances		-	2,379	-	2,379	137	2,516
Financial assets designated at fair value through profit or loss	34,021	-	-	-	34,021	(5,295)	28,726
Equity instruments	-	-	-	-			
Debt instruments	-	-	-	-	-	-	-
Loans and advances	34,021	-	-	-	34,021	(5,295)	28,726
Financial assets at fair value through other comprehensive income		33,363	597	-	33,960	15,286	49,246
Equity instruments		1,812	-	-	1,812	128	1,940
Debt instruments		31,551	23	-	31,574	15,158	46,732
Loans and advances			574	-	574	-	574
Financial assets available-for-sale	33,809	(33,363)	(446)	-			
Equity instruments	1,863	(1,812)	(51)	-			
Debt instruments	31,946	(31,551)	(395)	-			
Financial assets at amortized cost		216,578	2,046	(385)	218,419	69,606	288,025
Debt instruments		13,186	2,046	-	15,232	38	15,270
Loans and advances		**203,572**	-	(385)	203,187	69,568	272,755
Loans and receivables	220,019	(216,758)	(3,261)	-			
Debt instruments	13,492	(13,186)	(306)	-			
Loans and advances	206,527	(203,572)	(2,955)	-			
Investments held to maturity	1,892	-	(1,892)	-			
Investments	85,428	-	-	-	85,428	(4,236)	81,192
Other assets (**)	19,186	-	-	119	19,304	14,795	34,100
TOTAL ASSETS	**492,415**	**-**	**6**	**(266)**	**492,155**	**101,408**	**593,563**

(*) Due to the entry into force of Bank of Spain Circular 4/2017.

(**) Includes Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Reinsurance assets, Tangible assets, Intangible assets, Tax assets, Other assets and Non-current assets held for sale.

(***) See further detail Nota 1.d and Note 1.i.

	Banco Santander, S.A.				Banco Santander, S.A.	Merger effect – (***).	Banco Santander, S.A. (after merger)
LIABILITIES (EUR million)	**Circular 4/2004 31-12-2017**	**Naming modifications**	**Classification and measurement impact**	**Impairment impact**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**
Financial liabilities held for trading	47,952	-	-	-	47,952	1,052	49,004
Derivatives	39,234		-		39,234	1,052	40,286
Short positions	8,718	-	-	-	8,718	-	8,718
Deposits	-	-	–	-	-	-	-
Debt instruments issued	-	-	–	-	-	-	-
Other financial liabilities	-	-	–	-	-	-	-
Financial liabilities designated at fair value through profit or loss	32,314	-	-	-	32,31 4	-593	31,721
Deposits	32,314	-	-	-	32,314	-593	31,721
Debt instruments issued	-	-	-	-	-	-	-
Other financial liabilities	-	-	–	-	-	-	-
Financial liabilities at amortized cost	327,020	-	-	-	327,020	98,091	425,111
Deposits	264,582	-	–	-	264,582	87,211	351,793
Debt instruments issued	53,058	-	–	-	53,058	9,948	63,006
Other financial liabilities	9,380	-	–	-	9,380	932	10,312
Hedging derivatives	4,014	-	-	-	4,014	737	4,751
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-	-	-	-	-
Provisions	6,615	-	-	12	6,627	1,185	7,812
Commitments and guarantees given	196	-	-	12	208	122	330
Other provisions (*)	6,419	-	-	-	6,419	1,063	7,482
Rest of liabilities (**)	3,933	-	2	1	3,936	1,221	5,157
TOTAL LIABILITIES	**421,848**	**-**	**2**	**13**	**421,863**	**101,693**	**523,556**

(*) Includes Pensions and other post-retirements obligations, Other long-term employee benefits, Taxes and other legal contingencies, Contingent liabilities and commitments and Other provisions (including endorsements and other contingent liabilities).

(**) Includes Liabilities under insurance or reinsurance contracts, Tax liabilities, Other liabilities and Liabilities associated with non current assets held for sale.

(***) See further detail Note 1.d and Note 1.i.

	Banco Santander, S.A.				Banco Santander, S.A.	Merger effect – (**).	Banco Santander, S.A. (after merger)
EQUITY (EUR million)	**Circular 4/2004 31-12-2017**	**Naming modifications (*)**	**Classification and measurement impact**	**Impairment impact**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**	**Circular 4/2017 01-01-2018**
Shareholders' equity	70,717		16	(279)	70,454	(397)	70,057
Capital			-	-	8,068	-	8,068
Share premium			-	-	51,053	-	51,053
Equity instruments issued other than capital	686		-	-	686	(161)	525
Other equity	150		-	-	150	-	150
Accumulated retained earnings	7,796		-	-	7,796	-	7,796
Revaluation reserves	-		-	-	-	-	-
Other reserves (***)	1,987		16	(279)	1,724	(237)	1,487
(-) Own shares			-	-	-	-	-
Profit attributable to shareholders' of the parent			-	-	3,006	1	3,007
(-) Interim dividends			-	-	(2,029)	-	(2,029)
				-	-	-	-
Other comprehensive income			(12)	-	(162)	111	(51)
Items not reclassified to profit or loss		442	10	-	(644)	(4)	(648)
Actuarial gains or losses on defined benefit pension plans			-	-	(1,096)	(3)	(1,099)
Non-current assets and disposable groups of items that have been classified as held for sale			-	-	-	-	-
Share in other recognised income and expenses of investments in joint ventures and associates			-	-			
Other valuation adjustments			-	-			
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		442	10	-			
Inefficacy of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income			-	-			
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk			-	-			
Items that may be reclassified to profit or loss	946	(442)	(22)	-			
Hedge of net investment in foreign operations (effective part)	-		-	-			
Exchange differences	-		-	-			
Hedging derivatives. Cash flow hedges (effective part)	-		-	-			
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		498	(16)	-		171	
Hedging instruments (items not designated)			-	-	-	-	-
Financial assets available for sale	946	(940)	(6)	-			
Debt instruments	498	(498)	-	-			
Equity instruments	448	(442)	(6)	-			
Non-current assets	-		-	-	-	-	-
Share in other income and expenses recognised in investments in joint ventures and associates	-		-	-	-	-	-
Non controlling interests	-		-	-	-	-	-
Other comprehensive income	-		-	-	-	-	-
Other elements	-		-	-	-	-	-
EQUITY	**70,567**	**-**	**4**	**(279)**	**70,292**	**(286)**	**70,006**
TOTAL EQUITY AND LIABILITIES	**492,415**		**6**	**(266)**	**492,155**	**101,407**	**593,562**

(*) Due to the entry into force of Bank of Spain Circular 4/2017.
(**) See further detail Note 1.d and Note 1.i.
(***) The impact recorded in Other reserves under merger effect for a negative amount of 237 million euros is broken down into a negative amount of 255 million euros corresponding to the entry into force of Circular 4/2017 Bank of Spain and a positive amount of 18 million euros for merger reserves.

- IFRS15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018) - the new standard on the recognition of revenue from contracts with customers. It supersedes the following standards and interpretations previous in force: IAS18, Revenue; IAS11, Construction Contracts; IFRIC 13, Customer Loyalty Programs; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfers of Assets from Customers; and SIC-31, Revenue-Barter Transactions Involving Advertising Services. Under IFRS15, an entity recognizes revenue in accordance with the core principle of the standard by applying the following five steps: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations identified in the contract; and recognize revenue when as the entity satisfies a performance obligation.

- Clarifications to IFRS15 income coming from contracts with clients.

  Given that IFRS15 does not apply to financial instruments and other contractual rights or obligations under the scope of IFRS9, no significant effects derive from the application of the aforementioned Accounting Standard and its clarifications in the Bank's financial statements..

Also, at the date of preparation of these financial statements, the following amendments with an effective date subsequent to 31 December 2018 were in force:

Circular 2/2018, of December 21, of the Bank of Spain, by which Circular 4/2017, of November 27, is modified to credit institutions, on rules of public and reserved financial information, and financial statement models , and Circular 1/2013 of May 24, about Risk Information Center. (BOE December, 28): The main objective of this Circular is to adopt Circular 4/2017, of November 27, to credit entities, on public and reserved financial information standards, and financial statement models, to the Regulation (EU) 2017/1986 of the Commission, of October 31, 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, with regard to the International Financial Reporting Standard (IFRS-EU) 16, on leases. It should also be mentioned that this circular also modifies Circular 1/2013, of May 24, on the Risk Information Center (CIR), incorporating minor changes in order to introduce clarifications and improvements.

The main aspects contained in IFRS 16, to which the aforementioned Circular 2/2018 is adapted, are the following:

- IFRS16 Leasings substitutes IAS17, IFRIC (International Financial Reporting Interpretation Committee) 4, SIC (Standard Interpretations Committee)-15 and SIC-27. It was adopted by the European Union on 31 October 2017 through the Regulation (EU) 2017/1986.

  IFRS16 (effective for annual periods beginning on or after 1 January 2019, with an early adoption option that the Bank establishes the principles for the recognition, measurement, presentation and breakdown of lease contracts, with the objective of reporting information that faithfully represents the lease transactions. IFRS16 provides a single accounting model for the lessee, whereby the lessee must recognise the assets by right of use and the corresponding lease liabilities of all the lease contracts, unless the lease term is 12 months or less or the underlying asset is of low value.

Transition

The criteria established by the Standard for the registration of the lease contracts will be applied in a retrospective modified way adjusting the opening balance on the first day of application (1st of January 2019). The Bank, has decided to apply the practical solution allowed by the Standard of not evaluating in the first application of the contracts are or contain a lease (under the new definition), and therefore, the IFRS16 will only apply to those contracts that were previously identified as lease contracts.

The Group has estimated an impact due to the first standard adoption on the ordinary capital ratio (Common Equity Tier 1 – CET 1) fully loaded of -20 b.p. Likewise, it is estimated that assets with the right to use will be approximately recognised by an amount of EUR 6.7 thousand million, of which EUR 4.24 thousand millions correspond to Banco Santander, S.A.

The main causes of this impact are the requirements of registration of the asset with the right to use derived from all the lease contracts active during the first application. Thus, the impact being greater for the Bank leased properties.

The following are the main policies, estimates and criteria for the application of IFRS16 currently defined by the Bank for its practical adoption:

-Lease term: in general, the lease term of each contract will coincide with the initial term established. With regard to property contracts, in certain cases the possible consideration of exercising extension or early cancellation options has been evaluated, based mainly on market factors specific to each asset in each geography.

-Discount rate: taking into account that the Bank has opted to apply the modified standard retrospectively, the discount rate used in transition will be the lessee's incremental borrowing rate at this date. For these purposes, the entity has calculated this incremental interest rate taking as a reference the quoted debt instruments issued by the Bank. In this regard, the Bank has estimated different interest rate curves based on the currency and economic environment in which the contracts are located.

-Practical exemptions in transition: the Bank has considered the practical solutions defined in paragraph C10 of the standard in the application of the modified retrospective method. This application was made on a contract-by-contract basis, and none of the exemptions were generally applied.

Strategy of implementation of the IFRS 16 and governance

The Bank established a global project and multidisciplinary with the objective of adapting its processes to the new Standard of accounting of the lease contracts, granting that said processes are adopted in a homogenous way in all the units of the Bank, and at the same time, to the particularities of each unit.

Thus, the Bank has worked since 2017 in the analysis and identification of the contracts affected by the Standard, as well as the definition of the main technical criteria that affects the accounting of the lease contracts.

With respect to the structure of the project´s governance, the Bank has established a periodic meeting of the direction of the project, and a team in charge of granting the participation of the responsible teams and coordination with all the geographies.

Main steps and milestones of the project

In relation to the entry of this new Standard, the Bank reported in the interim condensed financial statements as of 30 June 2018 the progress to that date of the implementation plan of the same.

The Bank has prepared the accounting policy and a methodological framework that has been the benchmark for the development of the implementation carried out in the different local units. The internal regulation has been approved under the relevant corporate bodies before the entry into force of the Standard.

Likewise, the corporate development of the control model over the registration process of the lease contracts is complete, both in transition and once the Standard is applied. The proposed model includes a reference design of the controls to be employed in the new developments made for the implementation of the Standard.

All accounting policies and measurement bases with a material effect on the financial statements for 2018 were applied in their preparation.

c) Use of critical estimates

The Banks' results and the determination of equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the financial statements estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets: it applies to financial assets at fair value through other comprehensive income, financial assets at amortised cost, non-current assets held for sale, investments, tangible assets and intangible assets (see Notes 6, 7, 8, 10, 12, 13, 15 and 16);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 23);
- The useful life of the tangible and intangible assets (see Notes 15 and 16);
- The measurement of goodwill arising (see Note 16);
- The calculation of provisions and the consideration of contingent liabilities (see Note 23).
- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 18, 19 and 20).
- The recoverability of deferred tax assets (see Note 24).

Although these estimates were made on the basis of the best information available at 2018 year-end, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statement.

d) Comparative information

As mentioned on Note 1.b), in order to adapt the accounting system of Spanish credit institutions to the changes related to IFRS15 and IFRS9, on 6 December 2017, Circular 4/2017, of 27 November, of the Bank of Spain, was published, which repeals Circular 4/2004, of December 22, for those years beginning as of 1 January 2018. The adoption of this Circular has modified the breakdown and presentation of certain headings in the financial statements, to adapt them to the aforementioned IFRS9. Information corresponding to the year ended 31 December 2017, has not been restated under this Circular.

As allowed by the regulation itself, the Bank has chosen not to restate the comparative financial statements, and the information relating to the year ended on December 31, 2017, has not been reworked under these criteria, so that it is not comparative. Although, in Note 1.b), a balance reconciliation is included as of December 31, 2017 under Circular 4/2004 and subsequent amendments and the corresponding balances as of January 1, 2018 under Circular 4/2017 of Bank of Spain where the effect of the first application of this Circular is broken down.

Therefore, the information for the year 2017 contained in these notes to the financial statements is presented with the information relating to 2018 for comparative purposes only, except as mentioned above in relation to the application of IFRS9, the application of the new requirements of Circular 4/2017 of Bank of Spain (see note 1.b).

Additionally, as detailed in section i) of this Note, with accounting effects, January 1, 2018, the merger by absorption of Banco Popular Español, S.A.U. (previous merger by absorption of Banco Popular Español, S.A.U. with Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U with accounting effects January 1, 2018), Santander Investment Bolsa, Sociedad de Valores, S.A.U. and Popular de Renting, S.A.U. Although section i) of this Note presents the balances contributed by these companies prior to the eliminations of internal transactions between said entities and the Bank, in order to facilitate the comparison of the information corresponding to the composition of the main items of the balance sheet and its variation during the year, are included in the corresponding Notes the balances that the different items of the Bank would present on January 1, 2018, once the main effects of the aforementioned mergers are included in their own balances.

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics RORWA (return on risk-weighted assets), RORAC (return on risk-adjusted capital) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crisis that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which the Group is subject.

On 26 June 2013 the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

The CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015 and Bank of Spain Circular 2/2016, was completed the adaptation to the Spanish law.

The CRR came into force immediately, establishes a phase-in that will permit a progressive adaptation to the new requirements in the European Union. These phase-in arrangements were incorporated into Spanish regulations through the approval of Royal Decree-Law 14/2013 and Bank of Spain Circular 2/2014. They affect both the new deductions and the issues and items of own funds which cease to be eligible as such under this new regulation. In March 2016, the European Central Bank published Regulation 2016/445/UE that modifies some of the phase-in dates applicable to Group, especially deferred tax assets calendar. The capital buffers provided for in CRD IV are also subject to phase-in; they are applicable for the first time in 2016 and must be fully implemented by 2019.

The review of the existing capital regulatory framework (CRR/CRD IV) by European governing bodies is being finalised. The new framework (CRR II/CRDV), which is expected to be approved at the beginning of 2019, incorporates different Basel standards such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio for liquidity risk, the SA-CCR for the calculation of the EAD for counterparty risk or the interest rate risk in the Banking Book (IRRBB). It also introduces modifications related to the treatment of central counterparties, MDA, Pillar 2, leverage ratio and Pillar 3 among others.

The most relevant initiative is the implementation of the TLAC Term Sheet established at international level by the FSB (Financial Stability Board) within the European capital framework, called MREL (Minimum requirement of Eligible Liabilities) in such a way that systemic entities will have to comply with the requirements of MREL in Pillar 1. Within this package of modifications, the modification of the Resolution Directive (BRRD) is also included, replacing it with the BRRD II where MREL requirements are established for Pillar 2 for all resolution entities, whether systemic or not, where the resolution authority will decide on a case-by-case basis the requirements.

The Single Resolution Board's MREL policy for 2017 was based on a step-by-step approach to achieve the MREL target level within several years, and non-compliance could result in the consideration that the entity cannot be resolved. In relation to the subordination requirement, the Single Resolution Board considered that entities of global systemic importance (G-SIIs) have to meet, as a minimum, a level of subordination equal to 13.5% of the RWA plus the combined buffer requirement.

In 2018 the SRB has set target requirements for MREL at a consolidated level based on the 2017 policy. These objectives are established for each resolution group, either in MPE (Multiple Point of Entry) strategies as in the case of the Group, or in SPE (Single Point of Entry) strategies.

At 31 December 2018 the Group met the minimum capital requirements established by current legislation (See Note 49).

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adoption of advanced models within the ten key markets where Santander Group operates.

Accordingly, the Group continued in 2018 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

The Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Norway, Sweden and Finland), France and the United States.

During 2018, approval was obtained for the sovereign portfolios, Institutions (FIRB method) and specialised financing (Slotting) in Chile, mortgages and most revolving portfolio of Santander Consumer Germany as well as the portfolios of dealers of PSA France and PSA UK (FIRB method).

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorised to use its internal model for market risk for its treasury trading activities in the UK, Spain, Chile, Portugal and Mexico.

For the purpose of calculating regulatory capital for operational risk, the Group uses the standardised approach provided for the CRR. On 2018 the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level in Banco Santander México, S.A., Institucion de Banca Múltiple, Grupo Financiero Santander México, in addition to the approval obtained in 2016 in Brazil.

f) Environmental impact

In view of the business activities carried on by the Bank 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 financial statements.

Santander

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 2019 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

a) Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund ("the DGF"). The annual contribution to be made by the entities to this fund, established by Royal Decree - Law 16/2011 of October 14, by which the DGF is created in accordance with the wording given by the Tenth Final Disposition of Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies (in force since June 20, 2015), is determined by the Management Committee of the DGF and is established based on the guaranteed deposits of each entity and its risk profile. The annual contribution to be made by the entities to this fund is determined by the Management Committee of the FGD, and consists of the contribution based on the guaranteed deposits of each entity corrected for its risk profile, which includes the phase of the economic cycle and the impact of pro-cyclical contributions, according to section 3 of article 6 of the Royal Decree-Law 16/2011.

The purpose of the FGD is to guarantee deposits with credit institutions up to the limit established in the mentioned Royal Decree-Law. The expense incurred by the contributions accrued to this organism in the year 2018 has amounted to 224 million euros (154 million euros in the year 2017), which are recorded under Other operating expenses in the profit and loss account attached (see Note 41).

b) National Resolution Fund.

In 2015 Royal Decree 1012/2015 of November 6 was published. It develops Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies, and it amended Royal Decree 2606/1996 of December 20 on Deposit Guarantee Funds of entities of credit. The above mentioned Law 11/2015 regulates the creation of the National Resolution Fund whose financial resources should reach, before December 31, 2024, at least 1% of the amount of deposits guaranteed through contributions from credit institutions and service companies established in Spain. The details of how to calculate the contributions to this Fund are regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and it is calculated by the Ordinary Banking Order Fund ("FROB") on a basis to the information provided by each entity.

c) Single Resolution Fund

In this respect, on 1 January 2016, the FUR introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council entered into force. The rules governing the banking union establish that banks will pay contributions to the FUR over eight years.

The competence of the calculation of the contributions that must be made by credit institutions and investment firms to the FUR corresponds to the JUR. From 2016 these contributions are based on: (a) a flat-rate contribution (or annual base contribution) pro rata of the liabilities of each entity excluding own resources and deposits with coverage with respect to total liabilities and excluding the liabilities own funds and deposits covered by all entities authorized in the territory of the participating member states; and based on (b) a risk-adjusted contribution based on the criteria laid down in Article 103 (7) of Directive 2014/59 / EU, taking into account the principle of proportionality and without creating distortions between banking sector structures in the Member States. The amount of this contribution is accrued annually from 2016.

The expenses incurred by contributions to the National Resolution Fund and to the Single Resolution Fund in 2017 amounted to EUR 237 million (2017: EUR 181 million) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

i) Merger by absorption

(a) Merger by absorption between Banco Popular Español, S.A.U. (absorbing company) and Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U. (as absorbed companies) and, subsequently, merger by absorption between Banco Santander, S.A. (absorbing company) and Banco Popular Español, S.A.U. (as absorbed company).

On April 23, 2018 the members of the Board of Directors of Banco Popular Español, S.A.U., Banco Pastor, S.A.U. and Popular Banca Privada S.A.U. drafted and approved the common merger project between Banco Popular Español, S.A.U. (as absorbing company) and Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U. (as absorbed companies).

Also, with the same date, the approval of the common merger project between Banco Santander, S.A. (as an absorbing company) and Banco Popular Español, S.A.U. (as absorbed company) by the Boards of Directors of both companies. This merger was conditioned, in addition to the obtaining of the usual regulatory authorizations in this type of transaction, prior to the registration of the Subsidiaries Fusion.

Under the provisions of articles 49.1 and 51 of Law 3/2009, of April 3, on structural modifications of commercial companies ("LME"), it was not necessary to approve any of the two merger operations described by the boards of shareholders or sole shareholders, as the case may be, of the participating companies in the corresponding merger, as the entities being fully absorbed by the respective absorbing companies are shareholders, and the shareholders of these companies are not invited to the meeting in accordance with the provisions of article 51 of the LME.

Likewise, the aforementioned transactions constitute mergers of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax ("LIS"). The information required in article 86.1 of the aforementioned Law with respect to each of the two mergers is incorporated into this report (Annex VII).

Once the required authorization has been obtained from the Ministry of Economy and Business for each of the mergers (additional provision twelfth Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions), as well as the remaining regulatory authorizations to which each merger was conditioned:

i. On September 20, 2018, a merger deed was issued between Popular, Pastor and Popular BP, which was filed for registration with the Madrid Mercantile Registry on the same date and was registered on September 24, 2018. As a result , on the occasion of the registration of the Merger of Subsidiaries, and with an effective date on September 20, 2018, there was the extinction without liquidation of Pastor and Popular BP and the en bloc transmission of all of their respective patrimonies to Popular, that acquired them by universal succession and without solution of continuity.

ii. Also on September 20, 2018, the merger deed between Banco Santander and Popular was granted, which was presented for registration in the Mercantile Registry of Cantabria on September 26, 2018 and was registered on the 28th of that same month. Consequently, on the occasion of the registration of this merger, and with an effective date of September 26, 2018, the extinction without liquidation of Popular occurred and the block transfer of all of its assets to Banco Santander, which acquired it by universal succession and without continuity solution.

Given that the companies absorbed in both operations were wholly owned by the absorbing entities, in accordance with article 49.1, in relation to article 26 of the LME, capital increases were not necessary. Acquired effectiveness of these mergers in the respective dates indicated above, all the shares of the absorbed companies were fully amortized, extinguished and cancelled.

The merger balances in both transactions, for the purposes of Spanish legislation, were included in the financial statements for the year ended December 31, 2017, drawn up by the administrative bodies of each of the participating companies in the corresponding merger and duly verified by their respective auditors.

In accordance with the accounting regulations applicable, for accounting purposes, each of the mergers was set on January 1, 2018 as the date from which the operations of the absorbed companies were to be considered by the Absorbing societies.

Furthermore, pursuant to article 89.1 of the LIS, both mergers were subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, approving the Revised Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Below are the balance sheets of the absorbed companies as of December 31, 2017:

ASSETS (EUR million)	Banco Popular 31-12-2017 (Circular 4/2004)	Banco Pastor 31-12-2017 (Circular 4/2004)	Popular Banca Privada 31-12-2017 (Circular 4/2004)
Cash, cash balances at central banks and other deposits on demand	**8,784**	**1,320**	**345**
Financial assets held for trading	**1,142**	**32**	-
Derivatives	1,142	32	-
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans and advances	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans and advances	-	-	-
Financial assets available-for-sale	**14,619**	**27**	**464**
Equity instruments	190	-	4
Debt instruments	14,429	27	460
Loans and receivables	**72,598**	**8,629**	**156**
Debt instruments	857	-	-
Loans and advances	71,741	8,629	156
Investments held to maturity	-	-	-
Investments	**1,819**	**2**	**4**
Other assets	**14,175**	**240**	**34**
TOTAL ASSETS	**113,137**	**10,250**	**1,003**

LIABILITIES (EUR million)	Banco Popular 31-12-2017	Banco Pastor 31-12-2017	Popular Banca Privada 31-12-2017
Financial liabilities held for trading	**1,210**	**32**	-
Derivatives	1,210	32	-
Short positions	-	-	-
Deposits	-	-	-
Debt instruments issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-
Deposits	-	-	-
Debt instruments issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities at amortized cost	**103,366**	**9,801**	**869**
Deposits	92,366	9,775	866
Debt instruments issued	10,121	-	-
Other financial liabilities	879	26	3
Hedging derivatives	724	-	**21**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Provisions	**1,112**	48	**13**
Commitments and guarantees given	102	8	-
Other provisions	1,010	40	13
Rest of liabilities	936	38	22
TOTAL LIABILITIES	**107,348**	**9,919**	**925**

EQUITY (EUR million)	Banco Popular 31-12-2017	Banco Pastor 31-12-2017	Popular Banca Privada 31-12-2017
Shareholders' equity	**5,836**	**329**	**71**
Capital	**3,420**	**301**	**23**
Share premium	**4,144**	**205**	**-**
Equity instruments issued other than capital	**-**	**-**	**-**
Other equity	**-**	**-**	**-**
Accumulated retained earnings	**3,440**	**45**	**50**
Revaluation reserves	**-**	**-**	**-**
Other reserves	**8,427**	**-17**	**-**
(-) Own shares	**-**	**-**	**-**
Profit attributable to shareholders' of the parent	**-13,595**	**-205**	**-2**
(-) Interim dividends	**-**	**-**	**-**
	-47	**2**	**7**
Other comprehensive income	**-18**	**-**	**-**
Items not reclassified to profit or loss	-18	-	-
Actuarial gains or losses on defined benefit pension plans	-	-	-
Non-current assets and disposable groups of items that have been classified as held for sale	-	-	-
Share in other recognised income and expenses of investments in joint ventures and associates	-	-	-
Other valuation adjustments	**-29**	**2**	**7**
Items that may be reclassified to profit or loss	-	-	-
Hedge of net investment in foreign operations (effective part)	-	-	-
Exchange differences	-56	-	-
Hedging derivatives. Cash flow hedges (effective part)	27	2	7
Financial assets available for sale	*25*	-	*7*
Debt instruments	*2*	-	-
Equity instruments	-	-	-
Non-current assets	-	-	-
Share in other income and expenses recognised in investments in joint ventures and associates	-	-	-
Non controlling interests	-	-	-
Other comprehensive income	-	-	-
Other elements	-	-	-
PATRIMONIO NETO	**5,789**	**331**	**78**
TOTAL PASIVO Y PATRIMONIO NETO	**113,137**	**10,250**	**1,003**

In accordance with the provisions of the applicable regulations, as a result of the accounting record of these merger transactions by absorption carried out by the Bank in the year 2018, an increase in the Bank's voluntary reserves in said fiscal year has been shown. million euros (Note 29), corresponding to the difference between 6,880 million euros due to the decrease in the interest in Banco Popular Español, SAU and 6,898 million of the consolidated net value of the assets and liabilities included in the Bank's balance sheet from the absorbed companies.

Santander Investment Bolsa, Sociedad de Valores, S.A.U.

On April 23, 2018 the members of the Boards of Directors of Banco Santander, S.A. and Santander Investment Bolsa, Sociedad de Valores, S.A.U. ("SIBSV") drafted and approved the common merger project between Banco Santander (as absorbing company) and SIBSV (as absorbed company).

Under the provisions of articles 49.1 and 51 of the LME, it was not necessary to approve the aforementioned merger by the sole shareholder of SIBSV, as it is wholly owned by Banco Santander, nor by the shareholders' meeting of Banco Santander, as it does not require it its shareholders in accordance with the provisions of article 51 of the LME.

Likewise, the operation described here constitutes a merger of those regulated in article 76.1.c) of the LIS. The information required in article 86.1 of the aforementioned Law with respect to the merger between Banco Santander and SIBSV is incorporated into this report (Annex VIII).

Once the required authorization has been obtained from the Ministry of Economy and Business (additional provision twelfth of Law 10/2014, of June 26, on the supervision and solvency of credit institutions), as well as of the National Securities Market Commission (article 149, by reference of article 159, of the Consolidated Text of the Securities Market Law), on November 23, 2018 the corresponding merger deed was granted, which was submitted for registration and was registered in the Mercantile Registry of Cantabria on December 3, 2018. Consequently, on the occasion of the registration of this merger, and with effect date on December 3, 2018, the extinction without liquidation of SIBSV occurred and the block transfer of all of its assets Banco Santander, which acquired it by universal succession and without continuity solution. Given that the absorbed company was wholly owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquisition of the merger with the aforementioned date of effects, all the shares of SIBSV were fully amortized, extinguished and cancelled.

The following were considered as merger balances, for the purposes of Spanish legislation, those included in the financial statements for the year ended December 31, 2017, formulated by the boards of directors of Banco Santander and SIBSV and duly verified by their respective auditors.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, January 1, 2018 was set as the date from which the operations of SIBSV were to be considered by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described here was subject to the fiscal regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10. of the Royal Legislative Decree 1/1993, of September 24, approving the Revised Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

The following is the balance sheet of SIBSV as of December 31, 2017 (in thousands of euros):

Santander Investment Bolsa, Sociedad de Valores S.A
(in thousand of euros)

ASSETS	2017	LIABILITIES AND EQUITY	2017
Negotiation portfolio	169	Financial liabilities at amortized cost	2,862
Financial assets available for sale	2	Provisions	3,213
Credit investments	174,491	Tax liabilities	72
Active material	40	Remains of liabilities	38,514
Intangible asset	747		
Tax assets	2,481	TOTAL LIABILITIES	44,661
Other assets	64,995		
		OWN FUNDS	198,378
		Capital	24,882
		Issuance premium	51,196
		Reservations	1,175,971
		Result of the excersice	6,329
		Adjustments by Valuation	(114)
		TOTAL EQUITY	198,264
TOTAL ASSETS	**242,925**	**TOTAL LIABILITIES AND EQUITY**	**242,925**

In application of the applicable regulations, as a consequence of the accounting record of this operation of merger by absorption indicated above carried out by the Bank in the year 2018, an increase in the Bank's voluntary reserves was shown in said financial year. 1 million euros due to the decrease in the shareholding in the absorbed company (Note 29).

Popular de Renting, S.A.U.

On June 25, 2018 the members of the Boards of Directors of Banco Santander, S.A. and Popular de Renting, S.A.U. ("Popular Renting") drafted and approved the common merger project between Banco Santander (as absorbing company) and Popular Renting (as absorbed company).

Under the provisions of articles 49.1 and 51 of the LME, it was not necessary to approve the aforementioned merger by the sole shareholder of Popular Renting, as it is wholly owned by Banco Santander, nor by the shareholders' meeting of Banco Santander, as it is not require its shareholders in accordance with the provisions of article 51 of the LME.

Likewise, the operation described here constitutes a merger of those regulated in article 76.1.c) of the LIS. The information required in article 86.1 of the aforementioned Law with respect to the merger between Banco Santander and Popular Renting is incorporated into this report (Annex VIII).

Once the required authorization has been obtained from the Ministry of Economy and Business (additional provision twelfth of Law 10/2014, of June 26, on the supervision and solvency of credit institutions), on December 18, 2018, the corresponding deed was granted of merger, which was submitted for registration in the Mercantile Registry of Cantabria on December 28, 2018 and was registered on January 8, 2019. As a result, on the occasion of the registration of this merger, and with effect date 28 December 2018, there was the extinction without liquidation of Popular Renting and the block transfer of all its assets to Banco Santander, which acquired it by universal succession and without interruption. Given that the absorbed company was wholly owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquisition of the merger with the aforementioned effects date, all of Popular Renting's shares were fully amortized, extinguished and cancelled.

The following were considered as merger balances, for purposes of Spanish legislation, those included in the financial statements for the year ended December 31, 2017, formulated by the boards of directors of Banco Santander and Popular Renting and duly verified by their respective auditors.

In accordance with the applicable accounting regulations, for accounting purposes, January 1, 2018 was set as the date from which the Popular Renting transactions were to be considered by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described here was subject to the fiscal regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10. of the Royal Legislative Decree 1/1993, of September 24, approving the Consolidated Text of Transfer Tax and Documented Legal Acts.

The following is the balance sheet of Popular de Renting, S.A.U. as of December 31, 2017 (in thousands of euros):

Popular de Renting S.A
(in thousand of euros)

ASSETS	2017	LIABILITIES AND EQUITY	2017
NON-CURRENT ASSETS	60,838	EQUITY	8,043
Long-term financial investments	60,838	Own funds	8,043
		Capital	3,005
CURRENT ASSETS	4,420	Reservations	2,480
Commercial debts and others bills to receive the pay,	293	Results of past exercises	1,382
Short-term financial investments	3,445	Result of the exercise	1,176
Short-term accruals	681		
Cash and other equivalent liquid assets	409	NON-CURRENT LIABILITIES	2,795
		Long term debts	2,795
		CURRENT LIABILITIES	54,420
		Short-term provisions	56
		Short term debts,	1,330
		Debts with group companies and short-term associates	51,254
		Commercial debitors and other accounts payable	1,377
		Short-term accruals	403
TOTAL ASSETS	65,258	TOTAL EQUITY AND LIABILITIES	65,258

In application of the provisions of the applicable regulations, as a result of the accounting record of this operation of merger by absorption indicated above carried out by the Bank in the year 2018, no change in the Bank's voluntary reserves was shown in that year due to the decrease in the share in the absorbed company (Note 29).

- Merger by absorption between Banco Santander, S.A. (absorbing company) and (a) Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, SAU, Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, SAU, Santander US Debt, S.A.U., Santander Issuer 150, S.A.U., Santander International Preferred, S.A.U. (as absorbed companies); (b) Fomento e Inversiones, S.A.U. (as absorbed company).

  On June 26, 2017, the directors of Banco Santander and of each of the absorbed companies approved the joint merger project and the merger operation between Banco Santander (as absorbing company) and Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander US Debt, S.A.U., Santander Emisora 150, S.A.U. and Santander International Preferred, S.A.U. (as absorbed companies).

  Also, on June 26, 2017, took place the approval of the common merger project and the merger operation between Banco Santander (as absorbing company) and Fomento e Inversiones, S.A.U. (as absorbed company) by the administrators of both companies.

  Under the provisions of articles 49.1 and 51 of Law 3/2009, of April 3, on the structural modifications of commercial companies ("LME"), it was not necessary to approve any of the mergers by the General Meeting of the Bank.

  Likewise, the aforementioned transactions constitute mergers of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax ("LIS").

  (a) Santander Finance Capital, S.A.U, Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Paper, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander US Debt, S.A.U., Santander Emisora 150, S.A.U., Santander International Preferred, S.A.U.

  Once the mandatory authorization was obtained from the Ministry of Economy, Industry and Competitiveness Law 10/2014, of June 26, on the organization, supervision and solvency of the credit institutions) on December 20, 2017, the parallel deed of merger was granted, registered in the Mercantile Registry of Cantabria, the date of effects is December 27, 2017, the extinction and liquidation of Santander Finance Capital, S.A.U., Santander Finance Preferred, S.A.U., Santander Issuances, S.A.U., Santander Commercial Papel, S.A.U., Santander International Debt, S.A.U., Santander Perpetual, S.A.U., Santander American Debt, S.A.U., Santander Emisora 150, S.A.U., Santander International Preferred, S.A.U., respectively, and the block transfer of all of their respective assets to Banco Santander. It should be noted that the merger, for accounting purposes, has been registered by Banco Santander, S.A. in the year 2017.

  Inasmuch as the absorbing companies were entirely composed of Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquired effectiveness with expiration date on December 27, 2017, all the shares of the absorbed companies were fully amortized, extinguished and cancelled.

  The following were considered as merger balances, for the purposes of Spanish legislation, those included in the financial statements for the year ended December 31, 2016, formulated by the administrative bodies of each of the companies participating in the merger and, except in the case of Santander Emisora 150, S.A.U. that it was not subject to the obligation to audit its financial statements, subject to audit.

  In accordance with the provisions of the applicable accounting regulations, for accounting purposes, January 1, 2017 was set as the date from which the operations of the absorbed companies were to be considered by Banco Santander, S.A.

On the other hand, in accordance with article 89.1 of the LIS, the merger was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, approving the Consolidated Text of Transfer Tax and Documented Legal Acts.

The balance sheets of the absorbed companies as of December 31, 2016 are presented below:

SANTANDER FINANCE CAPITAL, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS	501,288	EQUITY	1,774
Investments in group entities and associates	501,288	SHAREHOLDER'S EQUITY	1,774
		Capital	151
		Reserves	940
		Results of previous periods	(81)
		Results for the period	764
		NON-CURRENT LIABILITIES	501,244
		Long term debts	501,244
CURRENT ASSETS	10,081	CURRENT LIABILITIES	8,351
Investments in group entities and associates	6,098	Short term debts	8,253
Cash and other equivalent liquid assets	3,983	Commercial debtors	22
		Short term accruals	76
TOTAL ASSETS	511,369	TOTAL LIABILITIES AND EQUITY	511,369

SANTANDER INTERNATIONAL PREFERRED, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(in thousand of euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS	939,227	EQUITY	199
Investments in group entities and associates	939,227	SHAREHOLDER'S EQUITY	199
		Capital	60
		Reserves	185
		Results of previous periods	(13)
		Results for the period	(33)
		NON-CURRENT LIABILITIES	939,193
		Long term debts	932,755
		Debts with group entities	6,438
CURRENT ASSETS	15.094	CURRENT LIABILITIES	14,929
Investments in group entities and associates	11,425	Short term debts	14,771
Cash and other equivalent liquid assets	3,669	Short term debts with group entities	102
		Commercial debtors	22
		Short term accruals	34
TOTAL ASSETS	954,321	TOTAL LIABILITIES AND EQUITY	954,321

SANTANDER ISSUANCES, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	6,099,588	EQUITY	780
Investments in group entities and associates	6,095,450	SHAREHOLDERS EQUITY	780
Derivatives	4,138	Capital	60
		Reserves	1,661
		Profit for the period	(941)
		NON CURRENT LIABILITES	6,051,150
		Long term debt	6,013,124
		Long term debt with group entities and associates	33,888
		Derivatives	4,138
ACTIVO CORRIENTE	298,863	CURRENT LIABILITES	346,521
Short term investments in group entities and associates	280,420	Short term debt	297,690
Debtors	3	Short term debt with group entities and associates	76
Cash and other assets liquid equivalents	18,440	Commercial creditors and other accounts payable	63
		Short term accrual	48,692
TOTAL ASSETS	6,398,451	TOTAL LIABILITIES AND EQUITY	6,398,451

SANTANDER PERPETUAL, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS:	2,173,015	EQUITY:	1,477
Investments in group entities and associates	2,173,015	SHAREHOLDERS EQUITY	1,477
		Capital	151
		Reserves	1,357
		Prior period profit	(59)
		Profit for the period	28
		NON CURRENT LIABILITES:	2,172,984
		Long term debt	171,882
		Debt with group entities and associates	2,001,102
CURRENT ASSETS:	19,890	CURRENT LIABILITES:	18,444
Short term investments in group entities and associates	18,202	Short term debt	236
Cash and other assets liquid equivalents	1,688	Short term debt with group entities and associates	17,966
		Commercial creditors and other accounts payable	23
		Short term accrual	219
TOTAL ASSETS	2,192,905	TOTAL EQUITY AND LIABILITIES	2,192,905

SANTANDER US DEBT, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31,E 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY	289
		Shareholders´equity	289
		Capital	270
		Reserves	450
		Prior period profit	(170)
		Profit for the period	(261)
CURRENT ASSETS	311	CURRENT LIABILITES:	22
Deferred tax assets	94	Commercial creditors and other accounts payable	22
Cash and other assets liquid equivalents	217		
TOTAL ASSETS	311	TOTAL EQUITY AND LIABILITIES	311

SANTANDER FINANCE PREFERRED, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	2,347,824	EQUITY	5,799
Investments in group entities and associates	2,347,824	SHAREHOLDERS EQUITY	5,799
		Capital	151
		Reserves	5,622
		Profit for the period	26
		NON CURRENT LIABILITES	2,347,806
		Long term debt	846,326
		Long term debt with group entities and associates	1,501,480
CURRENT ASSETS	21,022	CURRENT LIABILITES	15,241
Investments in group entities and associates	15,034	Short term debt	5,386
Cash and other assets liquid equivalents	5,988	Short term debt with group entities and associates	9,811
		Commercial creditors and other accounts payable	26
		Short term accrual	18
TOTAL ASSETS	2,368,846	TOTAL EQUITY AND LIABILITIES	2,368,846

SANTANDER COMMERCIAL PAPER, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY	4,381
		SHAREHOLDERS EQUITY	4,381
		Capital	151
		Reserves	3,961
		Profit for the period	269
CURRENT ASSETS	7,024,361	CURRENT LIABILITES	7,019,980
Investments in group entities and associates	7,019,425	Short term debt	6,799,451
Short term accrual	54	Debt with group entities and associates	220,255
Cash and other assets liquid equivalents	4,882	Commercial creditors and other accounts payable	274
TOTAL ASSETS	7,024,361	TOTAL PATRIMONIO NETO Y PASIVO	7,024,361

SANTANDER INTERNATIONAL DEBT, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
NON CURRENT ASSETS	9,585,764	EQUITY	8,106
Investments in group entities and associates	9,585,764	SHAREHOLDERS EQUITY	8,106
		Capital	180
		Reserves	8,277
		Profit for the period	(351)
		NON CURRENT LIABILITES:	9,585,759
		Long term debt	8,618,609
		Long term debt with group entities and associates	939,389
		Long term accrual	27,761
CURRENT ASSETS	5,628,991	CURRENT LIABILITES:	5,620,890
Investments in group entities and associates	5,566,934	Short term debt	5,256,719
Cash and other assets liquid equivalents	62,057	Short term debt with group entities and associates	358,909
		Commercial creditors and other accounts payable	98
		Short term accrual	5,164
TOTAL ASSETS	15,214,755	TOTAL EQUITY AND LIABILITIES	15,214,755

SANTANDER EMISORA 150, S.A. (SOCIEDAD UNIPERSONAL)

BALANCE AT 31 DECEMBER 31, 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL EQUITY AND LIABILITIES	2016
		EQUITY:	966
		SHAREHOLDERS EQUITY	966
		Capital	60
		Reserves	976
		Prior period profit	(59)
		Profit for the period	(11)
CURRENT ASSETS	968	NON CURRENT LIABILITES	2
Cash and other assets liquid equivalents	968	Commercial creditors and other accounts payable	2
TOTAL ASSETS	968	TOTAL EQUITY AND LIABILITIES	968

In accordance with the provisions of the applicable regulations, as a result of the accounting record of this merger by absorption operation carried out by the Bank in the year 2017, an increase in the Bank's voluntary reserves in said fiscal year has been shown for 313 million euros (Note 29), due to the decrease in the interest in the nine companies absorbed in 23 million euros and 290 million euros for the equity effect of the elimination intergroup positions of the Bank and the absorbed companies.

(b) Fomento e Inversiones, S.A.U.

Once the required authorisation was received from the Ministry of Economy and Competitiveness (additional provision twelfth of Law 10/2014, of June 26, on the supervision and solvency of credit institutions) 28 December 2017, and on achievement of the remaining conditions to which the merger was subject, the related merger deed was executed and filed at the Cantabria Mercantile Registry and Santander Carteras was extinguished without liquidation of Fomento e Inversiones, S.A.U. and all of its equity was transferred en bloc to Banco Santander. For accounting purposes, the merger was registered in the year 2017. Given that the absorbed company was completed fully owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. Acquisition of the merger with effective date on February 6, 2018, all the shares of Fomento e Inversiones, S.A.U. they were fully retired, extinguished and annulled.

For the purposes of Spanish legislation, the merger balance sheets included in the financial statements for the year ended 31 December 2016, authorised for issue by the boards of directors of Banco Santander and Fomento e Inversiones, S.A.U. and subject to audit.

According to applicable accounting regulations for accounting purposes, January 1, 2017 was set as the date from which the operations of Fomento e Inversiones, S.A.U. was carried out by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described was subject to the tax system established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10 of the Royal Legislative Decree 1/1993, of September 24, approving the Consolidated Text of Transfer Tax and Documented Legal Acts.

The following is the balance sheet of Fomento e Inversiones, S.A.U. at December 31, 2016 (in millions of euros):

FOMENTO E INVERSIONES, S.A.U.

BALANCE 31 DE DECEMBER DE 2016

(Thousands of euros)

TOTAL ASSETS	2016	TOTAL LIABILITIES AND EQUITY	2016
NON-CURRENT ASSETS		NON-CURRENT LIABILITIES	
Investments in group entities and associates	1,115,329	Long term debts with group entities	435,500
		Deferred tax liabilities	
Long-term financial investment	2,820		5
		CURRENT LIABILITIES	
		Short term debts with group entities	624,663
CURRENT ASSETS		Commercial debtors	9
Investment in group entities	76,916		
Other financial assets	63,912		
	644		
Cash and cash equivalent		TOTAL LIABILITIES	1,060,177
Credit to companies	13,004		
		EQUITY	
		Shareholder´s equity	135,521
		Valuation Adjustment	11
		TOTAL EQUITY	135,532
TOTAL ASSETS	1,195,709	TOTAL LIABILITIES AND EQUITY	1,195,709

According to the applicable regulations, as a result of the accounting record of this merger by absorption indicated above carried out by the Bank in the year 2017, an increase in the Bank's voluntary reserves was shown in this fiscal year. 51 million euros due to the decrease in the interest in the absorbed company (Note 29).

j) Events after the reporting period

On 6 February the Bank announced that it had completed the placement of preferred securities contingently convertible into newly issued ordinary shares of the Bank, excluding preemptive subscription rights and for a nominal value of USD 1,200,000,000 (EUR 1,052,000,000) (the “Issue” and the “CCPS”).

The CCPS were issued at par and its remuneration has been set at 7.50% on an annual basis for the first five years. The payment of the remuneration of the CCPS is subject to certain conditions and to the discretion of the Bank. After that, it will be reviewed every five years by applying a margin of 498.9 basis points on the 5-year Mid-Swap Rate.

k) Other information

As a consequence of the changes in the Financial Services Act (Banking Reform) of 2013 and the requirements of the Prudential Regulation Authority (PRA) in the United Kingdom, as of January 1, 2019, the entities in United Kingdom with retail deposits of more than 25,000 million pounds are obliged to compartmentalize (ring-fencing) their businesses, separating basic retail operations from other activities that take place outside the delimitation, such as investment banking, wholesale or international and that are designated as prohibited or excluded.

The Banking Reform Legislation in the United Kingdom specifies:

- Certain services or banking activities whose performance would lead a bank in the United Kingdom to be "ring-fenced bank".

- Certain banking services or activities, along with certain types of credit risk exposures, which a ring-fenced bank will be prohibited from conducting (prohibited business).

In order to comply with the requirements of this new regime, Santander UK has separated its retail business into rings (ring fencing) from other activities and during 2018, it has transferred to the Banco Santander, S.A. branch in London all the prohibited operations of wholesale banking.

Specifically, during 2018 from the United Kingdom they were transferred to the branch of Banco Santander S.A. in London EUR 1,600 millions of customer loans, EUR 24,300 millions in other assets (EUR 22,300 related to derivatives trading) and EUR 23,300 millions of liabilities (EUR 21,300 millions related to derivatives trading).

2. Accounting policies

The accounting policies applied in preparing the financial statements were as follows:

a) Foreign currency transactions

The Bank's functional currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

In general, foreign currency balances, including those of branches in countries not belonging to the Monetary Union, were translated to euros at the average official exchange rates prevailing on the Spanish spot foreign exchange market at each year-end (using the market price of the US dollar in local markets in the case of currencies not traded in the Spanish market).

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 the fair value of those financial instruments.

b) *Investments in subsidiaries, jointly controlled entities and associates*

Subsidiaries or Group entities are defined as entities over which the Bank has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, as in the case of agreements with shareholders of the investee, the Bank is granted control. Control is the power to govern the financial and operating policies of an entity, as stipulated by the law, the Bylaws or agreement, so as to obtain benefits from its activities.

Joint ventures are deemed to be ventures 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 entities (venturers) acquire interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the venturers.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

Investments in subsidiaries, jointly controlled entities and associates are presented in the balance sheet at acquisition cost, net of any impairment losses.

When there is evidence of impairment of these investments, the amount of the related impairment loss is equal to the difference between the carrying amount of the investments and their recoverable amount. Impairment losses are recognised with a charge to Impairment losses on other assets (net) - Other assets in the income statement.

As at 31 December 2018, the Bank controls Luri 1 S.A. in which it held an ownership interest of 36% (see Appendix I). Although the Bank holds less than half the voting power, it manages and, as a result, exercises control over this entity. The company object of this 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.

At 31 December 2018, the Bank exercised joint control of Luri 3, S.A., despite holding 10% of its share capital. This decision is based on the Bank's presence on the company's board of directors, in which the agreement of all members is required for decision-making.

Appendices I and II contain significant information on these companies. In addition, Note 13 provides information on the most significant acquisitions and disposals in 2018 and 2017.

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 a variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidated group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Group as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Group estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

Capital perpetual preference shares ("CPPSs"), with the possibility of purchase by the issuer in certain circumstances, whose remuneration is discretionary, and which will be amortised permanently, totally or partially, in the event that the Bank or its consolidated group submits a capital ratio lesser than a certain percentage (trigger event), as defined in the corresponding prospectuses, are accounted for by the Group as equity instruments.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and joint ventures (see Note 13).
- Rights and obligations under employee benefit plans (see Note 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.

The classification criteria for financial assets depends on the business model for their management and the characteristics of their contractual flows.

The Bank's business models refer to the way in which it manages its financial assets to generate cash flows. In defining these models, the Bank takes into account the following factors:

- How key management staff are assessed and reported on the performance of the business model and the financial assets held in the business model.

- The risks that affect the performance of the business model (and the financial assets held in the business model) and, specifically, the way in which these risks are managed.

- How business managers are remunerated.

- The frequency and volume of sales in previous years, as well as expectations of future sales.

The analysis of the characteristics of the contractual flows of financial assets requires an assessment of the congruence of these flows with a basic loan agreement. Contractual cash flows that are only principal and interest payments on the outstanding principal amount meet this requirement.

Depending on these factors, the asset can be measured at amortized 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, under certain conditions. The Bank uses the following criteria for the classification of financial debt instruments:

- Amortized cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are considered to be those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a "basic financing agreement".

- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”. In this section it can be enclosed the portfolios classified under “Financial assets held for trading”, “Non-trading financial assets mandatorily at fair value through profit or loss” and “Financial assets at fair value through profit or loss”.

Equity instruments will be classified at fair value under Bank of Spain Circular 4/2017, with changes in profit or loss, unless the Bank decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) in the initial moment. The Bank has generally applied this option to the equity instruments classified as “Available-for-sale” at 31 December 2017 under Bank of Spain Circular 4/2004 and subsequent amendments. In general, the Bank has applied this option in the case of equity instruments classified under "Available for Sale" at 31 December 2017 under Bank of Spain Circular 4/2004 and subsequent amendments.

Until 31 December 2017, the Bank applied Bank of Spain Circular 4/2004 and subsequent amendments, under the following three categories existed that are not applicable under Bank of Spain Circular 4/2017 (See note 1.b):

- Financial assets available-for-sale: this category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and joint ventures, provided that such instruments have not been classified as Financial assets held for trading or as Financial assets designated at fair value through profit or loss.

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Bank's business.

- Investments held-to-maturity: this category includes debt instruments with fixed maturity and with fixed or determinable payments, for which the Bank has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash, cash balances at Central Banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.

- Loans and advances: includes the debit balances of all credit and loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Bank, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:

  - Central banks: credit of any nature, including deposits and money market operations received from the Bank of Spain or other central banks.

  - Credit institutions: credit of any nature, including deposits and money market operations, in the name of credit institutions.

  - Customers: includes the remaining credit, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, joint ventures or associates. Investment fund units are included in this item.

- Derivatives: includes the fair value in favour of the Bank of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the 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 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 4/2004 and subsequent amendments financial liabilities classification and measurement criteria remains substantially unchanged under Bank of Spain Circular 4/2017. Nevertheless, in most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

Financial liabilities are included for measurement purposes in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements ("reverse repos") or borrowed (short positions).

- Financial liabilities designated at fair value through profit or loss: financial liabilities are included in this category when they provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Deposits: includes all repayable balances received in cash by the Group, other than those instrumented as marketable securities and those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors), except for the debt instruments . This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

  - Central banks: deposits of any nature, including credit received and money market operations received from the Bank of Spain or other central banks.

  - Credit institutions: deposits of any nature, including credit received and money market operations in the name of credit institutions.

  - Customer: includes the remaining deposits, including money market operations through central counterparties.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors, and includes the amount of the financial instruments issued by the Bank which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued). This item includes the component that has the consideration of financial liability of the securities issued that are compound financial instruments.

- Derivatives: includes the fair value, with a negative balance for the Bank, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

  Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the 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 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. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

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 2018 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 assets.

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in Gains/losses on financial assets and liabilities held for trading (net) in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (present value or theoretical close) using valuation techniques commonly used by the financial markets: net present value (NPV), option pricing models and other methods.

The amount of debt securities and loans and advances under a business model whose objective is to collect the principal and interest flows are valued at their amortised cost, using the effective interest rate method in their determination. Amortised cost refers to the acquisition cost of a corrected financial asset or liability (more or less, as the case may be) for repayments of principal and the part systematically charged to the consolidated income statement of the difference between the initial cost and the corresponding reimbursement value at expiration. In the case of financial assets, the amortised cost includes, in addition, the corrections to their value due to the impairment. In the loans and advances covered in fair value hedging transactions, the changes that occur in their fair value related to the risk or the risks covered in these hedging transactions are recorded.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Unquoted equity instruments which cannot be reliably measured in a sufficiently objective manner and financial derivatives that have those instruments as their underlying and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, by any related impairment loss.

The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Financial liabilities designated at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2018 and 2017 of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Millions of euros					
	2018 (*)			2017		
	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total
Financial assets held for trading	37,108	55,771	92,879	58,215	67,243	125,458
Non-trading financial assets mandatorily at fair value through profit or loss	1,835	8,895	10,730			
Financial assets designated at fair value through profit or loss	3,102	54,358	57,460	3,823	30,959	34,782
Financial assets at fair value through other comprehensive income	103,590	17,501	121,091			
Financial assets available-for-sale (1)				113,258	18,802	132,060
Hedging derivatives (assets)	-	8,607	8,607	-	8,537	8,537
Financial liabilities held for trading	16,104	54,239	70,343	21,828	85,796	107,624
Financial liabilities designated at fair value through profit or loss	987	67,071	68,058	769	58,847	59,616
Hedging derivatives (liabilities)	5	6,358	6,363	8	8,036	8,044
Liabilities under insurance contracts	-	765	765	-	1,117	1,117

(1) In addition to the financial instruments measured at fair value shown in the foregoing table, at December 31, 2017, the Group held equity instruments classified as Financial assets available-for-sale and carried at cost amounting to EUR 1,211 million.

The same information in the table above, but referred to Banco Santander, S.A. it is presented below:

	Millions of euros								
	31/12/2018(*)			01/01/2018(**)			31/12/2017		
	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total
Financial assets held for trading	18,961	51,864	70,825	25,491	39,986	65,477	25,322	39,004	64,326
Non-trading financial assets mandatorily at fair value through profit or loss	41	3,710	3,751	19	2,966	2,985			
Financial assets designated at fair value through profit or loss	-	41,326	41,326	-	28,726	28,726	-	34,021	34,021
Financial assets at fair value through other comprehensive income	33,492	2,423	35,915	46,194	3,051	49,246			
Financial assets available-for-sale							31,239	2,570	33,809
Hedging derivatives (assets)	-	2,108	2,108	-	2,223	2,223	-	2,073	2,073
Financial liabilities held for trading	7,399	50,622	58,021	9,497	39,507	49,004	9,497	38,455	47,952
Financial liabilities designated at fair value through profit or loss	-	35,079	35,079	-	31,721	31,721	-	32,313	32,313
Hedging derivatives (liabilities)	-	3,506	3,506	-	4,751	4,751	-	4,014	4,014

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

The financial instruments at fair value determined on the basis of published price quotations in active markets (Level 1) include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The Group, to which Banco Santander, belongs to has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black-Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (Over-The-Counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as of-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDO, the correlation of joint default of several issuers is implied from the market. For FTD, NTD and bespoke CDO, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

The Credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

- Loss Given Default: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

The CVA at 31 December 2018 amounted to EUR 351 million (8.8% compared to 31 December 2017) and DVA amounted to EUR 261 million (18.9% compared to 31 December 2017) for Bank. The variations are due to the fact that credit spreads for the most liquid maturities have been increased in percentages over 30%.

With respect to Banco Santander, S.A. at 31 December 2018, CVA adjustments were recorded for an amount of 268,7 million euros (-17% vs. December 31, 2017) and DVA adjustments for an amount of 125,7 million euros (-43% vs. 31 December 2017). The decrease is due to the fact that credit spreads have been reduced by percentages greater than 40% in the most liquid terms and reductions in the exposure of the main counterparties.

In addition, the Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of 31 December 2018, 2017 and 2016.

As a result of the first application of IFRS9, the exposure at 1 January 2018, in level 3 financial instruments, has increased by EUR 2,183 million, mainly for loans and receivables, arising from new requirements regarding the classification and measurement of amortised cost items at other fair value items whose value is calculated using unobservable market inputs (see note 1.b).

With respect to Banco Santander, S.A., the exposure to January 1, 2018 in financial instruments of level 3 has increased by 623 million euros for the same reason as in the Group.

In addition, the Group has reclassified in 2018 to level 3 the market value of certain transactions of bonds, long-term repos and derivatives for an approximate amount of EUR 1,300 million, the reason for this classification has been mainly due to lack of liquidity in certain significant inputs in the fair value of the aforementioned financial instruments. The amount reclassified to Level 3 by Banco Santander, S.A. is EUR 1.020 million.

During 2018 and 2017 the Group has not carried out significant reclassifications of financial instruments between levels except the changes disclosed in the level 3 table.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, and poor quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Bank calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are described below:

- In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.

- In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

- For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.

- Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

- The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.

- The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2018 and 2017:

	Million of euros Fair values calculated using internal models at 31/12/18 (*)			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**140,659**	**4,473**		
Financial assets held for trading	**55,033**	**738**		
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers (**)	205	-	Present value method	Yield curves, FX market prices
Debt and equity instruments	314	153	Present value method	Yield curves, HPI, FX market prices
Derivatives	54,514	585		
Swaps	*44,423*	*185*	Present value method, Gaussian Copula (***)	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*617*	*2*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,778*	*149*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	-	-	Present value method	Yield curves, FX market prices
Index and securities options	*1,118*	*198*	Black-Scholes Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*4,578*	*51*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, Liquidity, Others
Hedging derivatives	**8,586**	**21**		
Swaps	*7,704*	*21*	Present value method	FX market prices, Yield curves, Basis
Interest rate options	*20*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*862*	-	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	**7,492**	**1,403**		
Equity instruments	985	462	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	5,085	481	Present value method	Interest rates curves
Loans and receivables (***)	1,422	460	Present value method, swap asset model & CDS	Interest rates curves and Credit curves
Financial assets designated at fair value through profit or loss	**53,482**	**876**		
Central banks	9,226	-	Present value method	Interest rates curves, FX market prices
Credit institutions	22,897	201	Present value method	Interest rates curves, FX market prices
Customers	21,355	560	Present value method	Interest rates curves, FX market prices, HPI
Debt instruments	4	115	Present value method	Interest rates curves, FX market prices
Financial assets at fair value through other comprehensive income	**16,066**	**1,435**		
Equity instruments	455	581	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	14,699	165	Present value method	Interest rates curves, FX market prices
Loans and receivables	912	689	Present value method	Interest rates curves, FX market prices and Credit curves
Financial assets available for sale				
Debt instruments				
LIABILITIES	**127,991**	**442**		
Financial liabilities held for trading	**53,950**	**289**		
Central banks	-	-	Present value method	Yield curves, FX market prices
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers	-	-	Present value method	Yield curves, FX market prices
Derivatives	53,950	289		
Swaps	*43,489*	*111*	Present value method, Gaussian Copula (****)	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*610*	*7*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*4,411*	*26*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*1,233*	*143*	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*7*	-	Black's Model	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*4,200*	*2*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Short positions	-	-	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,352**	**6**		
Swaps	*5,868*	*6*	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*158*	-	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*326*	-	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**66,924**	**147**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**765**	-		

	Millions of euros		
	Fair values calculated using internal models at 31/12/17		
	Level 2	Level 3	Valuation techniques
ASSETS:	**124,178**	**1,363**	
Financial assets held for trading	**66,806**	**437**	
Credit institutions	1,696	-	Present value method
Customers (**)	8,815	-	Present value method
Debt and equity instruments	335	32	Present value method
Derivatives	55,960	405	
Swaps	*44,766*	*189*	Present value method, Gaussian Copula (****)
Exchange rate options	*463*	*5*	Black-Scholes Model
Interest rate options	*4,747*	*162*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	*2*	-	Present value method
Index and securities options	*1,257*	*5*	Black-Scholes Model
Other	*4,725*	*44*	Present value method, Monte Carlo simulation and others
Hedging derivatives	**8,519**	**18**	
Swaps	*7,896*	*18*	Present value method
Exchange rate options	-	-	Black-Scholes Model
Interest rate options	*13*	-	Black's Model
Other	*610*	-	N/A
Financial assets designated at fair value through profit or loss	**30,677**	**282**	
Credit institutions	9,889	-	Present value method
Customers (****)	20,403	72	Present value method
Debt and equity instruments	385	210	Present value method
Financial assets available-for-sale	**18,176**	**626**	
Debt and equity instruments	18,176	626	Present value method
LIABILITIES:	**153,600**	**196**	
Financial liabilities held for trading	**85,614**	**182**	
Central banks	282	-	Present value method
Credit institutions	292	-	Present value method
Customers	28,179	-	Present value method
Derivatives	56,860	*182*	
Swaps	*45,041*	*100*	Present value method, Gaussian Copula (****)
Exchange rate options	*497*	*9*	Black-Scholes Model
Interest rate options	*5,402*	*19*	Black's Model, Heath-Jarrow- Morton Model
Index and securities options	*1,527*	*41*	Black-Scholes Model
Interest rate and equity futures	*1*	-	Black's Model
Other	*4,392*	*13*	Present value method, Monte Carlo simulation and others
Short positions	1	-	Present value method
Hedging derivatives	**8,029**	**7**	
Swaps	*7,573*	*7*	Present value method
Exchange rate options	-	-	
Interest rate options	*287*	-	Black's Model
Other	*169*	-	N/A
Financial liabilities designated at fair value through profit or loss	**58,840**	**7**	Present value method
Liabilities under insurance contracts	**1,117**	**-**	

(*) 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 0 million at 31 December 2018 (31 December 2017 and 2016: net fair value of EUR 0 million and EUR -1 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(****) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

The same information from the previous table, but referred to Banco Santander, S.A., is presented below:

	Millions of euros		Millions of euros			
	Fair values calculated using internal models at 31/12/18(*)		Fair values calculated using internal models at 01/01/18(**)			
	Level 2	Level 3	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**98,196**	**3,233**	**75,430**	**1,581**		
Financial assets held for trading	**51,458**	**406**	**39,596**	**390**		
Credit institutions	-	-	-	-	Present value method	Yield curves, FX market prices
Customers (**)	19		5	-	Present value method	Yield curves, FX market prices
Debt and equity instruments	1,023	32	915	32	Present value method	Yield curves, FX market prices
Derivatives	50,416	374	38,659	358		
Swaps	*42,766*	*364*	*30,901*	*358*	Present value method, Gaussian Copula (b)	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*4,470*	-	*4,230*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,511*	*1*	*3,010*	-	Black's Model, Heath-Jarrow- Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*32*	-	*25*	-	Present value method	Yield curves, FX market prices
Index and securities options	*674*	*9*	*318*	-	Black's Model, Heath-Jarrow- Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Other	*(37)*	-	*175*	-	Present value method , Modelos de volatilidad estocásticos avanzados y otros	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, Liquidity, Others
Hedging derivatives	**2,086**	**21**	2,206	18		
Swaps	*1,702*	*21*	1,692	18	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*263*	,	459	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*115*	-	49	-		
					Present value method, Modelos de volatilidad estocásticos avanzados y otros	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**2,747**	**962**	**2,455**	**509**		
Equity instruments	42	141	13	54		Yield curves, FX market prices & EQ, Dividends, Others
Debt instruments	1,335	641	63	318	Present value method	
Loans and receivables (**)	1,370	180	2,379	137		
Financial assets designated at fair value through profit or loss	**40,585**	**740**	28,727	-		
Central banks	103		-	-	Present value method	Yield curves, FX market prices
Credit institutions	17,335	201	5,949	-	Present value method	Yield curves, FX market prices
Customers	23,147	539	22,778	-	Present value method	Yield curves, FX market prices, HPI
Debt instruments	-		-	-	Present value method	FX market prices, Yield curves
Financial assets at fair value through other comprehensive income	**1,320**	**1,104**	**2,446**	**664**	Present value method	Yield curves , FX market prices & EQ, Dividends, Liquidity, Other
Equity instruments	343	331	347	664		
Debt instruments	326	-	1,525	-		
Loans and receivables	651	773	574	-		
Financial assets available for sale						
Debt instruments						
LIABILITIES	**88,737**	**470**	**75,680**	**298**	Present value method	Yield curves, FX market prices
Financial liabilities held for trading	**50,301**	**321**	**39,216**	**291**	Present value method	Yield curves, FX market prices
Central banks	-	-	-	-	Present value method	Yield curves, FX market prices
Credit institutions	-	-	-	-		
Customers	-	-	-	-		
Derivatives	50,301	321	39,216	291	Present value method, Gaussian Copula (b)	Yield curves, FX market prices, Basis, Liquidity, HPI
Swaps	*40,634*	*306*	*28,157*	*291*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Exchange rate options	*4,406*	-	*4,263*	-	Black's Model, Heath-Jarrow- Morton Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,416*	*9*	*2,959*	-	Black-Scholes Model	Yield curves, FX market prices
Index and securities options	*34*	-	*24*	-	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*543*	-	*1,155*	-	Present value method	Yield curves, FX market prices y equity
Other	*2,267*	*6*	*2,659*	-	Present value method	Yield curves, FX market prices y equity
Short positions	-	-	-	-		
Hedging derivatives	**3,499**	**7**	**4,744**	**7**	Present value method	Yield curves, FX market prices, Basis
Swaps	*3,075*	*7*	*4,428*	*7*		
Exchange rate options	*273*	-	*128*		Black's Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*150*	-	*187*		Present value method, Modelos de volatilidad estocásticos avanzados y otros	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Other	*1*	-	*1*		Present value method	Yield curves, FX market prices
Financial liabilities designated at fair value through profit or loss	**34,937**	**142**	***31,720***	-	Present value method, Modelos de volatilidad estocásticos avanzados y otros	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Liabilities under insurance contracts	-	-	-	-		

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

	Millions of euros			
	Fair values calculated using internal models at 31/12/17			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**76,710**	**958**		
Financial assets held for trading	**38,614**	**390**		
Customers (a)	22	-	Present Value Method	FX market prices, Yield curves
Debt and equity instruments	915	32	Present Value Method	FX market prices, Yield curves
Derivatives	37,677	358	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**2,055**	**18**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial assets designated at fair value through profit or loss	**34,021**	**-**		
Credit institutions	11,243	-	Present Value Method	FX market prices, Yield curves
Customers	22,778	-	Present Value Method	FX market prices, Yield curves, HPI
Financial assets available-for-sale	**2,020**	**550**		
Debt and equity instruments	2,020	550	Present Value Method	FX market prices, Yield curves
LIABILITIES:	**74,485**	**298**		
Financial liabilities held for trading	**38,164**	**291**		
Derivatives	38,164	**291**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Hedging derivatives	**4,007**	**7**	Present Value Method, Gaussian Copula (b) Black-Scholes Model, Heath-Jarrow-Morton Model, Montecarlo simulation and others	FX market prices, Yield curves, Volatility surfaces, Liquidity, Correlation
Financial liabilities designated at fair value through profit or loss	**32,314**	**-**		
Central banks	7,913	-	Present Value Method	FX market prices, Yield curves
Credit institutions	15,209	-	Present Value Method	FX market prices, Yield curves
Customers	9,192	-	Present Value Method	FX market prices, Yield curves

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.

  - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.

  - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.

  - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.

  - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.

- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

- Trading derivatives on interest rates, taking as an underlying asset titling and with the amortization rate (CPR, Conditional prepayment rate) as unobservable main entry.

- Derivatives from trading on inflation in Spain, where volatility is not observable in the market.

- Derivatives on volatility of long-term interest rates (more than 30 years) where volatility is not observable in the market at the indicated term.

- Equity volatility derivatives, specifically indices and equities, where volatility is not observable in the long term.

- HTC&S (Hold to collect and sale) syndicated loans classified in the fair value category with changes in other comprehensive income, where the cost of liquidity is not directly observable in the market, as well as the prepayment option in favour of the borrower.

The measurements obtained using the internal models might have been different if other methods or assumptions had been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank’s directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The Group´s net amount recognised in profit and loss in 2018 arising from models whose significant inputs are unobservable market data (Level 3) amounted to a EUR 10 million loss (EUR 116 million profit in 2017), amounting to EUR 65 million profit for the Bank in 2018 (EUR 82 million loss in 2017).

The table below shows the effect, at 31 December 2018 on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/Instrument	**Valuation technique**	**Main unobservable inputs**	**Range**	**Weighted average**	**Impacts (Million of euros)**	
(Level 3)					**Unfavourable scenario**	**Favourable scenario**
Financial assets held for trading						
Trading derivatives	Present value method	Curves on TAB indices (*)	(a)	(a)	(0.3)	0.3
		Long-term rates MXN	(a)	(a)	-	-
	Present value method, Modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.7%	(24.0)	20.7
		HPI spot rate	n/a	783(***)	(7.8)	7.8
	Interest Rate Curves, FX Market Prices	CPR	n/a	n/a	(163.2)	(84.4)
		Long-term FX volatility	11%-17%	14.75%	(34.4)	5.0
Financial assets at fair value through other comprehensive income						
Debt instruments and equity holdings	Present value method, others	Contingencies for litigation	0%-100%	29%	(23.8)	9.7
	Present value method, others	Late payment and prepayment rate capital cost long-term profit growth rate	(a)	(a)	(6.6)	6.6
	Present value method, others	Interest Rate Curves, FX Market Prices and Credit Curves	(a)	(a)	1.8	(1.8)
	Local Volatility	Long term volatility	n/a	34.0%	244.9	(313.8)
Non-trading financial assets mandatorily at fair value through profit or loss						
Credit to customers	Weighted average by probability (according to forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.8%	(6.2)	5.0
Debt instruments and equity instruments		HPI spot rate	n/a	783(***)	(11.2)	11.2
	TD Black	Spain volatility	n/a	4.7%	2.2	(11.5)
	Model Asset Swap & CDS	Model - Interest Rate Curves and Credit	n/a	7.7%	(19.8)	4.4
	Cvx. Adj (SLN)	Long term volatility	n/a	8.0%	(121.2)	105.1
Financial liabilities held for trading						
Trading derivatives	Present value method, modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.6%	(5.4)	5.8
		HPI spot rate	n/a	722(**)	(4.9)	4.8
		Curves on TAB indices (*)	(a)	(a)	-	-
	Discounted flows denominated in different currencies	Long-term rates MXN	Bid Offer Spread IRS TIIE 2bp - 6bp X-CCY USD/MXN 3bp - 10bp	IRS TIIE 3bp X-CCY MXN/USD 4bp	(1.2)	1.2
Hedging derivatives (liabilities)	Advanced models of local and stochastic volatility	Correlation between the price of shares	55%-75%	65%	n/a	n/a
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	(b)	(b)

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30, 90, 180 and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF)).

(**) There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

(***) Theoretical average value of the parameter. The change made for the favourable scenario is from 0.0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level.

(a) The exercise was performed for the unobservable inputs described in the column "Main unobservable inputs" under probable scenarios. The weighted average range and value used is not shown because this exercise has been carried out jointly for different inputs or variants of them (for example, the TAB input are vector-term curves, for which there are also nominal and indexed curves to inflation), it is not possible to break down the result in an isolated manner by type of input. In the case of the TAB curve, the result is reported before movements of +/- 100 bp for the joint sensitivity of this index in CLP (Chilean peso) and UF. The same applies for interest rates in MXN (Mexican peso).

(b) The Group calculates the potential impact on the measurement of each instrument on a joint basis, regardless of whether the individual value is positive (assets) or negative (liabilities), and discloses the joint effect associated with the related instruments classified on the asset side of the consolidated balance sheet.

Lastly, the changes in the financial instruments classified as Level 3 in 2018 and 2017 were as follows:

Million of euros	01-01-2018 (*)	Changes							31-12-18
	Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Amortization	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**437**	**85**	**(26)**	**(34)**	**(16)**	**-**	**312**	**(20)**	**738**
Debt instruments and equity instruments	32	22	(6)	(34)	2	-	141	(4)	153
Trading derivatives	405	63	(20)	-	(18)	-	171	(16)	585
Swaps	*189*	-	*(8)*	-	*4*	-	*4*	*(4)*	*185*
Exchange rate options	*5*	-	-	-	*(2)*	-	-	*(1)*	*2*
Interest rate options	*162*	-	*(3)*	-	*(16)*	-	*8*	*(2)*	*149*
Index and securities options	*5*	*41*	*(1)*	-	*(35)*	-	*195*	*(7)*	*198*
Other	*44*	*22*	*(8)*	-	*31*		*(36)*	*(2)*	*51*
Hedging derivatives (Assets)	**18**	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**21**
Swaps	*18*	-	-	-	*3*	-	-	-	*21*
Financial assets at fair value through profit or loss	**-**	**105**	**-**	**-**	**19**	**-**	**699**	**53**	**876**
Credit entities	-	-	-	-	(1)	-	202	-	201
Loans and advances to customers	-	-	-	-	6	-	497	57	560
Debt instruments	-	105	-	-	14	-	-	(4)	115
Non-trading financial assets mandatorily at fair value through profit or loss	**1,365**	**66**	**(30)**	**(5)**	**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	(1)	(5)	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**	**(294)**	**(39)**	**18**	**(269)**	**1,189**	**(96)**	**4,473**
Financial liabilities held for trading	**182**	**41**	**(95)**	**-**	**9**	**-**	**161**	**(9)**	**289**
Trading derivatives	182	41	(95)	-	9	-	161	(9)	289
Swaps	*100*	-	*(7)*	-	*(7)*	-	*28*	*(3)*	*111*
Exchange rate options	*9*	-	-	-	*(2)*	-	-	-	*7*
Interest rate options	*19*	-	*(1)*	-	*(1)*	-	*10*	*(1)*	*26*
Index and securities options	*41*	*41*	*(87)*	-	*25*	-	*128*	*(5)*	*143*
Others	*13*	-	-	-	*(6)*	-	*(5)*	-	*2*
Hedging derivatives (Liabilities)	**7**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**6**
Swaps	*7*	-	-	-	*(1)*	-	-	-	*6*
Financial liabilities designated at fair value through profit or loss	**7**	**140**	**-**	**-**	**-**	**-**	**-**	**-**	**147**
TOTAL LIABILITIES	**196**	**181**	**(95)**	**-**	**8**	**-**	**161**	**(9)**	**442**

Million of euros	2016 Fair value calculated using internal models (Level 3)	Changes Purchases	Sales	Issuances	Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	2017 Fair value calculated using internal models (Level 3)
Financial assets held for trading	**341**	**45**	**(21)**	**-**	**-**	**(129)**	**-**	**200**	**1**	**437**
Debt and equity instruments	40	-	(7)	-	-	(1)	-	-	-	32
Derivatives	301	45	(14)	-	-	(128)	-	200	1	405
Swaps	*55*	*1*	*(6)*	-	-	*(59)*	-	*200*	*(2)*	*189*
Exchange rate options	*2*	*5*	-	-	-	*(2)*	-	-	-	*5*
Interest rate options	*173*	-	-	-	-	*(11)*	-	-	-	*162*
Index and securities options	*26*	-	*(1)*	-	-	*(18)*	-	-	*(2)*	*5*
Other	*45*	*39*	*(7)*	-	-	*(38)*	-	-	*5*	*44*
Hedging derivatives (Assets)	**27**	**-**	**(2)**	**-**	**-**	**(7)**	**-**	**-**	**-**	**18**
Swaps	*27*	-	*(2)*	-	-	*(7)*	-	-	-	*18*
Financial assets designated at fair value through profit or loss	**325**	**-**	**(9)**	**-**	**-**	**(20)**	**-**	**-**	**(14)**	**282**
Loans and advances to customers	74	-	(2)	-	-	3	-	-	(3)	72
Debt instruments	237	-	(7)	-	-	(21)	-	-	(10)	199
Equity instruments	14	-	-	-	-	(2)	-	-	(1)	11
Financial assets available-for-sale	**656**	**1**	**(239)**	**-**	**(5)**	**-**	**59**	**(6)**	**160**	**626**
TOTAL ASSETS	**1,349**	**46**	**(271)**	**-**	**(5)**	**(156)**	**59**	**194**	**147**	**1,363**
Financial liabilities held for trading	**69**	**33**	**(3)**	**-**	**-**	**(38)**	**-**	**126**	**(5)**	**182**
Derivatives	69	33	(3)	-	-	(38)	-	126	(5)	182
Swaps	*1*	-	-	-	-	*(26)*	-	*126*	*(1)*	*100*
Exchange rate options	-	*21*	-	-	-	*(11)*	-	-	*(1)*	*9*
Interest rate options	*21*	-	-	-	-	*(2)*	-	-	-	*19*
Index and securities options	*46*	-	*(3)*	-	-	-	-	-	*(2)*	*41*
Other	*1*	*12*	-	-	-	*1*	-	-	*(1)*	*13*
Hedging derivatives (Liabilities)	**9**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**7**
Swaps	*9*	-	-	-	-	*(2)*	-	-	-	*7*
Financial liabilities designated at fair value through profit or loss	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**7**
TOTAL LIABILITIES	**86**	**33**	**(3)**	**-**	**-**	**(40)**	**-**	**126**	**(6)**	**196**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, (which are recognised under Interest income or Interest expense, as appropriate), and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities.

Adjustments due to changes in fair value arising from:

- Financial assets at fair value with changes in other comprehensive income are recorded temporarily, in the case of debt instruments in other comprehensive income - Elements that can be reclassified to profit or loss - Financial assets at fair value with changes in other comprehensive income, while in the case of equity instruments are recorded in other comprehensive income - Elements that will not be reclassified to portfolio - Changes in the fair value of equity instruments valued at fair value with changes in other comprehensive income. Exchange differences on debt instruments measured at fair value with changes in other comprehensive income are recognised under Exchange Differences, net of the consolidated income statement. Exchange differences on equity instruments, in which the irrevocable option of being measured at fair value with changes in other comprehensive income has been chosen, are recognised in Other comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income.

- Items charged or credited to Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income and Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity remain in the Bank's 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 Bank 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 Bank checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Bank's management of own risks.

    The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

    a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

        In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the consolidated income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

    b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in Other comprehensive income – under Items that may be reclassified to profit or loss – Hedging derivatives – Cash flow hedges (effective portion) until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

    c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in Other comprehensive income under Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations until the gains or losses – on the hedged item are recognised in profit or loss.

    d. The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement, in Gains or losses from hedge accounting, net.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under other comprehensive income - Items that may be reclassified to profit or loss (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as financial assets/liabilities designated at fair value through profit or loss or as Financial assets/liabilities held for trading.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Group transfers substantially all the risks and rewards to third parties unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

    a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

    b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

    a. If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

    b. If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired with the intention either to cancel them or to resell them.

f) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, only if the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Following is the detail of financial assets and liabilities that were offset in the balance sheets as at 31 December 2018 and 2017:

	Millons of euros								
	31/12/2018			01/01/2018 (*)			31/12/2017		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	93,693	(39,949)	53,745	69,070	(27,445)	41,625	68,412	(27,445)	40,967
Repos	36,319	-	36,319	28,206	-	28,206	31,211	-	31,211

	Millons of euros								
	31/12/2018			01/01/2018 (*)			31/12/2017		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	95,153	(39,949)	55,204	70,816	(27,445)	43,371	70,693	(27,445)	43,248
Repos	29,389	-	29,389	40,273	-	40,273	40,506	-	40,506

(*) See further detail Note 1.d and Note 1.i.

Most of the derivatives and repos not offset in the balance sheet are subject to netting and collateral arrangements.

At December 31, 2018 the balance sheet amounts EUR 81,157 million on derivatives and repos as assets and EUR 73,610 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements (EUR 51,423 million and EUR 66,915 million in 2017, respectively).

g) Impairment of financial assets

i. Definition

The Bank associates an impairment in the value of financial assets measured at amortized cost, debt instruments measured at fair value with changes in other comprehensive income, lease receipts 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 Bank only recognizes at the reporting date the changes in the expected credit losses during the asset time life 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 the other comprehensive income.

As a rule, the expected credit loss is estimated as the difference between the contractual cash flows to be recovered and the expected cash flows discounted with the original effective interest rate. In the case of purchased or originated credit-impaired assets, this difference is discounted using the effective interest rate adjusted by credit rating.

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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: they are the expected credit losses arising from the potential default events, as defined in the following sections that are estimated to be likely to occur within the 12 months following the reporting date. These losses will be associated with financial assets classified as "normal risk" as defined in the following sections.

- Expected credit losses over the life of the financial instrument: expected credit losses arising from potential default events that are estimated to be likely to occur throughout the life of the transaction. These losses are associated with financial assets classified as "normal risk under watchlist" or "doubtful risk".

With the purpose of estimating the expected life of the financial instrument all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g.: credit cards), the expected life is estimated through quantitative analyses to determine the period during which the entity is exposed to credit risk, also considering the effectiveness of management procedures that mitigate such exposure (e.g. the ability to unilaterally cancel such financial instruments, etc.).

The following constitute effective guarantees:

a) Mortgage guarantees on housing as long as they are first duly constituted and registered in favour of the entity; the properties include:

   i. Buildings and building elements, distinguishing among:

      - Houses;

      - Offices commercial and multi-purpose premises;

      - Rest of buildings such as non-multi-purpose premises and hotels.

   ii. Urban and developable ordered land.

   iii. Rest of properties that would be classified in: 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 transaction and implying direct and joint liability to the entity of persons other entities whose solvency is sufficiently proven to ensure the reimbursement of the operation on the agreed terms.

ii. Financial instruments presentation

For the purposes of calculating the impairment adjustment, and in accordance with its internal policies, the Bank classifies its financial instruments (financial asset, risk or contingent commitment) measured at amortized cost or fair value through other comprehensive income in one of the following categories:

- Normal Risk ("Stage 1"): includes all instruments that do not meet the requirements to be classified in the rest of the categories.

- Normal risk under watchlist ("Stage 2"): includes all instruments that, without meeting the criteria for classification as doubtful or default risk, shown significant increases in credit risk since initial recognition.

In order to determine whether a financial instrument has increased its credit risk since initial recognition and is to be classified in Stage 2, the Bank considers the following criteria:

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analysed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into stage 2, 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 geographies.
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 (e.g. use of management alerts, etc.). The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.

In the case of forbearances, instruments classified as "normal risk under watchlist" may be reclassified to "normal risk" in the following circumstances: at least two years have elapsed from the date of reclassification to that category or from its forbearance date, the client has paid the accrued principal and interest amounts, and the client has no other instruments with amounts of more than 30 days past due

- 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 refund (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, whatever their holder and guarantee were, that have an amount more than 90 days past due for principal, interest or expenses contractually agreed. This category also includes the amounts of all the transactions of a customer when the transactions with overdue amounts more than 90 days old are more than 20% of the amounts pending collection.

      These instruments may be reclassified to other categories if, as a result of the collection of part of the amounts due, the reasons for their classification in this category disappear and the customer does not have amounts more than 90 days past due in other transactions.

    - Doubtful risk for reasons other than non-performing loans: this category includes doubtful recovery operations that are not overdue by more than 90 days.

The Bank considers that a transaction 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 transaction. 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 customer's recurring cash flows.

c) Generalised delay in payments or insufficient cash flows to service debts.

d) Significantly inadequate economic or financial structure or inability to obtain additional financing from the client.

e) Existence of an internal or external credit rating showing that the customer is in default.

f) Existence of overdue customer commitments with a significant amount to public institutions or employees.

These transactions may be reclassified to other categories if, as a result of an individualized study, reasonable doubts about their total reimbursement under the terms contractually agreed upon disappear and there are no amounts 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 instrument with amounts of more than 90 days past due.

- Default Risk: includes all financial assets, or part of them, for which, after an individualised analysis, their recovery is considered remote due to a notorious and irrecoverable deterioration of their solvency.

  In any case, except in the case of transactions with collateral covering more than 10% of the amount of the transaction, the Bank considers the following as a remote recovery: the transactions of holders who are in the liquidation phase of bankruptcy proceedings, doubtful transactions due to non-performing loans older than four years in this category and doubtful transactions due to non-performing loans whose portion not covered by collateral has been maintained with 100% credit risk coverage for more than two years.

  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 from the balance sheet.

  In the case of operations that have only been partially derecognised, for removal reasons or because a part of the total amount is considered unrecoverable, the remaining amount shall be fully classified in the category of "doubtful risk".

  The classification of a financial asset, or part of it, as a 'default risk' does not involve the disruption of negotiations and legal proceedings to recover the amount.

iii. Impairment valuation assessment

The Bank has policies, methods and procedures in place to hedge its credit risk, both due to the insolvency attributable to counterparties and its residence in a specific country. These policies, methods and procedures are applied in the concession, study and documentation of financial assets, risks and contingent commitments, as well as in the identification of their impairment and in the calculation of the amounts needed to cover their credit risk.

The asset impairment model in Bank of Spain Circular 4/2017 applies to financial assets measured at amortised cost, debt instruments at fair value with changes in other comprehensive income, leasing payments 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, both individually and collectively.

- Individually: For the purposes of making estimates of provisions for credit risk arising from the insolvency of a financial instrument, the Bank makes an individualised estimate of the expected credit losses on those financial instruments that are considered to be significant and with sufficient information to make such a calculation.

  Therefore, this classification mostly includes wholesale banking customers - Corporations, specialised financing - as well as some of the largest companies – Chartered and developers - from retail banking.

  The individualised estimate of the impairment adjustment for the financial asset is equal to the difference between the gross carrying amount of the transaction 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.

- Collectively: the entity estimates expected credit losses collectively in cases where they are not estimated on an individual basis. This includes, for example, risks with individuals, sole proprietors or retail banking companies subject to standardised management.

  For the purposes of the collective calculation of expected credit losses, the Bank has consistent and reliable internal models. For the development of these models, instruments with similar credit risk characteristics that are indicative of the debtors' capacity to pay are considered.

  The credit risk characteristics used to group the instruments are, among others: type of instrument, debtor's sector of activity, geographical area of activity, type of guarantee, age of amounts past due and any other factor relevant to the estimation of future cash flows.

  The Bank performs retrospective and monitoring to evaluate the reasonableness of the collective calculation.

On the other hand, the methodology required to quantify the expected 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 between three and 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), house price, unemployment rate, etc.).

For the estimation of the parameters used in the estimation of impairment provisions (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default) and discount rate), the Group based its experience in developing internal models for the calculation 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.

The definition of default implemented at the Bank for the purpose of calculating the impairment provision models is based on the definition in Article 178 of Regulation 575/2013 of the European Union (CRR), which is fully aligned with the requirements of 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 Bank considers the risk generated in all cross-border transactions due to circumstances other than the usual commercial risk of insolvency (sovereign risk, transfer risk or risks arising from international financial activity, such as wars, natural catastrophes, balance of payments crisis, etc.).

Bank of Spain Circular 4/2017 includes a series of practical solutions that can be implemented by entities, with the aim of facilitating its implementation. However, in order to achieve a complete and high-level implementation of the standard, and following the best practices of the industry, the Bank does not apply these practical solutions in a generalised manner:

- Rebuttable presumption that the credit risk has increased significantly, when payments are more than 30 days past due: this threshold is used as an additional, but not primary, indicator of significant risk increase. Additionally, there may be cases in the Bank where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold.

- Assets with low credit risk at the reporting date: the Bank assesses the existence of significant risk increase in all its financial instruments.

This information is provided in more detail in Note 49 c. (Credit risk).

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 and Liabilities included in alienable groups of items that have been classified as 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 Bank obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Bank has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Bank works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which they worked in Spain in 2018 are as follows: Eurovaloraciones, S.A., Ibertasa, S.A., Tinsa Tasaciones Inmobiliarias, S.A.U., Krata, S.A. y Valtenic, 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 Bank 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 and 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 2018 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 255 million (EUR 174 million in 2017); 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.

The valuation of the portfolio of non-current assets held for sale has been carried out basically applying the following models:

- Market Value Model used in the valuation of finished residential properties (housing and parkings) and buildings of a tertiary nature (offices, commercial premises and multipurpose buildings). The current market value of real estate is based on automated valuations obtained by comparison of peers distinguishing by location and typology of the property. In addition, for individual significant assets, complete individual valuations are performed. Valuations made using this method are considered as Level 2.

- Market Value Model according to the Evolution of Market Values issued in the valuation of property developments in progress. The current market value of the properties is estimated on the basis of complete individual valuations of third parties, calculated from the values of feasibility studies and development costs of the promotion, as well as selling expenses, distinguishing by location and typology of the property. The valuation of real estate assets under construction is made considering the current situation of the property and not considering the final value of the property. Valuations made using this method are considered as Level 3.

- Market Value Model according to the Statistical Evolution of Lands Values (Methodology used in the valuation of lands). A statistical update method is used, taking as reference the indexes published by the Ministry of Development applied to the latest individual valuations (appraisals) carried out by independent valuation companies and agencies. Valuations made using this method are considered as Level 2.

With the periodicity included in Circular 4/2017, full individual appraisals or automated appraisals are made that complement those made through our methodology and may involve adjustments in provisions.

In addition, in relation to the previously mentioned valuations, less selling costs, 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) Reinsurance Assets and Liabilities under insurance contracts

Insurance contracts linked to pensions on the asset side of the balance sheet, included in the section Other assets (Note 2.n) includes the amounts that the Bank is entitled to receive for insurance contracts with third parties and, specifically, the insurer's share of the technical provisions recorded by the insurance entities.

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Bank may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the income statement and the assets are written down.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use – including tangible assets received by the 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 recognized in the income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual rate
Buildings for own use	2
Furniture	10
Fixtures	5
Computer equipment	25
Vehicles	16
Other	5

The Bank assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for obtaining profits by sales due to future increase in market prices.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

In order to evaluate the possible impairment the Bank determines periodically the fair value of its investment property so that, at the end of the reporting period, the fair value reflects the market conditions of the investment property at that date. This fair value is determined annually, taking as benchmarks the valuations performed by independent experts. The methodology used to determine the fair value of investment property is selected based on the status of the asset in question; thus, for properties earmarked for lease, the valuations are performed using the sales comparison approach, whereas for leased properties the valuations are made primarily using the income capitalisation approach and, exceptionally, the sales comparison approach.

In the sales comparison approach, the property market segment for comparable properties is analysed, inter alia, and, based on specific information on actual transactions and firm offers, current prices are obtained for cash sales of those properties. The valuations performed using this approach are considered as Level 2 valuations.

In the income capitalisation approach, the cash flows estimated to be obtained over the useful life of the property are discounted taking into account factors that may influence the amount and actual obtainment thereof, such as: (i) the payments that are normally received on comparable properties; (ii) current and probable future occupancy; (iii) the current or foreseeable default rate on payments. The valuations performed using this approach are considered as Level 3 valuations, since significant unobservable inputs are used, such as current and probable future occupancy and/or the current or foreseeable default rate on payments.

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Bank under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

l) *Accounting for leases*

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the Bank as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the balance sheet.

When the Bank acts as the lessees, they present the cost of the leased assets in the 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 Bank acts as the lessor, it presents the acquisition cost of the leased assets under Tangible assets (see Note 15). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the income statement.

When the Bank acts as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in its income statements.

The gross value calculated applying Bank of Spain Circular 4/2017 and subsequent modifications as of 31 December 2018 of the future payments committed by the Bank for existing non-cancellable operating lease agreements amounts to EUR 6,302 million, of which EUR 290 million is payable within one year, EUR 1,118 million between one and five years and EUR 4,894 million in more than five years.

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 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.

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Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Goodwill

Any excess of the cost of the investments in the equity of subsidiaries, joint ventures and associates entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the 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 Bank's geographical and/or business segments.

Goodwill is only recognised when it has been acquired for consideration and represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

Goodwill, in accordance with Bank of Spain Circular 4/2017, will be amortised over a 10-year period unless proven otherwise. The debits to the income statements for the amortisation of these assets are recorded under the section Amortisation in the income statement.

At the end of each annual reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the income statement.

Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

In accordance with Rule Twenty Eight of Bank of Spain Circular 4/2017, in the financial statements (individual and consolidated) not subject to the framework of International Financial Reporting Standards, intangible assets will be assets with a limited useful life.

Intangible assets useful life may not exceed the period during which the entity is entitled to use the asset. If the right of use is for a limited period that can be renewed, the useful life will include the renewal period only when there is evidence that the renewal will be carried out without significant cost.

When the useful life of assets cannot be estimated reliably, they will be amortized over a period of ten years. In the absence of evidence to the contrary, the useful life of goodwill, if applicable, shall be deemed ten years.

Intangible assets shall be amortised in accordance with the criteria established for the tangible assets (a maximum period of 10 years). The Bank reviews, at least at the end of each year, the amortisation period and the amortisation method of each of its intangible assets and, if it considers that they are not appropriate, the impact will be treated as a change in its accounting estimates.

The intangible asset amortisation charge is recognised under Depreciation and amortisation cost in the consolidated income statement.

In both cases the Bank recognises any impairment loss on the carrying amount of these assets with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (See Note 2.k).

Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised.

n) Other assets

Other assets in the balance sheet includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of any 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 includes 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 in 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 consolidated balance sheet, and the amount of any other assets not included in other items.

ñ) Other liabilities

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

o) Provisions and contingent assets and liabilities

When preparing the Bank's financial statements, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the 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 Bank does not recognise the contingent liability. The Bank will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised in the consolidated balance sheet or in the income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Bank's financial statements include all the material provisions with respect to which it is considered that it is more likely than not the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the 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 23):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations (Note 2.u).

- Other long-term employee remuneration: includes other commitments assumed with early retirement personnel, as detailed in Note 2.v).

- Provisions for commitments and guarantees given: include the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Bank 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: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the Bank.

- Other provisions: include the remaining provisions recognised by the Bank as the ones for restructuring and environmental actions.

p) Court proceedings and/or claims in process

In addition to the disclosures made in Note 1, at the end of 2018 certain court proceedings and claims were in process against the Group entities arising from the ordinary course of their operations (see Note 23).

q) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares, is directly added to or deducted from equity.

r) *Equity-instrument-based employee remuneration*

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) *Recognition of income and expenses*

The most significant criteria used by the Bank to recognise income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them arises.

However, the recognition of accrued interest in the income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than 90 days past due. Any interest that may have been recognised in the income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, the reversal of the related impairment losses on this interest is recognised. Interest whose recognition in the income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

They are recognised for accounting purposes when the good is delivered or the non-financial service is rendered. To determine the amount and timing of recognition, a five-step model is followed: identification of the contract with the customer, identification of the separate obligations of the contract, determination of the transaction price, distribution of the transaction price among the identified obligations and finally recording of income as the obligations are satisfied.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan.

t) Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Bank initially recognises the financial guarantees provided on the liability side of the 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 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 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 contingent liabilities and commitments and guarantees given in the balance sheet (See note 23). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions (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 consolidated balance sheet are reclassified to the appropriate provision.

u) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be defined contribution plans when the Group makes pre-determined contributions (recognised under Staff costs 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 23).

Defined contribution plans

The contributions made in this connection in each year are recognised under Staff costs in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet.

Defined benefit plans

The Bank 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 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 consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Bank.

If the Bank can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under Insurance contracts linked to pensions on the asset side of the consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Current service cost, (the increase in the present value of the obligations resulting from employee service in the current period), is recognised under Staff costs.

    - The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions or reversal of provisions.

    - Any gain or loss arising from a liquidation of the plan is included in the provisions or reversion of provisions.

    - Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the income statement.

The premeasurement of the net defined benefit liability (asset) is recognised under Other comprehensive income under items not reclassified to profit or loss and includes:

- Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

v) ***Other long-term employee benefits***

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions or reversal of provisions, net, in the income statement (see Note 23).

w) ***Termination benefits***

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

x) ***Income tax***

The income tax expense is recognised in the income statement, except when it results from a transaction recognised directly in equity, in which case the related tax effect is also recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

The Tax assets includes the amount of all tax assets, which are broken down into current -amounts of tax to be recovered within the next twelve months- and deferred -amounts of tax to be recovered in future years, including those arising from tax loss or tax credit carryforwards.

Tax liabilities includes the amount of all tax liabilities (except provisions for taxes), which are broken down into current -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and deferred -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Bank is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the 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 it will have sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed (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 recognized income and expenses

This statement presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the income statement for the year and the other income and expenses recognised directly in equity.

Accordingly, this statement presents:

a. Profit for the year.

b. The net amount of the income and expenses recognised in Other comprehensive income under items that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in Other comprehensive income under items that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or joint ventures accounted for using the equity method, which are presented net.

e. Total recognised income and expense, calculated as the sum of a) to d) above.

The amount of the income and expenses relating to entities accounted for using the equity method recognised directly in equity is presented in this statement, irrespective of the nature of the related items, under Entities accounted for using the equity method.

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 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 equity.

ab) Statements of cash flows

The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.

  The Bank classifies as cash and cash equivalents the balances recognised under Cash, cash balances at Central Banks and other deposits on demand in the 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.

In fiscal year 2018, the Bank has charged interest in the amount of EUR 6,989 million and paid interest in the amount of EUR 4,886 million.

Likewise, the dividends received and paid by the Bank are detailed in Notes 4 and 26.

3. Santander Group

a) Banco Santander, S.A. and international Group structure.

The growth of the Group in the last decades has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's traditionally high level of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At the international level, the various banks and other subsidiaries, joint ventures and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) Acquisitions and disposals

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Bank in the last two years:

i- Sale of the 49% stake in Wizink

Once the relevant regulatory authorizations had been obtained, on 6 November 2018 the operations related to the agreement reached with entities managed by Värde Partners, Inc ("Varde) and with WiZink Bank, S.A. ("WiZink") communicated by the Group on 26 March 2018 by virtue of which:

i. Banco Santander, S.A. sold its 49% stake in WiZink to Varde for EUR 1,043 million, with no significant impact on the Bank's results.

ii. Banco Santander, S.A. and Banco Santander Totta, S.A. acquired the business of credit and debit cards marketed by Grupo Banco Popular in Spain and Portugal that WiZink had acquired in 2014 and 2016. As a result of this transaction, the Bank paid a total of EUR 681 million, receiving net assets worth EUR 306 million (mainly customer loans worth EUR 315 million), with the business combination generating a goodwill of EUR 375 million, which will be managed by the businesses in Spain.

With these transactions, the Bank resumed Grupo Banco Popular's debit and credit card business, which improves the commercial strategy and facilitates Grupo Banco Popular's integration process.

ii. Acquisition of Banco Popular Español, S.A.U.

On 7 June 2017 (the acquisition date), as part of its growth strategy in the markets where it is present, the Group communicated the acquisition of 100% of the share capital of Banco Popular Español, S.A.U. (merged with Banco Santander, see Note 3.b)v) as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board ("SRB") and executed by the FROB, Spanish single resolution board, in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 May 2014, and Law 11/2015, of June 18, for the recovery and resolution of credit institutions and investment firms.

As part of the execution of the resolution:

- All the shares of Banco Popular outstanding at the closing of market on 7 June 2017 and all the shares resulting from the conversion of the regulatory capital instruments *Additional Tier 1* issued by Banco Popular have been converted into undisposed reserves.

- All the regulatory capital instruments Tier 2 issued by Banco Popular have been converted into newly issued shares of Banco Popular, all of which have been acquired for a total consideration of one euro by the Group.

The transaction was approved by all the applicable regulatory and antitrust authorities in the territories where Banco Popular operated.

The accounting balance for which the Bank had recorded the 100% interest in Banco Popular Español, S.A. as of December 31, 2017, it is detailed in Note 13b).

In accordance with IFRS3, the Group measured the identifiable assets acquired and liabilities assumed at fair value. The detail of this fair value of the identifiable assets acquired and liabilities assumed at the business combination date was as follows:

As of 7 June 2017	Million of euros
Cash and balances with central banks	1,861
Financial assets available-for-sale	18,974
Deposits from credit institutions	2,971
Loans and receivables (*)	82,057
Investments	1,815
Intangible assets (*)	133
Tax assets (*)	3,945
Non-current assets held for sale (*)	6,531
Other assets	6,259
Total assets	124,546
Deposits from central banks	28,845
Deposits from credit institutions	14,094
Customer deposits	62,270
Marketable debt securities and other financial liabilities	12,919
Provisions (***)	1,816
Other liabilities	4,850
Total liabilities (**)	124,794
Net assets	(248)
Purchase consideration	-
Goodwill	**248**

(*) The main fair value adjustments were the following:

- Loans and receivables: in the estimation of their fair value, impairment have been considered for an approximate amount of EUR 3,239 million, considering, among others, the sale process carried out by the Bank.

- Foreclosed assets: the valuation, considering the sale process carried out by the company, has meant a reduction in the value of EUR 3,806 million, approximately.
- Intangible assets: includes value reductions amounting to approximately of EUR 2,469 million, mainly recorded under the "Intangible assets - goodwill".
- Deferred tax assets: mainly corresponds to the reduction of the value of negative tax bases and deductions for an approximate amount of EUR 1,711 million.

(**) After the initial analysis and the conversion of the subordinated debt, the best estimation is there is no significant impact between fair value and previous carrying amount of the financial liabilities.

(***) As a result of the resolution of Banco Popular, it includes the estimated cost of EUR 680 million relating to the potential compensation to the shareholders of Banco Popular of which EUR 535 million have been applied to the fidelity action.

The Bank during 2018, closed their assessment exercise of the assets acquired and liabilities assumed at fair value, without any modification with respect to what was recorded in 2017.

iii. Sale agreement of Banco Popular's real estate business

In relation with Banco Popular's real estate business, on 8 August 2017, the Group announced the agreement with a Blackstone fund for the acquisition by the fund of 51% of, and hence the assignment of control over, part of Banco Popular's real estate business (the "Business"), which comprises a portfolio of foreclosed properties, real estate companies, non-performing loans relating to the sector and other assets related to these activities owned by Banco Popular and its affiliates (including deferred tax assets allocated to specific real estate companies which are part of the transferred portfolio) registered on certain specified dates (31 March 2017 or 30 April 2017).(See Note 12).

The agreements were entered following the European Commission's unconditional authorization of the acquisition of Banco Popular Español S.A.U. by Banco Santander, S.A. for the purposes of competition law.

The transaction closed on 22 March 2018 following receipt of the required regulatory authorizations and other usual conditions in this type of transactions. The transaction has 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 has transferred the business constituted by the indicated assets, and its participation in the capital of Aliseda Real Estate Management Services, S.L. The value attributed to the contributed assets is approximately 10,000 million euros (see Note 12), 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 Bank for EUR 1,701 million in the "Investments in joint ventures and associates - entities" section (See Note 13.a) ii.)., without significant impact in the Bank´s income statement.

iv. Merger by absorption of Banco Santander, S.A. with Banco Popular Español, S.A.U.

On 23 April 2018 the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. agreed to approve and sign the merger project by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A.

On 28 September 2018 the merger certificate of Banco Popular Español, S.A.U. by Banco Santander, S.A. was registered in the Mercantile Registry of Cantabria. After the merger, Banco Santander, S.A. has acquired, by universal succession, all the rights and obligations of Banco Popular Español, S.A.U., including those that have been acquired from Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U., by virtue of the merger of Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U. with Banco Popular Español, S.A.U. that was also approved on 23 April 2018 by the respective board of directors (See Note 1. i).

c) Off-shore entities

According to current Spanish regulation, Santander has entities in 4 off-shore territories: Jersey, Guernsey, Isle of Man and Cayman Islands. These four jurisdictions comply with OECD standards in terms of transparency and exchange of information for tax purposes. Santander have 4 subsidiaries and 4 operative branches in off-shore territories: these are governed by the tax regimes of those territories. Santander also has 4 subsidiaries in off-shore territories, of which 3 are tax resident in the UK and 1 tax resident in Spain, to whose tax regimes they are subjected. The Group has no presence in any of the 5 territories included in the European Union’s current blacklist according to the last update of November 2018, neither in non-cooperative territories for tax purposes as defined by the OECD in July 2017.

I) Subsidiaries in off-shore territories.

At the reporting date, the Group has 4 subsidiaries resident in off-shore territories, two in Jersey, Whitewick Limited (inactive company) and Abbey National International Limited, and one in the Isle of Man, ALIL Services Limited. These subsidiaries contributed a profit of approximately EUR 0.2 million to the Group’s consolidated profit in 2018. In addition, during 2018, a new company domiciled in Jersey was created, named Santander International Limited, subsidiary of Santander UK Group Holdings plc, in order to make possible the separation of business imposed by the banking reform in the United Kingdom ("Ring-fence") that came into force on January 1, 2019, although this company will be liquidated in the near future.

II) Off-shore branches.

Also, the Group has 4 operative off-shore branches: 2 in the Cayman Islands, 1 in the Isle of Man and 1 in Jersey. These branches report to, consolidate their balance sheets and income statements and are taxed with, their respective foreign headquarters (Cayman Islands) or in the territories where they are located (Jersey and Isle of Man). Additionally, as a result of comply with the Ring-Fence regulation in the UK mentioned in the previous point, there is another branch in Jersey of Santander UK plc, which is currently not operative and will be closed in early 2019.

The aforementioned entities have a total of 144 employees as of December 2018.

III) Subsidiaries in off-shore territories that are tax resident in the UK and Spain.

As indicated, the Group also has 4 subsidiaries constituted in off-shore territories that are not considered to be off-shore entities, since 3 of them are tax residents in the UK and, therefore, subject to UK tax law during the period and operate exclusively from the UK (one of these subsidiaries is expected to be liquidated in 2019). Also, since April 2018, the fourth subsidiary has ceased to be a resident for tax purposes in the UK to become a tax resident in Spain.

IV) Other off-shore investments.

The Group manages from Brazil a *segregated portfolio company* called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a *protected cell company* in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, few financial investments located in tax havens including Olivant Limited in Guernsey, entity whose liquidation or sale is expected to be carried out soon.

V) OECD.

The Group has no presence in non-cooperative territories for tax purposes as defined by the OECD in July 2017. In this sense it should be noted that Jersey, Guernsey, Isle of Man and Cayman Islands, comply with OECD standards in terms of transparency and exchange of information for tax purposes.

VI) The European Union.

On 5 December, 2017, the European Commission published some lists of non-cooperative jurisdictions for tax purposes (where there is no member state of the European Union): blacklist, gray list and territories which have received a grace period. Throughout 2018, the European Commission has updated these lists.

Currently the EU blacklist is composed of 5 jurisdictions in which the Group has no presence. These jurisdictions have not committed, or have not done it sufficiently, to comply with a series of measures in relation to fiscal transparency, corporate tax, or the respect of the principles of the OECD to avoid the erosion of the tax bases and the transfer of benefits (better known by the English term anti-BEPS).

On the contrary there are 63 jurisdictions in the gray list that have committed, in a way considered sufficient, to correct their legal frameworks to align them with international standards and whose implementation will be monitored by the EU. Among others, this list includes the 4 jurisdictions in which the Group has presence and are off-shore territories in accordance with current Spanish legislation (Jersey, Guernsey, Isle of Man and Cayman Islands). Additionally, Hong Kong, Bahamas, Switzerland, Uruguay and Panama are included in the gray list, although according to the current Spanish legislation are not off-shore territories and, as disclosed before, have committed to modify their legislation, as for example implementing the Common Reporting Standards (CRS), developed by the OECD, as an automatic information exchange system between jurisdictions.

The Group has 2 subsidiaries and 1 branch located in Hong Kong, 6 subsidiaries (1 of them in liquidation and 1 tax resident in the USA) and 2 branches in Bahamas (1 of them in process of closure), 6 subsidiaries in Switzerland, 12 subsidiaries in Uruguay (6 of which are in liquidation) and 1 subsidiary in Panama with reduced activity that has already received authorization from the Superintendency of Banks of Panama for its voluntary liquidation.

At present, Spain has in force Double Taxation Agreements with exchange of information clause with Hong Kong, Switzerland, Uruguay and Panama, as well as Tax Information Exchange Agreement with Bahamas.

VII) Impact of forthcoming changes to Spain's tax law.

On October 23, 2018, the Spanish Government published the Draft Law on measures to prevent and fight against tax fraud, which expands the concept of tax haven, including not only the countries and territories that were already considered as such, but also other tax regimes that are determined as harmful in a regulatory manner. In addition, new criteria are regulated for inclusion in the list of tax havens. As long as the list of countries and territories and harmful tax regimes that are considered tax havens are not determined by regulation, the former list of tax havens established in Royal Decree 1080/1991, of 5th July, will continue in force.

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational, tax and legal risk at these entities. Also, the Group has continued to implement its policy of reducing the number of these off-shore units.

The financial statements of the Group's off-shore units are audited by PwC (PricewaterhouseCoopers) member firms in 2018 and 2017.

d) ***Group consolidated balance sheet, income statement, statement of recognised income and*** **expenses, statement of changes in total equity and cash-flow statement**

The Group's consolidated balance sheets at December 31, 2018 and 2017 and the consolidated income statements, consolidated statements of recognised income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

Santander Group – Consolidated balance sheets –- (millions of euros)

ASSETS	2018	2017 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND	113,663	110,995
FINANCIAL ASSETS HELD FOR TRADING	92,879	125,458
Derivatives	55,939	57,243
Equity instruments	8,938	21,353
Debt instruments	27,800	36,351
Loans and advances	202	10,511
Central banks	-	-
Credit institutions	-	1,696
Customers	202	8,815
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*23,495*	*50,891*
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	10,730	
Equity instruments	3,260	
Debt instruments	5,587	
Loans and advances	1,883	
Central banks	-	
Credit institutions	2	
Customers	1,881	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	-	
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	57,460	34,782
Equity instruments		933
Debt instruments	3,222	3,485
Loans and advances	54,238	30,364
Central banks	9,226	-
Credit institutions	23,097	9,889
Customers	21,915	20,475
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*6,477*	*5,766*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	121,091	
Equity instruments	2,671	
Debt instruments	116,819	
Loans and advances	1,601	
Central banks	-	
Credit institutions	-	
Customers	1,601	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*35,558*	
FINANCIAL ASSETS AVAILABLE-FOR-SALE		133,271
Equity instruments		4,790
Debt instruments		128,481
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*43,079*
FINANCIAL ASSETS AT AMORTISED COST	946,099	
Debt instruments	37,696	
Loans and advances	908,403	
Central banks	15,601	
Credit institutions	35,480	
Customers	857,322	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*18,271*	
LOANS AND RECEIVABLES		903,013
Debt instruments		17,543
Loans and advances		885,470
Central banks		26,278
Credit institutions		39,567
Customers		819,625
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*8,147*
INVESTMENTS HELD-TO-MATURITY		13,491
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*6,996*
HEDGING DERIVATIVES	8,607	8,537
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK	1,088	1,287
INVESTMENTS	7,588	6,184
Joint ventures entities	979	1,987
Associated entities	6,609	4,197
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	324	341
TANGIBLE ASSETS	26,157	22,974
Property, plant and equipment	24,594	20,650
For own-use	*8,150*	*8,279*
Leased out under an operating lease	*16,444*	*12,371*
Investment property	1,563	2,324
Of which leased out under an operating lease	*1,195*	*1,332*
Memorandum items:acquired in lease	*98*	*96*
INTANGIBLE ASSETS	28,560	28,683
Goodwill	25,466	25,769
Other intangible assets	3,094	2,914
TAX ASSETS	*30,251*	30,243
Current tax assets	6,993	7,033
Deferred tax assets	23,258	23,210
OTHER ASSETS	9,348	9,766
Insurance contracts linked to pensions	210	239
Inventories	147	1,964
Other	8,991	7,563
NON-CURRENT ASSETS HELD FOR SALE	5,426	15,280
TOTAL ASSETS	**1,459,271**	**1,444,305**

(*) Presented for comparison purposes only

Santander Group – Consolidated balance sheet statement (millions of euros)

LIABILITIES	2018	2017 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	70,343	107,624
Derivatives	55,341	57,892
Short positions	15,002	20,979
Deposits	-	28,753
Central banks	-	282
Credit institutions	-	292
Customers	-	28,179
Marketable debt securities	-	-
Other financial liabilities	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	68,058	59,616
Deposits	65,304	55,971
Central banks	14,816	8,860
Credit institutions	10,891	18,166
Customers	39,597	28,945
Marketable debt securities	2,305	3,056
Other financial liabilities	449	589
Memorandum ítems:subordinated liabilities	-	-
FINANCIAL LIABILITIES AT AMORTISED COST	1,171,630	1,126,069
Deposits	903,101	883,320
Central banks	72,523	71,414
Credit institutions	89,679	91,300
Customers	740,899	720,606
Marketable debt securities	244,314	214,910
Other financial liabilities	24,215	27,839
Memorandum ítems:subordinated liabilities	*23,820*	*21,510*
HEDGING DERIVATIVES	6,363	8,044
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	303	330
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	765	1,117
PROVISIONS	13,225	14,489
Pensions and other post-retirement obligations	5,558	6,345
Other long term employee benefits	1,239	1,686
Taxes and other legal contingencies	3,174	3,181
Contingent liabilities and commitments	779	617
Other provisions	2,475	2,660
TAX LIABILITIES	8,135	7,592
Current tax liabilities	2,567	2,755
Deferred tax liabilities	5,568	4,837
OTHER LIABILITIES	13,088	12,591
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
TOTAL LIABILITIES	**1,351,910**	**1,337,472**
SHAREHOLDERS´ EQUITY	118,613	116,265
CAPITAL	8,118	8,068
Called up paid capital	8,118	8,068
Unpaid capital which has been called up	-	-
Memorandum items: uncalled up capital	-	-
SHARE PREMIUM	50,993	51,053
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	565	525
Equity component of the compound financial instrument	-	-
Other equity instruments issued	565	525
OTHER EQUITY	234	216
ACCUMULATED RETAINED EARNINGS	56,756	53,437
REVALUATION RESERVES	-	-
OTHER RESERVES	(3,567)	(1,602)
Reserves or accumulated losses in joint ventures investments	917	724
Others	(4,484)	(2,326)
(-) OWN SHARES	(59)	(22)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	7,810	6,619
(-) INTERIM DIVIDENDS	(2,237)	(2,029)
OTHER COMPREHENSIVE INCOME	(22,141)	(21,776)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	(2,936)	(4,034)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	(19,205)	(17,742)
NON-CONTROLLING INTEREST	10,889	12,344
Other comprehensive income	(1,292)	(1,436)
Other items	12,181	13,780
EQUITY (*)	**107,361**	**106,833**
TOTAL LIABILITIES AND EQUITY	**1,459,271**	**1,444,305**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS		
Loans commitment granted	218,083	207,671
Financial guarantees granted	11,723	14,499
Other commitments granted	74,389	64,917

(*) Presented for comparison purposes only.

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Santander Group – Consolidated statement of income (millions of euros)

	(Debit) Credit	
	2018	2017 (*)
Interest income	54,325	56,041
Financial assets at fair value through other comprehensive income	*4,481*	*4,384*
Financial assets at amortized cost	*47,560*	*49,096*
Other interest income	*2,284*	*2,561*
Interest expense	(19,984)	(21,745)
Interest income / (charges)	**34,341**	**34,296**
Dividend income	370	384
Income from companies accounted for using the equity method	737	704
Commission income	14,664	14,579
Commission expense	(3,179)	(2,982)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	604	404
Financial assets at amortized cost	*39*	
Other financial assets and liabilities	*565*	
Gain or losses on financial assets and liabilities held for trading, net	1,515	1,252
Reclassification of financial assets at fair value through other comprehensive income	-	
Reclassification of financial assets at amortized cost	-	
Other gains (losses)	*1,515*	
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	331	
Reclassification of financial assets at fair value through other comprehensive income	-	
Reclassification of financial assets at amortized cost	-	
Other gains (losses)	*331*	
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	(57)	(85)
Gain or losses from hedge accounting, net	83	(11)
Exchange differences, net	(679)	105
Other operating income	1,643	1,618
Other operating expenses	(2,000)	(1,966)
Income from assets under insurance and reinsurance contracts	3,175	2,546
Expenses from liabilities under insurance and reinsurance contracts	(3,124)	(2,489)
Total income	**48,424**	**48,355**
Administrative expenses	(20,354)	(20,400)
Staff costs	*(11,865)*	*(12,047)*
Other general administrative expenses	*(8,489)*	*(8,353)*
Depreciation and amortisation cost	(2,425)	(2,593)
Provisions or reversal of provisions, net	(2,223)	(3,058)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	(8,986)	(9,259)
Financial assets at fair value through other comprehensive income	*(1)*	
Financial assets at amortized cost	*(8,985)*	
Financial assets measured at cost		*(8)*
Financial assets available-for-sale		*(10)*
Loans and receivables		*(9,241)*
Held-to-maturity investments		-
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	(17)	(13)
Impairment or reversal of impairment on non-financial assets, net	(190)	(1,260)
Tangible assets	*(83)*	*(72)*
Intangible assets	*(117)*	*(1,073)*
Others	*10*	*(115)*
Gain or losses on non-financial assets and investments, net	28	522
Negative goodwill recognised in results	67	-
Gains or losses on non-current assets held for sale not classified as discontinued operations	(123)	(203)
Operating profit/(loss) before tax	**14,201**	**12,091**
Tax expense or income from continuing operations	(4,886)	(3,884)
Profit from continuing operations	**9,315**	**8,207**
Profit or loss after tax from discontinued operations	-	-
Profit for the year	**9,315**	**8,207**
Profit attributable to non-controlling interests	1,505	1,588
Profit attributable to the parent	7,810	6,619
Earnings per share		
Basic	0.449	0.404
Diluted	0.448	0.403

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of recognised income and expense (millions of euros)

	2018	2017 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**9,315**	**8,207**
OTHER RECOGNISED INCOME AND EXPENSE	**(1,899)**	**(7,320)**
Items that will not be reclassified to profit or loss	**332**	**(88)**
Actuarial gains and losses on defined benefit pension plans	618	(157)
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	1	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(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)	-	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	109	
Income tax relating to items that will not be reclassified	(222)	68
Items that may be reclassified to profit or loss	**(2,231)**	**(7,232)**
Hedges of net investments in foreign operations (effective portion)	(2)	614
Revaluation gains (losses)	*(2)*	*614*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchanges differences	(1,874)	(8,014)
Revaluation gains (losses)	*(1,874)*	*(8,014)*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	174	(441)
Revaluation gains (losses)	*491*	*501*
Amounts transferred to income statement	*(317)*	*(942)*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Financial assets available-for-sale		683
Revaluation gains (losses)		*1,137*
Amounts transferred to income statement		*(454)*
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	(591)	
Revaluation gains (losses)	*(29)*	
Amounts transferred to income statement	*(562)*	
Other reclassifications	-	
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	(77)	(70)
Income tax relating to items that may be reclassified to profit or loss	139	(4)
Total recognised income and expenses for the year	**7,416**	**887**
Attributable to non-controlling interests	1,396	*1,005*
Attributable to the parent	6,020	*(118)*

(*) Presented for comparison purposes only.

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Santander Group - Consolidated statements of changes in total equity (millions of euros)

(Millions of euros)

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest		Total
												Other comprehensive income	Others items	
Balance as of 31-12-17 (*)	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(1,473)	-	-	-	1,425	253	(1,545)	(1,340)
Opening balance as of 01-01-18 (*)	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(3,075)**	**(22)**	**6,619**	**(2,029)**	**(20,351)**	**(1,183)**	**12,235**	**105,493**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,810**	**-**	**(1,790)**	**(109)**	**1,505**	**7,416**
Other changes in equity	**50**	**(60)**	**40**	**18**	**3,319**	**-**	**(492)**	**(37)**	**(6,619)**	**(208)**	**-**	**-**	**(1,559)**	**(5,548)**
Issuance of ordinary shares	50	(60)	-	-	-	-	10	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(968)	-	-	-	-	(2,237)	-	-	(687)	(3,892)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,026)	-	-	-	-	-	(1,026)
Disposal of equity instruments	-	-	-	-	-	-	-	989	-	-	-	-	-	989
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,287	-	303	-	(6,619)	2,029	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	59	-	-	-	-	-	(660)	(601)
Share-based payment	-	-	-	(74)	-	-	-	-	-	-	-	-	17	(57)
Others increases or (-) decreases of the equity	-	-	40	92	-	-	(864)	-	-	-	-	-	(229)	(961)
Balance as of 31-12-18	**8,118**	**50,993**	**565**	**234**	**56,756**	**-**	**(3,567)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**107,361**

(*) Presented for comparison purposes only.

	Capital	Share premium	Other equity instruments issued (not capital)	Other e quit instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit Attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-Controlling interest Other comprehensive income	Non-Controlling interest Others items	Total
Balance as at 12-31-16 (*)	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance as at 01-01-17 (*)	**7,291**	**44,912**	**-**	**240**	**49,953**	**-**	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,619**	**-**	**(6,737)**	**(583)**	**1,588**	**887**
Other changes in equity	**777**	**6,141**	**525**	**(24)**	**3,484**	**-**	**(653)**	**(15)**	**(6,204)**	**(362)**	**-**	**-**	**(422)**	**3,247**
Issuance of ordinary shares	777	6,141	-	-	-	-	6	-	-	-	-	-	543	7,467
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	525	-	-	-	-	-	-	-	-	-	592	1,117
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Dividends	-	-	-	-	(802)	-	-	-	-	(2,029)	-	-	(665)	(3,496)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,309)	-	-	-	-	-	(1,309)
Disposal of equity instruments	-	-	-	-	-	-	26	1,294	-	-	-	-	-	1,320
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,286	-	251	-	(6,204)	1,667	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	(39)	(39)
Share-based payment	-	-	-	(72)	-	-	-	-	-	-	-	-	24	(48)
Others increases or (-) decreases of the equity	-	-	-	48	-	-	(936)	-	-	-	-	-	(867)	(1,755)
Balance as at 12-31-17 (*)	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of cash flows (millions of euros)

	2018	2017 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	**3,416**	**40,188**
Profit for the year	**9,315**	**8,207**
Adjustments made to obtain the cash flows from operating activities	**21,714**	**23,927**
Depreciation and amortisation cost	*2,425*	*2,593*
Other adjustments	*19,289*	*21,334*
Net increase/(decrease) in operating assets	**51,550**	**18,349**
Financial assets held-for-trading	*(31,656)*	*(18,114)*
Non-trading financial assets mandatorily at fair value through profit or loss	*5,795*	
Financial assets at fair value through profit or loss	*16,275*	*3,085*
Financial assets at fair value through other comprehensive income	*(2,091)*	
Financial assets available-for-sale		*2,494*
Financial assets at amortized cost	*61,345*	
Loans and receivables		*32,379*
Other operating assets	*1,882*	*(1,495)*
Net increase/(decrease) in operating liabilities	**27,279**	**30,540**
Liabilities held-for-trading financial	*(36,315)*	*1,933*
Financial liabilities designated at fair value through profit or loss	*8,312*	*19,906*
Financial liabilities at amortized cost	*60,730*	*12,006*
Other operating liabilities	*(5,448)*	*(3,305)*
Income tax recovered/(paid)	**(3,342)**	**(4,137)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**3,148**	**(4,008)**
Payments	**12,936**	**10,134**
Tangible assets	*10,726*	*7,450*
Intangible assets	*1,469*	*1,538*
Investments	*11*	*8*
Subsidiaries and other business units	*730*	*838*
Non-current assets held for sale and associated liabilities	-	-
Held-to-maturity investments		*300*
Other payments related to investing activities	-	-
Proceeds	**16,084**	**6,126**
Tangible assets	*3,670*	*3,211*
Intangible assets	-	-
Investments	*2,327*	*883*
Subsidiaries and other business units	*431*	*263*
Non-current assets held for sale and associated liabilities	*9,656*	*1,382*
Held-to-maturity investments		*387*
Other proceeds related to investing activities	-	-
C. CASH FLOW FROM FINANCING ACTIVITIES	**(3,301)**	**4,206**
Payments	**7,573**	**7,783**
Dividends	*3,118*	*2,665*
Subordinated liabilities	*2,504*	*2,007*
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	*1,026*	*1,309*
Other payments related to financing activities	*925*	*1,802*
Proceeds	**4,272**	**11,989**
Subordinated liabilities	*3,283*	*2,994*
Issuance of own equity instruments	-	*7,072*
Disposal of own equity instruments	*989*	*1,331*
Other proceeds related to financing activities	-	*592*
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES	**(595)**	**(5,845)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,668**	**34,541**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**110,995**	**76,454**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**113,663**	**110,995**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash	*10,370*	*8,583*
Cash equivalents at central banks	*89,005*	*87,430*
Other financial assets	*14,288*	*14,982*
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**113,663**	**110,995**
In which: restricted cash	**-**	**-**

(*) Presented for comparison purposes only

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share.

a) *Distribution of the Bank's profit and shareholder remuneration scheme*

The distribution of the Bank's net profit for 2018 that the board of directors will propose for approval by the shareholders at the annual general meeting is as follows:

	Million of euros
First and third interim dividends and final dividend	3,160
Acquisition, with a waiver of exercise, of bonus share rights from the shareholders which, under the Santander Dividendo Elección scrip dividend scheme, opted to receive in cash remuneration equivalent to the second interim dividend	132
	3,292
Of which:	
Approved at 31 December 2018 (*)	*2,237*
Final dividend	*1,055*
To voluntary reserves	9
Net profit for the year	**3,301**

(*) Recognised under Shareholders' equity – Interim dividends.

In addition to the EUR 3,292 million indicated above, EUR 432 million in shares were allocated to the remuneration of shareholders under the shareholder remuneration scheme (Santander Dividendo Elección) approved by the shareholders at the annual general meeting held on 23 March 2018, whereby the Bank offered shareholders the possibility to opt to receive an amount equivalent to the second interim dividend out of 2018 profit in cash or new shares.

A remuneration of EUR 0.23 per share, charged to the 2018 annual period, will be proposed by the board of directors to the shareholders at the annual general meeting.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2018	2017
Profit attributable to the parent (million of euros)	7,810	6,619
Remuneration of contingently convertible preference shares (CCP) (million of euros) (Note 23)	(560)	(395)
	7,250	6,224
Of which:		
Profit or Loss from discontinued operations (non controlling interest net) (million of euros)	-	-
Profit or Loss from continuing operations (net of non-controlling interests and CCP) (million of euros)	*7,250*	*6,224*
Weighted average number of shares outstanding	16,150,090,739	15,394,458,789
Adjusted number of shares	16,150,090,739	15,394,458,789
Basic earnings per share (euros)	**0.449**	**0.404**
Basic earnings per share from discontinued operations (euros)	**0.000**	**0.000**
Basic earnings per share from continuing operations (euros)	**0.449**	**0.404**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	2018	2017
Profit attributable to the parent (million of euros)	7,810	6,619
Remuneration of contingently convertible preference shares (CCP) (million of euros) (Note 23)	(560)	(395)
	7,250	6,224
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (million of euros)	-	
Profit from continuing operations (net of non-controlling interests and CCP) (million of euros)	*7,250*	*6,224*
Weighted average number of shares outstanding	16,150,090,739	15,394,458,789
Dilutive effect of options/rights on shares	42,873,078	50,962,887
Adjusted number of shares	16,192,963,816	15,445,421,676
Diluted earnings per share (euros)	**0.448**	**0.403**
Diluted earnings per share from discontinued operations (euros)	**0.000**	**0.000**
Diluted earnings per share from continuing operations (euros)	**0.448**	**0.403**

The capital increase in 2017 (See Note 27.a) had an impact on the basic and diluted earnings per share of the previous years due to the alteration in the number of shares outstanding. Due to this fact, the information relating to the 2016 period has been recasted according to the applicable legislation.

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 2018 and 2017:

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 for the years 2018 and 2017, was EUR 6 million, with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the Board of Directors. For such purpose, it takes into consideration the positions held by each director on the Board, their membership of the Board and the board committees and their attendance of the meetings thereof, and any other objective circumstances considered by the Board.

The total bylaw-stipulated emoluments earned by the Directors in 2018 amounted to EUR 4.6 million (EUR 4.7 million in 2017).

Annual emolument

The amounts received individually by the directors in 2018 and 2017 based on the positions held by them on the board and their membership of the Board committees were as follows:

	Euros	
	2018	2017
Members of the board of directors	90,000	87,500
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance oversight committee	40,000	40,000
Members of the responsible banking, sustainability and culture committee	15,000	-
Chairman of the audit committee	70,000	50,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk, regulation and compliance oversight committee	70,000	50,000
Chairman of the responsible banking, sustainability and culture committee	50,000	-
Lead director (*)	110,000	110,000
Non-executive deputy chairman	30,000	30,000

(*) Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings - excluding, as aforementioned, executive committee meetings - were as follows:

Meeting attendance fees	Euros	
	2018	2017
Board of directors	2,600	2,600
Audit committee and risk supervision, regulation and compliance oversight committee	1,700	1,700
Other committees (except the executive committee)	1,500	1,500

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the annual general meeting, salaries are composed of a fixed annual remuneration and a variable one consisting of a unique incentive, which is based on a deferred variable remuneration linked to multi-year objectives, which establishes the following payment scheme:

Establishes the following payments 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, as the case may be, in five portions provided that the conditions of permanence of the Group and non-concurrence of the malus clauses are met, taking into account the following accrual scheme.
    - The accrual of the first and second portion (payment in 2020 and 2021) is no subject to the long-term objectives.
    - The accrual of the third, fourth, and fifth portion (payment in 2022, 2023 and 2024), is linked to certain objectives related to the period 2018-2020 and the metrics and scales associated with these objectives. The fulfilment of the objective determines the percentage to be paid of the deferred amount in these three annuities, being the maximum amount determined at the end of the 2018 when the total variable remuneration is approved.
- In accordance with current remuneration policies, the amounts already paid will be settled to a possible recovery (clawback) by the Bank during the period set out in the policy in force each moment.

The immediate payment (or short-term) as well as each deferred payment, whether subject or not to long-term, goals will be settled 50% in cash and the remaining 50% in Santander shares.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2018 and 2017 is provided below:

Directors	Thousands of euros																		
	2018																		2017
	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors										
	Annual emolument									Variable – immediate payment		Deferred variable							
	Board (6)	Executive committee	Audit committe	Appointments committee	Remuneration committee	Risk, 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 (7)	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	90	170	-	-	-	-	8	39	3,176	1,480	1,480	888	888	7,912	1,234	1,030	10,483	10,582
Mr José Antonio Álvarez Álvarez	90	170	-	-	-	-	-	34	2,541	989	989	593	593	5,705	1,050	1,596	8,645	8,893
Mr Rodrigo Echenique Gordillo	90	170	-	-	-	-	-	33	1,800	785	785	471	471	4,312	-	225	4,830	4,281
Mr Guillermo de la Dehesa Romero	120	170	-	25	25	20	-	81	-	-	-	-	-	-	-	-	441	473
Mr Bruce Carnegie-Brown	383	170	-	25	25	40	-	89	-	-	-	-	-	-	-	-	732	731
Mr Ignacio Benjumea Cabeza de Vaca	90	170	-	13	25	40	8	86	-	-	-	-	-	-	-	81	513	550
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (1)	90	-	-	-	-	-	-	31	-	-	-	-	-	-	-	-	121	124
Ms Sol Daurella Comadrán	90	-	-	25	25	-	8	67	-	-	-	-	-	-	-	-	215	207
Mr Carlos Fernández González	90	-	40	25	25	-	-	86	-	-	-	-	-	-	-	-	266	285
Ms Esther Giménez-Salinas i Colomer	90	-	-	-	-	40	8	58	-	-	-	-	-	-	-	-	196	162
Ms Belén Romana García	160	85	40	-	-	40	8	81	-	-	-	-	-	-	-	-	414	297
Mr Juan Miguel Villar Mir	90	-	-	-	-	-	-	18	-	-	-	-	-	-	-	-	108	170
Ms Homaira Akbari	90	-	40	-	-	-	8	61	-	-	-	-	-	-	-	-	199	159
Mr Ramiro Mato García Ansorena (2)	115	170	40	-	-	40	8	77	-	-	-	-	-	-	-	-	450	36
Mr Alvaro Cardoso de Souza (3)	85	-	-	-	-	27	5	31	-	-	-	-	-	-	-	-	148	-
Mr Matías Rodríguez Inciarte (4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,266
Ms Isabel Tocino Biscarolasaga (5)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	418
Total 2018	1,763	1,275	160	113	125	247	61	872	7,517	3,254	3,254	1,952	1,952	17,929	2,284	2,932	27,761	
Total 2017	1,675	1,345	160	125	123	280	-	973	7,568	3,698	3,698	2,219	2,219	19,402	5,164	2,387		31,634

(1) All the amounts received were repaid to the Fundación Marcelino Botín.
(2) Director since 28 November 2017
(3) Director since 23 March 2018
(4) Ceased to be a member of the Board on 28 November, 2017. This table shows the remuneration information until his ceased as a member of the board. The remuneration information for his performance as executive vice president since November 28, 2017 is included in the corresponding section.
(5) Ceased to be a member of the board on 28 November, 2017.
(6) Includes committee chairmanship and other roles emoluments.
(7) Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors as well as a fixed supplement approved as part of the benefit systems transformation of the Executive Directors Ms Ana Botín and Mr José Antonio Álvarez Álvarez

Following is the detail, by executive director, of the linked to multiannual objectives salaries at their fair value, which will only be received if the conditions of continued service, non-applicability of “malus” clauses and, full achievement of the objectives established (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of the agreed-upon amount in the end of the year) in the terms described in Note 42.

	Thousands of euros			
	2018			2017
	Variable subject to Long-term objectives(2)			
	In cash	In shares	Total	Total (2)
Ms. Ana Botín-Sanz de Sautuola y O’Shea	932	932	1,864	1,726
Mr. José Antonio Álvarez Álvarez	623	623	1,246	1,154
Mr. Rodrigo Echenique Gordillo	495	495	990	900
Mr. Matías Rodríguez Inciarte(1)	-	-	-	880
Total	**2,050**	**2,050**	**4,100**	**4,660**

(1) Ceased to be a member of the board on 28 November, 2017. The remuneration information for his performance as executive vice president is included in the corresponding section.

(2) Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2022, 2023 and 2024, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of “malus” clauses and achievement of the objectives established.

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2018 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 (see Note 42).

Note 5.e) below includes disclosures on the shares delivered by virtue of the deferred remuneration schemes in place in previous years the conditions for delivery which were met in the corresponding years, and on the maximum number of shares receivable in future years in connection with the aforementioned 2018 and 2017 variable remuneration plans.

b) *Remuneration of the Board members as representatives of the Bank*

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after March 18, 2002 accrues to the Group. In 2018 and 2017 the Bank's directors did not receive any remuneration in respect of these representative duties.

Mr. Matías Rodríguez Inciarte received EUR 42 thousand as non-executive director of U.C.I., S.A. in 2017.

c) *Post-employment and other long-term benefits*

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its executive directors. In 2012, the contracts of the executive directors (and the other members of the Bank’s senior management) with defined benefit pension commitments were amended to transform them into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement[1]. In the event of pre-retirement and up until the retirement date, Ms Ana Botín and Mr José Antonio Álvarez have the right to receive an annual allotment.

[1] As provided in the contracts of the executive directors prior to 2012, Mr Matías Rodríguez Inciarte exercised the option to receive accrued pensions (or similar amounts) in the form of capital, i.e., in a lump sum, which means that he ceased to

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system[2].

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement). No contributions will be made with respect to executive directors or senior executives who exercised the option to receive their pension rights as capital prior to the transformation of the defined benefits pension commitments into the current defined forecast contribution system as set out in footnote 2 below.

Mr Rodrigo Echenique's contract does not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the event of termination other than as may be required by law.

In accordance with the provisions of the remuneration regulations, contributions made that are calculated on variable remuneration are subject to the discretionary pension benefits regime. Under this regime, these contributions are subject to malus clauses and clawback according to the policy in force at any time and during the same period in which the variable remuneration is deferred. Likewise, they must be invested in Bank shares for a period of five years from the date of the termination of executive directors in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the remainder of the accumulated balance of the executive director, or will be paid to him or her beneficiaries had there been any contingency covered by the forecasting 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. This benefit gave the widow/widower and any children under the age of 25 in the event of death, or the director in case of disability, the right to a pension supplemental to the pension they would have been entitled to receive from social security up to an annual maximum amount equal to their respective pensionable bases, as indicated above in connection with pre-retirement (in Mr Álvarez's case, referring to his fixed remuneration as chief executive officer), with certain deductions.

As per the director´s remuneration policy approved at the 23 March 2018 general shareholder´s meeting, in 2018 the system has been 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.
- No increase in total costs for the Bank.

The changes to the system in 2018 are the following:

- Fixed and variable pension contributions have been reduced to 22% of the respective pensionable bases. The gross annual salaries and the benchmark variable remuneration have been increased in the corresponding amount with no increase in total costs for the Bank.

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accrue pensions from such time, with a fixed capital amount to be received, which shall be updated at the agreed interest rate.

[2] In the case of Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amount that was set when, as described above, he exercised the option to receive a lump sum, and includes the interest accrued on this amount from that date.

- The death and disability supplementary benefits have been eliminated since 1 April 2018. A fixed remuneration supplement (included in other remuneration in section a.iii in this note) was implemented the same date.
- The total amount for life and accident insurance has been increased.

The provisions recognised in 2018 and 2017 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands of euros	
	2018	2017
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,234	2,707
Mr José Antonio Álvarez Álvarez	1,050	2,456
	2,284	**5,163**

Following is a detail of the balances relating to each of the executive directors under the welfare system at 31 December 2018 and 2017:

	Thousands of euros	
	2018	2017
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	46,093	45,798
Mr José Antonio Álvarez Álvarez	16,630	16,151
Mr Rodrigo Echenique Gordillo (2)	13,614	13,957
Mr Matías Rodríguez Inciarte (3)	-	-
	76,337	**75,906**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Executive director since 16 January, 2015 Mr. Rodrigo Echenique Gordillo doesn´t participate in the pension system and the right to the bank to make contributions in its favour in this regard. The amount at 31 December, 2018 and 2017, corresponds to him prior to his appointment as executive director in January 2015.

(3) Ceased to be a member of the Board on 28 November, 2017, retained their pension rights as of 31 December, 2017 amounted to EUR 48,750 thousand.

The payments made during 2018 to the members of the Board entitled to post-employment benefits amount to EUR 0.9 million (EUR 0.9 million in 2017).

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured capital (Thousands of euros)	
	2018	2017
Ms. Ana Botín-Sanz de Sautuola y O'Shea	22,710	7,500
Mr. José Antonio Álvarez Álvarez	19,694	6,000
Mr. Rodrigo Echenique Gordillo	5,400	4,500
Mr. Matías Rodríguez Inciarte (1)	-	-
	47,804	**18,000**

(1) Ceased to be member of the board on 28 November, 2017. The insured capital at 31 December, 2017 amounted to EUR 5,131 thousand.

The insured capital has changed for in 2018 as Ms Ana Botín and Mr José Antonio Alvarez as part of the pension transformation set out in Note 5.c) above, that has encompassed the elimination of the supplementary benefits and the increase of the life insurance annuities.

During years 2018 and 2017, the Group has disbursed a total amount of EUR 10.1 and 10.5 million, 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 which it is not possible to disaggregate or individualize the amount that correspond to the directors and executives.

At December 31, 2018 and 2017, there were no obligations in this connection to 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 2018 and 2017 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2018 and prior years, as well as on the deliveries, whether shares or cash, made to them in 2018 and 2017 where 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 other portion of the bonus is also to be paid in cash and Santander shares, upon commencement of the cycles, 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 in each case be governed by the rules of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the *Santander Dividendo Elección* scrip dividend scheme is applied, payment will based on the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's Executive Directors for each year.

This plan and the Performance Shares (ILP) plan described below have been integrated for the executive directors and other senior managers in the deferred variable compensation plan linked to multiannual objectives, in the terms approved by the General Meeting of Shareholders held on 18 March, 2016.

ii) Performance shares plan (ILP)

The annual general meeting held on 27 March 2015 approved the second cycle of the performance shares plan. The accrual of this long-term incentive plan (LTI) and its amount are conditional on the performance of certain metrics of Banco Santander between 2015 and 2017, as well as compliance with the remaining conditions of the plan until the end of the accrual period (31 December 2018). The maximum benchmark LTI in number of shares for executive directors was set by the board at the end of 2015.

At year-end 2018, the corresponding amounts to be received by each exclusive director in relation to LTI (the accrued LTI amount) was established taking into account the performance of the following indicators: (1) ranking of Santander´s earning per share growth for the 2015-2017 period compared to a peer group of 17 credit institutions; (2) ROTE in 2017; (3) number of principal markets in which Santander is in the Top 3 of the best banks to work for in 2017; (4) number of principal markets in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017; (5) retail loyal clients at 31 December 2017; and (6) SME and corporate loyal clients at 31 December 2017. The overall compliance of the plan was assessed by the Board at the 65.67%.

As a result of the aforementioned process and following a proposal by the remuneration committee, the board of directors approved the following number of shares to be paid in 2019:

	Number of shares		
	Approved máximum LTI amount (1)	Ratio	Final number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	187,080	65.67%	122,855
Mr José Antonio Álvarez Álvarez	126,279	65.67%	82,927
Mr Rodrigo Echenique Gordillo	93,540	65.67%	61,428
Total	**406,899**		**267,210**

(1) 91.50% of the maximum established benchmark approved at the AGM on 27 March 2015.

With regards to the ILP of 2014 (see Note 42), in both 2017 and 2018, the position achieved in the Total Return for the Shareholders has not been such that determines the accrual of the second and third thirds. Therefore, the plan has expired.

iii) Deferred variable compensation plan linked to multiannual objectives

In 2016, with the aim of simplifying the remuneration structure, improving risk adjustment before 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 2018 has been approved by the Board of Directors and implemented through the third cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan, thus far as it entails the delivery of shares to the beneficiaries, was authorized by the annual General Meeting of Shareholders.

As indicated in section a.ii of this Note, 60% of the variable remuneration amount is deferred for five years (three years for certain beneficiaries, not including executive directors), for their payment, where appropiate by fifth parties provided that the conditions of permanence in the group and non-concurrence of the clauses *malus* are met, according to the following accrual scheme:

- The accrual of the first and second parts (installments in 2020 and 2021) is not subject to the fulfilment of long-term objectives.
- The accrual of the third, fourth and fifth parts is linked to the fulfilment of certain objectives related to the period 2018-2020 and the metrics and scales associated with those objectives. These objectives are:
    - the growth of consolidated earnings per share in 2020 compared to 2017;

- the relative performance of the Bank's total shareholder return (RTA) in the period 2018-2020 in relation to the weighted RTAs of a reference group of 17 credit institutions;
- compliance with the fully loaded ordinary level 1 capital objective for the year 2020;

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 2018.

Both the immediate (short-term) and the deferred (long-term and conditioned) part 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 the fact that during the period prior to each of the deliveries, none of the circumstances giving rise to the malus clause as set out in the Group's remuneration policy in its chapter related to malus and clawback. Likewise, the already paid amounts of the incentive will be subject to its possible recovery (clawback) by the Bank in the cases and during the term foreseen in said policy, always in the terms and conditions that are foreseen in it.

The application of malus and clawback is activated in cases in which there is poor financial performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered:

(i) Significant failures in risk management committed by the entity, or by a business unit or risk control.
(ii) The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures.
(iii) Regulatory sanctions or judicial sentences from events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity.
(iv) Irregular conduct, whether individual or collective. The negative effects derived from the marketing of inappropriate products and the responsibilities of the people or bodies that made those decisions will be specially considered.

The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluded) the date on which the bonus is agreed by the board of executive directors of the Bank.

iv) 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, 2017, 31 December, 2017 and 2018, as well as the gross shares that were delivered to them in 2017 and 2018, either in the form of an immediate payment or a deferred payment. In this case after having been appraised by the board, at the proposal of the remuneration committee that the corresponding one-fifth (one third until 2014) of each plan had accrued. They bring cause of each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2013, 2014 and 2015 and of the deferred conditional and linked to multiannual objectives 2018, 2017 and 2016.

In order to mitigate the dilutive effect (and, therefore, not linked to the performance of the Group) of the capital increase with preferential subscription rights of the Bank that took place on July 2017 in certain cycles of the deferred compensation and long term incentive plans, the increase in the number of shares to be delivered to its beneficiaries was approved, considering for this a valuation of preferential subscription rights equivalent to their theoretical value, EUR 0.1047 per right. The effect of increasing the number of shares is detailed in the corresponding column of the table below.

Santander

Share-based variable remuneration	**Maximum number of shares to be delivered at January 1, 2017**	Shares delivered in 2017 (immediate payment 2016 variable remuneration)	Shares delivered in 2017 (deferred payment 2014 variable remuneration)	Shares delivered in 2017 (deferred payment 2013 variable remuneration)	Shares delivered in 2017 (deferred payment 2012 variable remuneration)	Shares arising from the capital increase of July 2017	Variable remuneration 2017 (maximum number of shares to be delivered)	**Maximum number of shares to be delivered at December 31, 2017**	Shares delivered in 2018 (immediate payment 2016 variable remuneration)	Shares delivered in 2018 (deferred payment 2015 variable remuneration)	Shares delivered in 2018 (deferred payment 2014 variable remuneration)	Shares delivered in 2018 (deferred payment 2013 variable remuneration)	Variable remuneration 2018 (maximum number of shares to be delivered) (1)	**Maximum number of shares to be delivered at December 31, 2018**(4)
2013 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	33,120				(33,120)									
Mr. José Antonio Álvarez Álvarez (2)	19,561				(19,561)									
Mr. Matías Rodríguez Inciarte	34,547				(34,547)									
	87,228				**(87,228)**									
2014 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	121,630			(60,814)		905		61,721				(61,721)		
Mr. José Antonio Álvarez Álvarez (2)	52,484			(26,242)		390		26,632				(26,632)		
Mr. Matías Rodríguez Inciarte(3)	92,725			(46,363)		690		47,052				(47,052)		
	266,839			**(133,419)**		**1,985**		**135,405**				**(135,405)**		
2015 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	317,300		(63,460)			3,777		257,617			(64,404)			193,213
Mr. José Antonio Álvarez Álvarez(2)	210,914		(42,183)			2,511		171,242			(42,811)			128,431
Mr. Rodrigo Echenique Gordillo	156,233		(31,247)			1,860		126,846			(31,712)			95,134
Mr. Matías Rodríguez Inciarte	216,671		(43,334)			2,579		175,916			(43,979)			131,937
	901,118		**(180,224)**			**10,727**		**731,621**			**(182,906)**			**548,715**
2016 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea	592,043	(236,817)				5,286		360,512		(72,102)				288,410
Mr. José Antonio Álvarez Álvarez(2)	399,607	(159,843)				3,568		243,332		(48,667)				194,665
Mr. Rodrigo Echenique Gordillo	295,972	(118,389)				2,643		180,226		(36,046)				144,180
Mr. Matías Rodríguez Inciarte	352,455	(140,982)				3,147		214,620		(42,924)				171,696
	1,640,077	**(656,031)**				**14,644**		**998,690**		**(199,739)**				**798,951**
2017 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea							574,375	574,375	(229,750)					344,625
Mr. José Antonio Álvarez Álvarez(2)							384,118	384,118	(153,647)					230,471
Mr. Rodrigo Echenique Gordillo							299,346	299,346	(119,738)					179,608
Mr. Matías Rodríguez Inciarte(3)							292,771	292,771	(117,108)					175,662
							1,550,610	**1,550,610**	**(620,243)**					**930,366**
2018 variable remuneration														
Ms. Ana Botín-Sanz Sautuola y O'Shea													860,865	860,865
Mr. José Antonio Álvarez Álvarez(2)													575,268	575,268
Mr. Rodrigo Echenique Gordillo													456,840	456,840
													1,892,973	**1,892,973**

(1) For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfillment of multiannual objectives.
(2) Maximum number of shares resulting from their participation in the corresponding plans during their stage as general manager.
(3) Ceased to be a member of the Board on 28 November, 2017. The shares corresponding to his variable remuneration between 28 November 28, 2017 and 2 January, 2018 as executive vice president are included in Note 5.g.
(4) In addition, Mr. Ignacio Benjumea Cabeza de Vaca maintains the right to a maximum of 106,113 shares arising from his participation in the corresponding plans during his term as executive vice president

Also, the table below show the cash delivered in 2018 and 2017, 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-third relating to each plan had accrued:

	Thousands of euros			
	2018		2017	
	Cash paid (immediate payment 2017 variable remuneration)	Cash paid (deferred payments from 2016, 2015 and 2014 variable remuneration)	Cash paid (immediate payment 2016 variable remuneration)	Cash paid (one-third of deferred payment 2015, 2014 and 2013 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,370	947	1,205	825
Mr. José Antonio Álvarez Álvarez (1)	916	574	814	461
Mr. Rodrigo Echenique Gordillo	714	305	603	124
Mr. Matías Rodríguez Inciarte (2)	-	-	718	690
	3,000	**1,826**	**3,339**	**2,099**

(1) Includes paid cash corresponding to his participation in the corresponding plans during the time as executive vice president.
(2) Ceased to be a member of the Board on 28 November 2017. The cash paid corresponding to his variable remuneration between 28 November 2017 and 2 January 2018 as executive vice president is included in Note 5.g.

v) Information on former members of the Board of Directors

Following is information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to January 1, 2017 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 shares or cash, made in 2018 and 2017 to former board members, upon achievement of the conditions for the receipt thereof (see Note 42):

Maximum number of shares to be delivered (1)	2018	2017
Deferred conditional variable remuneration plan (2014)	-	101,537
Deferred conditional variable remuneration plan (2015)	50,604	67,472
Plan performance shares (ILP 2015)[2]	33,785	51,447
Deferred conditional variable remuneration plan (2016)	-	-

Number of shares delivered	2018	2017
Deferred conditional variable remuneration plan (2013)	-	80,718
Deferred conditional variable remuneration plan (2014)	101,537	100,049
Deferred conditional variable remuneration plan (2015)	16,868	16,621
Deferred conditional variable remuneration plan (2016)		

(1) At the proposal of the remuneration committee, the board of directors approved adjusting the maximum number of shares to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017 as described in iv) below. The actions derived from this adjustment are 3,233 shares. At year-end 2018, the overall compliance of the 2015 LTI Plan was assessed by the Board at the 65.67%.

In addition, EUR 685 thousand and EUR 1,224 thousand relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2018 and 2017.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

	Thousand of euros					
	2018			2017		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Dª. Ana Botín-Sanz de Sautuola y O'Shea	18	-	18	10	-	10
D. José Antonio Álvarez Álvarez	8	-	8	9	-	9
Mr. Bruce Carnegie-Brown	-	-	-	-	-	-
D. Matías Rodríguez Inciarte (*)	-	-	-	-	-	-
D. Rodrigo Echenique Gordillo	29	-	29	22	-	22
D. Javier Botín-Sanz de Sautuola y O'Shea	15	-	15	17	-	17
Dª Sol Daurella Comadran	53	-	53	27	-	27
D.Carlos Fernandez Gonzalez	12	-	12	-	-	-
Dª Esther Gimenez-Salinas i Colomer	1	-	1	-	-	-
D. Ignacio Benjumea Cabeza de Vaca	-	-	-	-	-	-
Dª Belén Romana García	21	-	21	3	-	3
D. Guillermo de la Dehesa Romero	21	-	21	-	-	-
	178	**-**	**178**	**88**	**-**	**88**

(*) Ceased to be a board director on 28 November 2017. On 31 December 2017, to loans and credits amounted to EUR 13 thousand.

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December, 2018 and those at 31 December, 2017, excluding the remuneration of the executive directors, which is detailed above:

		Thousands of euros							
		Short-term salaries and deferred remuneration							
			Variable remuneration (bonus) - Immediate payment		Deferred variable remuneration				
Year	Number of persons	Fixed	In cash	In shares (2)	In cash	In shares	Pensions	Other remuneration (1)	Total
2018	18	22,475	8,374	8,374	3,791	3,791	6,193	7,263	60,261
2017	19	17,847	8,879	8,879	4,052	4,052	13,511	7,348	64,568

(1) Includes other remuneration items such as life insurance premiums and localization aids totalling EUR 1,641 thousand (2017: EUR 692 thousand).

(2) The amount of the immediate payment in shares for 2018 relates to Santander shares 1,936,037 (2017:1,430,143 Santander shares and 225,564 shares of Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

(3) Additionally, and as a result of the incorporation and compensation agreements of long-term and deferred compensation lost in previous jobs, compensations were agreed in 2017 for the amount of EUR 4,650 thousand and 648,457 shares of Banco Santander, S.A. These compensations are partially subject to deferral and / or recovery in certain cases.

Also, the detail of the breakdown of the linked to multiannual objective salaries of the members of senior management at 31 December, 2018 and 2017 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).

		Thousands of euros		
		Variable remuneration subject to long-term objectives (1)		
Year	Number of people	Cash payment	Share payment	Total
2018	18	3,981	3,981	7,962
2017	19	4,255	4,255	8,510

(1) Relates in 2018 with the fair value of the maximum annual amounts for years 2022, 2023 and 2024 of the third cycle of the deferred conditional variable remuneration plan (2021, 2022 and 2023 for the first cycle of the deferred variable compensation plan linked to annual objectives for the year 2017).

Also, executive vice presidents who retired in 2018 and, therefore, were not members of senior management at year-end, received in 2018 salaries and other remuneration relating to their retirement amounting to EUR 1,861 thousand (EUR 5,237 thousand in 2017), however, the right to obtain variable remuneration subject to long-term objectives has not been generated as part of the senior management (2017: EUR 999 thousand).

Other than Executive directors the average total remuneration awarded in 2018 to women senior managers is 0.7% higher than the average remuneration of men senior managers.

Following is a detail of the maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive at 31 December, 2018 and 2017 relating to the deferred portion under the various plans then in force (see Note 42):

Maximum number of shares to be delivered (1)	2018	2017
Deferred conditional variable remuneration plan (2014)	-	323,424
Deferred conditional variable remuneration plan (2015)	705,075	1,296,424
Performance shares plan ILP (2015)	515,456	1,050,087
Deferred conditional variable remuneration plan and linked to objectives (2016)	1,079,654	1,854,495
Deferred conditional variable remuneration plan and linked to objectives (2017)	1,434,047	1,779,302
Deferred conditional variable remuneration plan and linked to objectives (2018)	2,192,901	-

(1) At the proposal of the remuneration committee, the board of directors approved adjusting the maximum number of shares to mitigate the dilutive effect of the capital increase with pre-emptive subscription rights of July 2017 as described in iv) below. The actions derived from this adjustment are 66,339 shares.

In 2018 and 2017, since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, in addition to the payment of the related cash amounts, the following number of Santander shares was delivered to the executive vice presidents:

Number of shares delivered	2018	2017
Deferred conditional variable remuneration plan (2013)	-	226,766
Deferred conditional variable remuneration plan (2014)	248,963	318,690
Deferred conditional variable remuneration plan (2015)	261,109	349,725
Deferred conditional variable remuneration plan and linked to objectives (2016)	258,350	-

As indicated in Note 5.c above, the senior managers participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its senior managers. In 2012, the contracts of the senior managers with defined benefit pension commitments were amended to transform them into a defined contribution system. The system, which is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., gives senior managers the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and 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, in application of the provisions of the remuneration regulations, from 2016 (inclusive), a discretionary pension benefit component of at least 15% of the total has been included in contributions to the pension system. Under the regime corresponding to these discretionary benefits, the contributions made that are calculated on variable remunerations are subject to malus and clawback clauses according to the policy in force at each moment and during the same period in which the variable remuneration is deferred.

Likewise, the annual contributions calculated on variable remunerations must be invested in Bank shares for a period of five years from the date of the cessation of senior management in the Group, whether or not as a result of retirement. After that period, the amount invested in shares will be invested together with the rest of the accumulated balance of the senior manager, or he will be paid to him or her beneficiaries if there were any contingency covered by the forecasting system.

The contracts of certain senior managers have gone through the changes set out in note 5.c. for executive directors. The changes, aiming at aligning the annual contributions with practices of comparable institutions and reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of certain with no increase in total costs for the Bank, are the following:

- Contributions of the pensionable bases have been reduced. Gross annual salaries have been increased in the corresponding amount with no increases in total costs for the Bank.
- The death and disability supplementary benefits have been eliminated since 1 January 2018. A fixed remuneration supplement (included in other remuneration in the table above) was implemented the same date.
- The sum insured for life and accident insurance has been increased.

All the above without an increase in total cost for the Bank.

The balance as of 31 December, 2018 in the pension system for those who were part of senior management during the year amounted to EUR: 66.5 million (EUR: 118.7 million in 31 December, 2017).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 6.4 million in 2018 (EUR: 14.5 in 31 December, 2017).

In 2018 and 2017 there is 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, 2018 of this group amounts to EUR 133.3 million (EUR: 53.6 million at 31 December, 2017).

h) Post-employment benefits to former Directors and former executive vice presidents

The post-employment benefits and settlements paid in 2018 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 13.8 million (2017: EUR 26.2 million). Also, the post-employment benefits and settlements paid in 2018 to former executive vice presidents amounted to EUR 63 million (2017: EUR 17.7 million).

Contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits to previous members of the Bank's Management Board, amounted to EUR 0.5 milllion in 2018 (EUR 0.5 million in 2017). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous managing directors amounted to EUR 5.4 million in 2018 (EUR 5.5 million in 2017).

In 2018 a period provision of EUR 0.08 million (release of EUR 0.5 million in 2017) was recognised in the consolidated income statement in connection with the Group's pension and similar obligations to former directors of the Bank (including insurance premiums for supplementary surviving spouse/child and permanent disability benefits), and no period provision was recognised in relation to former executive vice presidents (2017: a period provision of EUR 5.6 million was recognised).

In addition, Provisions – Pension Fund and similar obligations in the consolidated balance sheet as at 31 December, 2018 included EUR 70.2 million in respect of the post-employment benefit obligations to former Directors of the Bank (31 December, 2017: EUR 81.8 million) and EUR 179 million corresponding to former executive vice presidents (2017: EUR 195.8 million).

i) Pre-retirement and retirement

The following executive directors will be entitled to take pre-retirement in the event of termination, if they have not yet reached the age of retirement, on the terms indicated below:

Ms. Ana Botín-Sanz de Sautuola y O'Shea will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three. This emolument would be reduced by up to 8% in the event of voluntary retirement before the age of 60. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years. Mr. José Antonio Álvarez Álvarez will be entitled to take pre-retirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as executive vice president. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years.

j) Contract termination

The executive directors and senior executives have indefinite-term employment contracts. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit, without prejudice to the compensation that corresponds to the non-competition obligations, as detailed in the remuneration policy of the directors

If the Bank were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

Other non-director members of the Group's senior management, other than those whose contracts were amended in 2012 as indicated above, have contracts which entitle them, in certain circumstances, to an extraordinary contribution to their welfare system in the event of termination for reasons other than voluntary redundancy, retirement, disability or serious breach of duties. These benefits are recognised as a provision for pensions and similar obligations and as a staff cost only when the employment relationship between the Bank and its executives is terminated before the normal retirement date.

k) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the board of directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies not related to the Group whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Administrator	Denomination	Number of shares	Functions
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. (1)	5,000,000	-
Mr. Bruce Neil Carnegie-Brown	Moneysupermarket.com Group plc Lloyd's of London Ltd	30,000 -	President (2) President (2)
Mr. Rodrigo Echenique Gordillo	Mitsubishi UFJ Financial Group (1)	17,500	- -
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	-
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. JB Capital Markets Sociedad de Valores, S.A.	6,929,853 2,077,198	- President
Ms. Esther Giménez-Salinas i Colomer	Gawa Capital Partners, S.L.	-	Manager officer (2)
Mr. Ramiro Mato García-Ansorena	BNP Paribas, S.A.	13,806	-

(1) Indirect ownership.
(2) Non-executive.

With regard to situations of conflict of interest, as stipulated in Article 30 of the rules and regulations of the Board, the directors must notify the board of any direct or indirect conflict with the interests of the Bank in which they or persons related thereto may be involved. The director involved shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a conflict of interest.

Accordingly, the related party transactions carried out during the financial year met the conditions established in the regulations of the board of directors so as not to require a prior favourable report from the audit committee and subsequent authorisation from the board of directors.

In addition, during the 2018 financial year there were 60 occasions in which, in accordance with the provisions of article 36.1 (b) (iii) of the Regulations of the Board, the directors have abstained from intervening and voting in the deliberation of matters in the sessions of the board of directors or its committees. The breakdown of the 60 cases is as follows: on 26 occasions they were due to proposals for the appointment, re-election or resignation of directors, as well as the appointment of members of board committees or in Group companies or related to them; on 30 occasions it was about retributive aspects or the granting of loans or credits; on 1 occasion when investment or financing proposals or other risk operations were discussed in favor of companies related to different directors and on 3 occasions the abstention occurred in relation to the annual verification of the directors' nature.

6. Loans and advances to central banks and credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018(*)	01/01/2018(**)	31/12/2017
CENTRAL BANKS			
Classification:			
Financial assets held for trading	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	
Financial assets designated at fair value through profit or loss	103	-	-
Financial assets designated at fair value through other comprehensive income	-	-	
Financial assets at amortised cost	46	96	
Loans and receivables			96
	149	**96**	**96**
Breeakdown by product:			
Reverse repurchase agreements	103	76	
Other term loans	20	20	96
Advances different from loans	26	-	
Of which: impaired assets	-	-	
Of which: valuation adjustments for impairment	-	-	
	149	**96**	**96**
Currency:			
Euro	149	96	96
	149	**96**	**96**
CREDIT INSTITUTIONS			
Classification:			
Financial assets held for trading	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	2	-	
Financial assets designated at fair value through profit or loss	17,536	5,948	11,243
Financial assets designated at fair value through other comprehensive income	185	-	
Financial assets at amortised cost	35,856	31,225	
Loans and receivables			31,617
	53,579	**37,173**	**42,860**
Breakdown by product:			
Credit card Debt	-	-	-
Commercial credit	890	363	363
Finance leases	1	1	1
Reverse repurchase agreements	23,267	14,456	17,946
Other term loans	18,582	14,392	16,133
Advances different from loans	10,839	7,962	8,417
Of which: impaired assets	*1*	3	-
Of which: valuation adjustments for impairment	*(6)*	*(16)*	*(14)*
	53,579	**37,173**	**42,860**
Currency:			
Euro	35,276	29,612	35,338
Pound sterling	1,283	873	5,775
US dollar	15,532	5,815	576
Chilean pesos	728	576	873
Brazilian real	137	195	195
Other currencies	623	103	103
	53,579	**37,173**	**42,860**
TOTAL	**53,728**	**37,269**	**42,956**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

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 (Bank of Spain Circular 4/2017) and Loans and receivables (Bank of Spain Circular 4/2004) are mainly time accounts and deposits.

In addition, at December 31, 2018, there were outstanding balances with central banks and credit institutions for EUR 45,232 million and EUR 5,324 million, respectively (2017: EUR 30,800 million and EUR 2,162 million, respectively). These balances are included under Cash, cash balances at central banks and other deposits on demand.

Note 48 contains a detail of the residual maturity periods of Financial assets at amortised cost (Bank of Spain Circular 4/2017) and Loans and receivables (C) and of the related average interest rates.

The breakdown as of December 31, 2018 of the exposure and of the provision fund by phase of impairment of the assets accounted for under Circular 4/2017 of the Bank of Spain is EUR 36,094 million and EUR 6 million in phase 1, EUR 1 million without a provision fund in phase 2 and EUR 1 million euros without a provision fund in phase 3.

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018(*)	01/01/2018(**)	31/12/2017
Classification:			
Financial assets held for trading	10,525	15,411	15,242
Non-trading financial assets mandatorily at fair value through profit or loss	1,976	382	
Financial assets designated at fair value through profit or loss	-	-	-
Financial assets designated at fair value through other comprehensive income	32,741	46,732	
Financial assets available-for-sale (**)			31,946
Financial assets at amortised cost	24,372	15,270	
Loans and receivables			13,492
Held-to-maturity investments			1,892
	69,614	**77,795**	**62,572**
Sectoralization:			
Central banks	300	409	409
Public sector	44,001	56,481	42,361
Credit institutions	11,032	8,555	8,535
Other financial institutions	12,960	10,658	10,032
Non-financial institutions	1,321	1,692	1,235
Of which: impaired assets	-	-	-
Of which: value adjustments for impairment	(10)	(90)	(88)
	69,614	**77,795**	**62,572**
Currency:			
Euro	50,695	65,791	50,567
Us dollar	10,468	6,871	6,871
Pound sterling	4,775	2,318	2,318
Brazilian real	1,837	1,865	1,865
Other currencies	1,839	950	951
	69,614	**77,795**	**62,572**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

At 31 December 2018, the nominal amount of debt instruments assigned to the Bank's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 36,332 million (31 December 2017: EUR 36,332 million), of which EUR 32,202 million related to Spanish government debt (31 December 2017: EUR 29,370 million).

At 31 December 2018 the exposure by impairment stage of the book assets under Bank of Spain Circular 4/2017 amounted to EUR 57,123 million in stage 1, EUR with no exposure by impairment in stage 2 and 3.

At 31 December 2018 the loan loss provision by impairment stage of the assets accounted for under Bank of Spain Circular 4/2017 amounted to EUR 10 million in stage 1, with no loan provision by impairment in stages 2 and 3.

Note 25 contains a detail of the Other comprehensive income, recognised in equity, on Financial assets designated at fair value through other comprehensive income (Bank of Spain Circular 4/2017) and Financial assets available-for-sale, and also the related impairment losses (Bank of Spain Circular 4/2004 and subsequent modifications).

Note 48 contains a detail of the residual maturity periods of loans and advances and of available-for-sale financial assets, as well as their average interest rate.

8. Equity instruments

a) Breakdown

The detail, by classification, listing status, currency and type, of Equity instruments in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018(*)	01/01/2018(**)	31/12/2017
Classification:			
Financial assets held for trading	8,644	10,168	10,168
Non-trading financial assets mandatorily at fair value through profit or loss	224	87	
Financial assets designated at fair value through profit or loss			-
Financial assets designated at fair value through other comprehensive income	1,751	1,940	
Financial assets available-for-sale			1,863
	10,619	**12,195**	**12,031**
Listing status:			
Listed	9,892	10,768	10,714
Unlisted	727	1,427	1,317
	10,619	**12,195**	**12,031**
Currency:			
Euros	7,130	10,547	10,384
Pound sterling	1,845	80	80
Chinese yuan	1,010	919	919
Brazilian real	427	455	455
US Dollar	91	128	128
Other currencies	116	66	65
	10,619	**12,195**	**12,031**
Type:			
Shares of Spanish companies	3,178	3,877	3,726
Shares of foreign companies	6,959	8,273	8,271
Investment fund units and shares	482	45	34
	10,619	**12,195**	**12,031**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

Note 25 contains a detail of the Other comprehensive income, recognised in equity, on Financial assets designated at fair value through other comprehensive income (Bank of Spain Circular 4/2017) and Financial assets available-for-sale, and also the related impairment losses (Bank of Spain Circular 4/2004 and subsequent modifications).

Santander

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 (Bank of Spain Circular 4/2017), and Financial assets available-for-sale (Bank of Spain Circular 4/2004 and subsequent modifications) were as follows:

	Millions of euros	
	2018	2017
Balance at beginning of the year	1,863	2,443
Circular 4/2017 impact and merger effect(*)(**)	77	-
Balance at beginning of the year after merger	1,940	2,443
Purchases and capital increases	18	43
Disposals and capital reductions	(28)	(141)
Of which:		
Ventas de Fondos de Inversión en April/17	-	(84)
Other comprehensive income and other changes	(155)	(482)
Of which:		
Bank of Shanghai Co., Ltd. (Cotization´s variation)	*51*	*(336)*
Other comprehensive income and other changes	(24)	-
Balance at end of the year	**1,751**	**1,863**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).
(**) See further detail Note 1.d and Note 1.i.

i. Bank of Shanghai Co., Ltd.

In November 2016, the securities of Bank of Shanghai Co., Ltd. began trading. With the closing price of December 31, 2018, the accumulated goodwill for valuation on the cost of acquisition of this participation was EUR 390 million euros, recorded in Other comprehensive income – Financial assets at fair value with changes in other comprehensive (339 million as of December 31, 2017), so the fall in value in 2018 was EUR 51 million.

c) *Notifications of acquisitions of investments*

The notifications made by the Bank in 2017, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank at 31 December 2018 and 2017 is as follows.

	Millions of euros					
	31/12/2018		01/01/2018(*)		31/12/2017	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate	32,561	31,075	24,675	24,723	23,665	23,643
Equity instruments	2,768	1,796	1,701	1,982	1,708	1,989
Currency and Gold	16,102	18,657	13,144	13,284	13,165	13,305
Credit	113	78	258	197	258	197
Commodities	-	-	-	-	-	-
Others	93	92	98	100	98	100
	51,637	**51,698**	**39,876**	**40,286**	**38,894**	**39,234**

(*) See further detail Note 1.d and Note 1.i.

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

b) Short positions

Following is a breakdown of the short positions:

	Millions of euros		
	31/12/2018	01/01/2018 (*)	31/12/2017
Securities lending:			
Equity instruments	987	98	98
Uncovered on assignments:			
Debt instruments	5,336	8,620	8,620
Total	**6,323**	**8,718**	**8,718**

(*) See further detail Note 1.d and Note 1.i.

10. Loans and advances to customers

a) *Detail*

The detail, by classification, of Loans and advances to customers in the accompanying balance sheets is as follows:

	EUR million		
	31/12/2018 (*)	01/01/2018(**)	31/12/2017
Financial assets held for trading	19	22	22
Non-trading financial assets mandatorily at fair value through profit or loss	1,549	2,516	
Financial assets designated at fair value through profit or loss	23,687	22,778	22,778
Financial assets at fair value through other comprehensive income	1,238	574	
Financial assets at amortised cost	236,669	241,434	
Loans and receivables			174,814
Of which:			
Disregarding impairment losses	*245,207*	*251,789*	*179,446*
Impairment losses	*(7,300)*	*(9,781)*	*(4,632)*
	263,162	267,324	197,614
Loans and advances to customers disregarding impairment losses	**270,462**	**277,105**	**202,246**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

Note 48 contains a detail of the maturity periods of financial assets at amortised cost (Bank of Spain Circular 4/2017) and loans and receivables (Bank of Spain Circular 4/2004 and subsequent modifications) and of the related average interest rates.

At 31 December 2018 and 2017, there were no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

The following is a breakdown of the loans and advances granted to the Bank´s clients, which include exposure to the Bank´s credit risk in its main activity, without considering the balance of impairment reserve or the valuation adjustments (except accrued interest) depending on the modality and situation of the operations, the geographical area of the residence of the borrower and the modality of interest rate of the operation:

	Millions of euros		
	31/12/2018	01/01/2018 (*)	31/12/2017
Loan type and status:			
On demand and with a short prior period	3,442	3,532	2,172
Credit cards receivables	1,714	1,366	1,289
Commercial credit	14,248	11,252	7,885
Finance leases	3,690	3,774	2,087
Reverse repurchase agreements	12,947	13,674	13,190
Other term loans	219,689	226,071	163,891
Non loans advances	7,432	7,655	7,100
Of which:			
Impaired assets	*15,695*	*18,322*	*9,276*
Impairment losses	*(7,300)*	*(9,781)*	*(4,632)*
Mortgage loans	*97,279*	*110,346*	*69,656*
Other secured loans	*31,825*	*32,431*	*28,521*
Book value	263,162	267,324	197,614
Gross book value	**270,462**	**277,105**	**202,246**
By sector:			
Public sector	16,261	18,883	14,589
Other financial institutions	44,508	48,371	46,494
Non-financial institutions	121,212	120,017	77,888
Households	88,481	89,834	63,275
	270,462	**277,105**	**202,246**
Geographical area:			
Spain	214,626	233,524	162,351
European Union (excluding Spain)	27,805	26,391	23,472
United States of America and Puerto Rico	9,348	5,340	5,184
Other OECD countries	6,315	4,433	4,134
Latin America (non-OECD)	5,448	3,900	3,803
Rest of the world	6,920	3,517	3,302
	270,462	**277,105**	**202,246**
Interest rate:			
Fixed rate	103,770	101,692	69,464
Floating rate	166,692	175,413	132,782
	270,462	**277,105**	**202,246**

(*) See further detail Note 1.d and Note 1.i.

At 31 December 2018 and 2017 the Bank had granted loans amounting to EUR 13,224 and 11,720 million to Spanish public sector agencies which had a rating at 31 December 2018 of A (ratings of BBB at 31 December 2017), and EUR 3,036 and 2,869 million to the public sector in other countries (at 31 December 2018, the breakdown of this amount by issuer rating was as follows: 49% AAA, 7% AA, 6% A, 5% BBB and 33% below BBB).

Without considering the Public Administrations, the amount of the loans and advances at 31 December 2018 amounts to EUR 254,201 million, of which, EUR 238,525 million euros are classified as non-performing.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Bank (See Note 49) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Following is a detail, by activity, of the loans to customers at 31 December 2018, net of impairment losses:

	2018								
	Millions of euros								
			Secured loans						
			Net exposure		*Loan-to-value ratio (a)*				
	Total (*)	Without collateral	Of which: Property collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	14,537	13,625	261	651	72	77	114	496	153
Other financial institutions and individual traders (business financial activity)	39,597	25,496	676	13,425	355	277	62	13,170	237
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	122,519	79,088	27,285	16,146	10,242	8,307	5,172	8,262	11,448
Of which:									
Construction and property development (including land)	*4,121*	*158*	*3,932*	*31*	*1,301*	*1,138*	*537*	*431*	*556*
Civil engineering construction	*1,942*	*891*	*312*	*739*	*82*	*229*	*71*	*250*	*419*
Large companies	*65,995*	*51,465*	*3,842*	*10,688*	*1,792*	*1,471*	*684*	*4,031*	*6,552*
SMEs and individual traders	*50,461*	*26,574*	*19,199*	*4,688*	*7,067*	*5,469*	*3,880*	*3,550*	*3,921*
Other households (broken down by purpose)	79,076	9,154	68,499	1,423	17,936	20,007	19,818	7,514	4,647
Of which:									
Residential	*62,249*	*1,018*	*60,911*	*320*	*15,537*	*18,108*	*18,142*	*6,184*	*3,260*
Consumer loans	*8,202*	*6,055*	*1,642*	*505*	*763*	*516*	*366*	*303*	*199*
Other purposes	*8,625*	*2,081*	*5,946*	*598*	*1,636*	*1,383*	*1,310*	*1,027*	*1,188*
Total *(*)*	**255,729**	**127,363**	**96,721**	**31,645**	**28,605**	**28,668**	**25,166**	**29,442**	**16,485**
Memorandum item									
Refinanced and restructured transactions (**)	*13,792*	*1,723*	*10,729*	*1,340*	*2,204*	*2,218*	*2,028*	*2,026*	*3,593*

(*) Includes the net balance of the valuation adjustments associated with impaired assets.
(**) Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2018 to the latest available appraisal value of the collateral.

Note 49 includes information regarding the refinanced / restructured portfolio.

Following the movement of the gross exposure is broken down by the phase of impairment of loans and advances to customers recognised under "Financial assets at amortized cost" and "Financial assets at fair value through other comprehensive income" under Bank of Spain Circular 4/2017 to 31 December 2018:

	Millons of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year (*)	158,935	8,874	9,244	177,053
Merger effect(**)	58,594	7,064	9,078	74,736
Balance at beginning of the year after merger	217,529	15,938	18,322	251,789
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(8,101)	8,101		-
Transfer to Stage 3 from Stage 1	(1,128)		1,128	-
Transfer to Stage 3 from Stage 2		(3,253)	3,253	-
Transfer to Stage 1 from Stage 2	8,434	(8,434)		-
Transfer to Stage 2 from Stage 3		1,721	(1,721)	-
Transfer to Stage 1 from Stage 3	447		(447)	-
Net changes on financial assets	356	(2,098)	(2,045)	(3,787)
Write-offs	-	-	(2,795)	(2,795)
Fx and others	-	-	-	-
Loss allowance as of 31 December 2018	217,537	11,975	15,695	245,207

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

At 31 December 2018, the Group had EUR 447 million (1 January 2018: EUR 858 million) in purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Bank.

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 Impairment losses on loans and advances to customers at amortised cost and at fair value through other comprehensive income were as follows:

	Millions of euros	
	2018	2017
Balance at beginning of the year (*)	5,001	6,728
Merger effect(**)	4,780	-
Balance at beginning of the year after merger	9,781	6,728
Net impairment losses charged to income for the year	916	599
Of which:		
Impairment losses charged to income	*2,802*	*2,884*
Impairment losses reversed with a credit to income	*(1,886)*	*(2,285)*
Decreases due to amounts used against value adjustments	(2,795)	(2,384)
Exchange differences and other changes	(602)	(311)
Balance at end of the year	**7,300**	**4,632**
Of which:		
By status of the asset:		
Impaired assets	*6,307*	*4,160*
Of which: due to country risk	*6*	*12*
Other assets	*993*	*472*
Balance at end of the year	**7,300**	**4,632**
Of which:		
Individually calculated:	*1,846*	*1,422*
Collective calculated:	*5,454*	*3,210*

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(*) See further detail Note 1.d and Note 1.i.

Previously suspensed assets recovered in 2018 amounted to EUR 197 million (31 December 2017: EUR 194 million).

Taking into account these deferred suspensed assets, as well as the net impairment recorded under the Loans and advances of central banks and credit institutions, debt securities (see notes 6 and 7, respectively) and customers (detailed in the previous table), impairment losses recognised as loans and receivables to customers at amortized cost and at fair value through changes in other comprehensive income of the income statement amounted to EUR 686 million (31 December 2017: EUR 451 million in impairment losses on Loans and receivables under Bank of Spain Circular 4/2004 as at December 31, 2017), of which EUR 57 million correspond to the reclassification of impairment funds of fixed income instruments to value adjustments for credit risk, as they were classified in the portfolio of financial assets not designated for trading, which were valued at fair value with changes in results.

Following the movement of the gross exposure of the loan loss provision is broken down by the phase of loans and advances to customers recognised under "Financial assets at amortized cost" under Bank of Spain 4/2017 as at 31 December 2018:

	Millons of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year after merger	702	954	8,125	9,781
Transfers				
Transfer to Stage 2 from Stage 1	(82)	114		32
Transfer to Stage 3 from Stage 1	(394)		437	43
Transfer to Stage 3 from Stage 2		(258)	861	603
Transfer to Stage 1 from Stage 2	59	(304)		(245)
Transfer to Stage 2 from Stage 3		141	(304)	(163)
Transfer to Stage 1 from Stage 3	63		(72)	(9)
Net changes of the exposure and modifications in the credit risk	(58)	56	55	53
Write-offs	-	-	(2,795)	(2,795)
FX and other movements	-	-	-	-
Gross carrying amount as of 31 December 2018	290	703	6,307	7,300

d) *Impaired assets and assets with unpaid past-due amounts*

The detail of the changes in the balance of the financial assets classified as Financial assets at amortised cost – Customers (Bank of Spain Circular 4/2017) and Loans and receivables - Loans and advances to customers (Bank of Spain Circular 4/2004 and subsequent modifications) considered to be impaired due to credit risk is as follows:

	Millions of euros	
	2018	2017
Balance at beginning of the year (*)	**9,244**	**12,591**
Merger effect(**)	9,078	-
Balance at beginning of the year after merger	**18,322**	**12,591**
Net additions	439	(887)
Written-off assets	(2,795)	(2,384)
Other changes	(271)	(44)
Balance at end of the year	**15,695**	**9,276**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(*) See further detail Note 1.d and Note 1.i.

This amount, once the corresponding provisions have been deducted, is the Bank´s best estimate of the discounted value of the flows that are expected to be recovered from impaired assets.

At 31 December 2018, the balance of the assets written-off amounted to EUR 12,405 million. (2017: EUR 6,459 million).

Following is a detail of the financial assets classified as Financial assets at amortised cost – Customers (Bank of Spain Circular 4/2017) and Loans and receivables - Loans and advances to customers (Bank of Spain Circular 4/2004 and subsequent modifications) considered to be impaired due to credit risk at 31 December 2018 and 2017, classified by the sector where risks are located, as well as by age of the oldest past-due amount:

	31/12/2018				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	11	-	-	8	19
Other financial institutions	10	6	1	7	24
Non-financial institutions	3,657	418	702	5,007	9,784
Households	1,438	306	361	3,763	5,868
	5,116	**730**	**1,064**	**8,785**	**15,695**

	01/01/2018(*)				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	16	1	-	69	86
Other financial institutions	13	1	1	6	21
Non-financial institutions	5,063	632	978	5,742	12,415
Households	925	377	568	3,930	5,800
	6,017	**1,011**	**1,547**	**9,747**	**18,322**

(*) See further detail Note 1.d and Note 1.i.

	31/12/2017				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	16	1	-	69	86
Other financial institutions	4	-	-	4	8
Non-financial institutions	2,561	158	340	2,692	5,751
Households	762	212	286	2,171	3,431
	3,343	**371**	**626**	**4,936**	**9,276**

Santander

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 2018:

	Millon of euros		
	Gross amount	Allowance recognised	Estimated collateral value (*)
Without associated real collateral	3,673	2,759	-
With associated real collateral	10,943	3,036	7,404
With other collateral	1,079	512	271
Total	**15,695**	**6,307**	**7,675**

(*) 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 2018, there were assets with amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

	Million of euros		
	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	930	117	137
Of which Public Sector	*5*	-	-
Total	**930**	**117**	**137**

e) *Securitisation*

The heading loans and advances to customers includes, among other, the securitised loans transferred to third parties on which the Bank has retained risk, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. The liabilities associated with these securitisation transactions are detailed in Note 19.

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Derecognised (**)	1,367	1,860	742
Of which mortgage assets are securitised through:			
Mortgage participation certificates	*1,049*	*1,215*	*562*
Mortgage transfer certificates	*237*	*376*	*111*
Retained on the balance sheet	19,864	24,908	19,541
Of which mortgage assets are securitised through:			
Mortgage transfer certificates	*15,915*	*18,304*	*17,030*
	21,231	**26,768**	**20,283**

(*) See further detail Note 1.d and Note 1.i.

(**) At 31 December 2018, non-securitised assets amounting to EUR 155 million had been derecognised from the balance sheet which continued to be managed by the Bank (31 December 2017: EUR 70 million).

The evolution of this activity responds to its use as a regulatory capital management tool and as a resource for the diversification of Bank´s liquidity sources. In 2018 and 2017 the Bank did not derecognise any of the securitisations performed, and the balance shown as derecognised for those years relates to securitisations performed in prior years.

The loans retained on the face of the balance sheet include the loans associated with securitisations in which the Group retains a subordinated debt and/or grants any manner of credit enhancements to the new holders.

The loans transferred through securitisation are mainly mortgage loans, loans to companies and consumer loans.

f) Guarantee

Following is a detail of the mortgage-backed bonds and securitised bonds, excluding treasury shares, securing liabilities or contingent liabilities at 31 December 2018 and 2017:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Guarantee:			
Mortgage-backed bonds	20,778	22,765	13,442
Asset-backed securities	631	640	603
	21,409	**23,405**	**14,045**

(*) See further detail Note 1.d and Note 1.i.

The mortgage-backed bonds are secured by mortgage loans with average maturities of more than ten years. In order to calculate the amount of the qualifying assets, the following transactions are excluded from the total base of the unsecuritised mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.
- Transactions exceeding 80% of the appraised value in residential financing and 60% in the case of other assets.
- Second mortgages or mortgages with insufficient collateral.
- Transactions without insurance or with insufficient insurance.

The asset-backed securities, including asset-backed securities and notes issued by special-purpose vehicles (SPVs), are secured by:

- Mortgage loans to individuals to finance the acquisition and refurbishment of homes with an average maturity of more than ten years.
- Personal consumer finance loans with no specific guarantee and unsecured loans with an average maturity of five years.
- Loans to SMEs (non-financial small and medium-sized enterprises) secured by State guarantees, and loans to companies (SMEs -self-employed, microbusinesses, small and medium-sized enterprises- and large companies) secured by property mortgages, the borrower's personal guarantee, guarantees and other collateral other than property mortgages, with an average maturity of seven years.
- Mortgage and non-mortgage loans to finance municipalities, autonomous communities and subsidiaries with an average maturity of more than ten years.
- Asset-backed securities issued by various European special-purpose vehicles backed by German and Italian loans for the purchase of vehicles and Italian personal loans, with an average maturity of eight years.

- Commercial credit of Banco Santander (ordinary and occasional invoice discounting and advances to customers on legitimate receivables) with an average maturity of 45 days.

The fair value of the guarantees received by the Bank (financial and non-financial assets) which the Bank is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Bank's financial statements as a whole.

11. Trading derivatives

The detail of the notional and/or contractual amounts and the market values of the trading derivatives held by the Bank in 2018 and 2017 is as follows:

	Millions of euros					
	31/12/2018		1/1/2018 (*)		31/12/2017	
	Notional value	Market value	Notional value	Market value	Notional value	Market value
Held for trading:						
Interest rate	4,610,119	1,486	2,820,026	(48)	2,792,742	21
Options	*323,410*	*182*	*325,731*	*(66)*	*323,220*	*41*
Other	*4,286,709*	*1,304*	*2,494,295*	*18*	*2,469,522*	*(20)*
Equity instruments	52,983	972	49,960	(281)	50,880	(282)
Options	*35,903*	*(298)*	*36,695*	*(829)*	*37,617*	*(829)*
Other	*17,080*	*1,270*	*13,265*	*548*	*13,263*	*547*
Currency	592,918	(2,555)	455,706	(140)	457,763	(139)
Options	*48,284*	*5*	*39,730*	*21*	*40,328*	*21*
Other	*544,634*	*(2,560)*	*415,976*	*(161)*	*417,435*	*(160)*
Credit	18,787	36	25,115	62	25,115	62
Hedging default derivative	*18,787*	*36*	*25,115*	*62*	*25,115*	*62*
Securities and commodities derivatives and other	5,647	-	4,643	(2)	4,639	(2)
	5,280,454	**(61)**	**3,355,450**	**(409)**	**3,331,139**	**(340)**

(*) See further detail Note 1.d and Note 1.i.

Note 32 contains a detail, by residual maturity, of the notional and/or contractual amounts.

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Investments in subsidiaries, jointly controlled entities and associates	-	4,656	-
Loans	-	3,263	-
Foreclosed assets	1,979	3,748	1,652
Other assets leased out under an operating lease	8	113	7
Investment property	53	62	61
Total	**2,040**	**11,842**	**1,720**

(*)See further detail Note 1.d and Note 1.i.

The decrease with respect to January 1, 2018 corresponds to the materialization, in fiscal year 2018, of the sale agreement of the Banco Popular real estate business (see Note 3.b).iii.

At 31 December 2018, Non-current assets held for sale was reduced by impairment losses amounting to EUR 1,261 million (2017: EUR 1,450 million), of which EUR 39 million were recognised in 2018 (2017: EUR 100 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, 2018 and 2017, there are no liabilities associated in disposable groups of items that have been classified as held for sale associated with other non-current assets and alienable groups of items that have been classified as held for sale.

13. Investments

a) *Associates*

Investments - Associates in the accompanying balance sheets includes the Bank's ownership interests in associates (see Note 2.b).

Appendix II contains a detail of these companies, indicating the percentages of direct or indirect ownership and other relevant information.

At 31 December 2018 there were no capital increases in progress at any major associate.

i. Breakdown

The detail, by currency and listing status, of Investments - Associates in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Currency:			
Euro	5,037	2,867	2,199
Foreign Currency	63	71	-
	5,100	**2,938**	**2,199**
Listing status:			
Listed	1,857	1,099	936
Unlisted	3,243	1,839	1,263
	5,100	**2,938**	**2,199**

(*) See further detail Note 1.d and Note 1.i.

ii. Changes

The changes in 2018 and 2017 in Investments - Associates, disregarding impairment losses, were as follows:

	Millions of euros	
	2018	2017
Balance at the end of the year	2,458	2,459
Merger effect(*)	905	-
Balance at the beginning of the year	3,363	2,459
Purchases, capital increases and mergers	1,749	15
Of which:		
Testa Residencial, SOCIMI, S.A.	*47*	15
Project Quasar Investment 2017, S.L.	*1,701*	-
Disposals, reductions and mergers:	(431)	(5)
Of which:		
Merlin Properties, SOCIMI, S.A.	*(19)*	*(4)*
Testa Residencial, SOCIMI, S.A.	*(411)*	-
Transfers	756	-
Of which:		
Metrovacesa, S.A.	*782*	-
Cartera origen Banco Popular	*(22)*	-
Testa Residencial Socimi, S.A.	*(7)*	-
Other changes (net)	9	(11)
Balance at end of the year	**5,446**	**2,458**

(*) See further detail Note 1.d and Note 1.i.

In February the countable reclassification has been effected to this epigraph of the participation in Metrovacesa, S.A., from the epigraph of Entities of the Group, for an amount of EUR 782 million (see Note 13.b.ii).

Likewise, in March, 2018, inside the operation Quasar, there is acquired across extension of the capital of the company Project Quasar Investment 2017, S.L., a percentage of 49% of the share capital of the same one. This participation is given of discharge by amount of EUR 1.701 million (see Note 3.b.iii).

With date July 17, 2108 the Bank has bought Luri 4, S.A.U. 2,67% of the entity Tests Residential SOCIMI, S.A. for a price of EUR 47 million reaching a percentage of participation of 15,77% in the above mentioned company. The above mentioned participation has increased up to 18,70% because of the countable record of the merger for absorption of Banco Popular Español, S.A.U. that had in his books a participation of 2,93% of the mentioned company. Later, with date December 21, 2018, the Bank has received of Residential Head SOCIMI, S.A.U a dividend with I load premium of emission for 188 million Euros and it has proceeded to the sale of 17,91% of his participation for EUR 159 million. This sale has supposed a credit to results for the liberation of 27 millions of the bottom of registered deterioration. Provided that after this operation the Bank only shows 0,79% of the capital of this company with a cost of EUR 7 million, it has re-classified his participation to the portfolio of Financial Assets to reasonable value with changes under results.

In the exercise 2017 significant movements did not take place related to companies registered in this epigraph.

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2018	2017
Balance at end of the prior year	259	292
Merger effect(*)	168	-
Balance at the beginning of the year	427	292
Net impairment losses (reversals) (Note 44)	(114)	(33)
Other changes	33	-
Balance at end of the year	**346**	**259**

(*) See further detail Note 1.d and Note 1.i.

b) Subsidiaries

Investments - Subsidiaries includes the equity instruments owned by the Bank and issued by subsidiaries belonging to Santander Group.

Relevant information on these companies is provided in Appendix I.

i. Breakdown

The detail, by currency and listing status, of Investments - Subsidiaries in the balance sheets as at 31 December 2018 and 2017 is as follows.

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Currency:			
Euro	34,867	35,261	41,297
Pound Sterling	15,128	15,128	15,128
Other currencies	26,329	26,512	26,502
	76,324	**76,901**	**82,927**
Listing status:			
Listed	6,962	11,371	11,371
Unlisted	69,362	65,530	71,556
	76,324	**76,901**	**82,927**

(*) See further detail Note 1.d and Note 1.i.

ii. Changes

The changes in 2018 and 2017 in Investments - Subsidiaries, disregarding impairment losses, were as follows:

	Millions of euros	
	2018	2017
Balance at the end of the prior year	90,041	84,991
Merger effect (*)	(5,757)	-
Balance at beginning of the year	84,284	84,991
Acquisitions, contributions, capital increase payments and mergers	9,324	10,671
Of which:		
Banco Popular Español, S.A.U. (Nota 3)	-	*6,880*
Metrovacesa, Suelo y Promoción, S.A.	-	*360*
Santander Consumer Finance, S.A.	-	*1,063*
Santander Consumer USA Inc.	-	*804*
Santander Holdings USA, Inc.	*84*	*1,106*
Grupo Financiero Santander México, S.A. de C.V.	*3,741*	-
Banco Santander (México), S.A.; Institución de Banca Múltiple	*4,352*	-
SAM UK Investment Holding Ltd.	*980*	-
Disposals, capital reductions and mergers	*(9,494)*	*(5,240)*
Of which:		
Grupo Financiero Santander México, S.A.B de C.V.	*(4,352)*	-
Banco Santander (México), S.A.; Institución de Banca Múltiple	*(4,352)*	-
Metrovacesa, S.A.	*(270)*	-
Santander Financial Exchanges Ltd.	-	*(306)*
Metrovacesa Promoción y Arrendamiento, S.A.	-	*(212)*
Santander Consumer USA Inc.	-	*(804)*
Santander Financial Services, Inc.	-	*(400)*
Santander Holding Internacional, S.A.	-	*(1,582)*
Sterrebeeck B.V.	-	*(1,296)*
Santander Global Facilities, S.L.	-	*(363)*
Inversiones Capital Global, S.A.U.	-	*(165)*
Transfers	*(760)*	*161*
Of which:		
Metrovacesa, S,A.	*(782)*	-
Reclassification of Associates of several companies.	*22*	-
Santander España Merchant Services, Entidad de Pago, S.L. (before, Santander Elavon Merchant Services, Entidad de Pago, S.L.U.)	-	*161*
FX and other movements	*(45)*	(542)
Balance at end of the year	**83,309**	**90,041**

(*) See further detail Note 1.d and Note 1.i.

In January 2018, there was a corporate restructuring in Mexico through which an inverse merger between Banco Santander (México), S.A. Multiple Banking Institution as absorber of its parent company, Grupo Financiero Santander México, S.A.B. of C.V. The value for which the absorbing entity is initially registered is for the EUR 4,352 million for which the shareholding in the absorbed entity was registered. Then, once this merger takes effect, the Bank contributes all of its participation in the absorbing entity, Banco Santander (Mexico), Bank Multiple Institution, to the constitution of a new entity called Grupo Financiero Santander México, SA of C.V. happening to show in this entity a percentage of participation of 99.99%. For the accounting record of this operation, the Bank recognizes the cost of the delivered shares for EUR 4,352 million and registers the shares received from the new Group for the consolidated cost of the contributed entity, which amounted to EUR 3,689 million. The difference between both amounts for EUR 663 million is owed in Other reserves.

Likewise, the Assembly of the Financial Group Santander Mexico, C.V.'s S.A. has approved on January 29, 2018 a capital increase for a counter value of EUR 52 million that was signed by the Bank in its entirety.

In February, 2018 the Bank, together with other shareholders of reference, has come to an offer of acquisition of actions of Metrovacesa, S.A. for the one that has proceeded to the sale of 9,22% of his participation in Metrovacesa, S.A. for an amount of EUR 230 million, registering a lost for this operation of EUR 6 million. After this operation, one has proceeded to re-classify this participation to the sub-heading of associate entities (to see Note 13.a.)

On June 19, 2018 the entity SAM UK Investment Holdings Ltd. approved an extension of the capital of EUR 980 million that was totally signed by the Bank by means of the capitalization of lendings that had granted to the above mentioned entity.

Also, during the exercise 2018, the Bank has effected successive contributions of the capital to Santander Holding company USA for a total of EUR 84 million.

During the first quarter of 2017, Santander Financial Exchange Ltd, has made a capital reduction with contributions´return to its shareholder, for which the Bank received an amount to EUR 306 million.

During May 2017, Santander Holding Internacional, S.A. has made a capital reduction with contributions return to its shareholders for which Banco Santander, S.A. has received 2,151 million euros, making a profit of 569 million euros. In addition, the Dutch company Sterrebeeck B.V. has agreed to return the share premium to its only shareholder for an amount of 1,231 million euros, recording a loss of 65 million euros, decreasing non financial assets accounts and net shares of income statement.

On June 7, 2017 (the acquisition date), as part of its growth strategy in the markets where it is present, the Group communicated the acquisition of 100% of the share capital of Banco Popular S.A.U. as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board (“SRB”) and executed by the FROB (“Fund for Orderly Bank Restructuring” in Spanish), in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of May 15, 2014, and Law 11/2015, of June 18, for the recovery and resolution of credit institutions and investment firms.

On June 30, 2017, Inversiones Capital Global S.A.U. approved an issue premium distribution to its shareholders for which the Bank receive an amount of 170 million euros, making a profit of 5 million euros with this transaction under Gains or losses on non financial assets and investments, net of the income statement.

On July 28, 2017, the Bank repurchased the 51% of its ownership in Santander Elavon Merchant Services, Entidad de Pago, S.L.U. (currently Santander España Merchant Services, Entidad de Pago, S.L.U.), for 161 million euros, reaching a 100% stake in this company. Due to, it has been reclassified to this financial statement line item, since up to that date this participation was recorded in the jointly entities financial statement line item (See Note 13.c).

Also in July 2017, in relation with the process of corporate reorganization of the United States subsidiaries, the Bank proceeded to contribute to Santander Holdings USA, Inc. 100% of its ownership in Santander Financial Services, Inc. for a net book value of 281 million euros. Moreover, in November 2017, the Bank made a purchase of 10% of the ownership rate of Santander Consumer USA Holdings Inc. owned by DDFS LLC for an amount of 804 million, for its simultaneous contribution to Santander Holdings USA, Inc. In addition, during the year, the company made two cash contributions to the equity of this company for an overall amount of 21 million euros.

During October 2017 there was a non-monetary capital increase through the contribution of assets to the company Metrovacesa Suelo y Promoción, S.A. (currently Metrovacesa, S.A.) in which the Bank contributes 148 million euros. Moreover, in December 2017, there was another capital increase of this same company in which the Bank contributed all of its participation in Metrovacesa Promoción y Arrendamiento, S.A. for an amount of 212 million euros.

On October 27, 2017 the entity Santander Global Facilities, S.L. has approved a refund of share premium to its partners getting the Bank an amount of 405 million euros and making a profit of 42 million euros for this operation.

On December 29, 2017, the bank recorded a merger by absorption of the entity Fomento e Inversiones, S.A.U. described in Note 1.i). As a result of this operation, the company has recorded an increase in this financial statement line item of 1,063 million euros corresponding to 11.81% ownership that this company had in Santander Consumer Finance, S.A.

iii. *Impairment losses*

The changes in the balance of this item were as follows:

	Millions of euros	
	2018	2017
Balance at end of the prior year	7,114	6,934
Balance at beginning of the year (*)	7,383	-
Net impairment losses (reversals) (Note 44)	22	306
Other changes (**)	(420)	(126)
Balance at end of the year	**6,985**	**7,114**

(*) See further detail Note 1.d and Note 1.i.
(**) Includes in 2018, with respect to Metrovacesa, S.A. the use, at the time of sale, of a provision for impairment of EUR 34 million and a transfer of EUR 97 million of provision by Metrovacesa, S.A. reclassified to the associates heading (see Note 13.a.iii). Includes in 2017 the use of the existing 118 million euro impairment fund for the stake in Santander Financial Services, a company that has been contributed to Santander Holding USA inc.

The management of the company make an analysis of the potential loss of value of the investments in Group companies, jointly entities and associates that it has registered in relation to its book value. This analysis is carried out using different parameters, such as equity value, list value and recoverable value. The investments valued in the last item are analyzed by comparing this book value and its recoverable amount, which is obtained from the estimates of expected cash flows or net equity corrected by the unrealized capital gains existing on the valuation date, including the goodwill registered at that date.

The impairment losses recognised by the Bank in 2018 included EUR 11 million (2017: EUR 111 million) for impairment on the investment held in Altamira Santander Real Estate, S.A. The impairment results from the impairments of the property portfolio recognised by this entity.

c) *Jointly controlled entities*

The cost of the investees registered under this heading at 01.01.2018, considering the effect of recording the amount of the entities included in the balance sheet for the merger by absorption of the former Banco Popular Español, at a cost of EUR 1,546 million, that the impairment provisions recorded at that date were EUR 193 million.

On November 7, 2018, the Bank sold 49% of its stake in WiZink Bank, S.A. for an amount of EUR 1,028 million, recording a capital gain for this operation of EUR 38 million.

During the year 2018, the Bank has provisioned EUR 13 million for the entities registered under this heading, of which EUR 10 million correspond to the UCI, SA, while in 2017 it released provisions for EUR 3 million for this company.

On July 28, 2017, the Bank acquired 51% of Santander Elavon Merchant Services Payment Institution, S.L.U (currently Santander España Merchant Services, Payment Institution, S.L.U.) for an amount of EUR 72 million. With this purchase the Bank reached a 100% stake in the company, which is why the total cost in this investee was transferred for EUR 161 million to the sub-heading.

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Assets relating to insurance contracts covering post-employment benefit plan obligations (Notes 17 & 23)	1,654	1,782	1,732
	1,654	**1,782**	**1,732**

(*) See further detail Note 1.d and Note 1.i.

15. Tangible assets

a) Changes

The changes in Tangible assets in the balance sheets were as follows:

	Millions of euros			
	Property, plant and equipment			
	For own use	Leased out under an operating lease	Investment property	Total
Cost:				
Balance at 1 January 2017	**3,054**	**502**	**387**	**3,943**
Additions/disposals (net)	158	69	(4)	223
Transfers and other	(32)	-	32	-
Balances at 31 December 2017	**3,180**	**571**	**415**	**4,166**
Merger effect(*)	1,003	-	13	1,016
Balance at 1 January 2017	4,183	571	428	5,182
Additions/disposals (net)	(481)	107	19	(355)
Transfers and others	17	-	-	17
Balances at 31 December 2018	**3,719**	**678**	**447**	**4,844**
Accumulated depreciation:				
Balance at 1 January 2017	**(1,749)**	**(185)**	**(19)**	**(1,953)**
Charge for the year	(117)	-	(5)	(122)
Disposals	23	60	6	89
Transfers and others	16	(87)	-	(71)
Balances at 31 December 2017	**(1,827)**	**(212)**	**(18)**	**(2,057)**
Merger effect(*)	(709)	-	-	(709)
Balance at 1 January 2018	(2,536)	(212)	(18)	(2,766)
Charge for the year	(155)	-	(4)	(159)
Disposals	642	66	5	713
Transfers and other	(7)	(37)	(3)	(47)
Balances at 31 December 2018	**(2,056)**	**(183)**	**(20)**	**(2,259)**
Impairment losses:				
Balance at 1 January 2017	**(6)**	-	**(150)**	**(156)**
Transfers and others	(16)	-	(8)	(24)
Balances at 31 December 2017	**(22)**	-	**(158)**	**(180)**
Merger effect(*)	-	-	**(13)**	**(13)**
Balance at 1 January 2018	(22)	-	(171)	(193)
Transfers and other	-	-	18	18
Balances at 31 December 2018	**(22)**	-	**(153)**	**175**
Tangible assets, net:				
Balances at 31 December 2017	**1,331**	**359**	**239**	**1,929**
Merger effect(*)	**294**	**-**	**-**	**294**
Balance at 1 January 2018	**1,625**	**359**	**239**	**2,223**
Balances at 31 December 2018	**1,641**	**495**	**274**	**2,410**

(*) See further detail Note 1.d and Note 1.i.

b) *Property, plant and equipment for own use*

The detail, by class of asset, of Property, plant and equipment - For own use in the balance sheets is as follows:

	Millions of euros			
	Cost	Accumulated depreciation	Impairment losses	Carrying amount
Land and buildings	588	(176)	(22)	390
Furniture, fixtures and vehicles	2,049	(1,214)	-	835
Computer hardware	509	(437)	-	72
Other	34	-	-	34
Balances at 31 December 2017	**3,180**	**(1,827)**	**(22)**	**1,331**
Land and buildings	751	(194)	(22)	535
Furniture, fixtures and vehicles	2,725	(1,755)	-	970
Computer hardware	673	(587)	-	86
Other	34	-	-	34
Balances at 1 January 2018(*)	**4,183**	**(2,536)**	**(22)**	**1,625**
Land and buildings	782	(197)	(22)	563
Furniture, fixtures and vehicles	2,323	(1,391)	-	932
Computer hardware	580	(468)	-	112
Other	34		-	34
Balances at 31 December 2018	**3,719**	**(2,056)**	**(22)**	**1,641**

(*) See further detail Note 1.d and Note 1.i.

The carrying amount at 31 December 2018 in the table above includes the following approximate amounts:

- EUR 3 million (31 December 2017: EUR 2 million) relating to property, plant and equipment owned by the Bank's branches located abroad.

- EUR 689 million (31 December 2017: EUR 691 million) relating to property, plant and equipment held under finance leases by the Bank, of which EUR 565 million related to leases in force at 31 December 2018 (31 December 2017: EUR 574 million) (see Note 2.l).

16. Intangible assets

a) *Goodwill*

The detail of goodwill, based on the cash-generating units giving rise thereto, is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Santander España	623	248	-
Amortization charge	(40)	(12)	-
Balance at end of year	**583**	**236**	-

(*) See further detail Note 1.d and Note 1.i.

The changes in goodwill were as follows:

	Millions of euros	
	2018	2017
Balance at end of prior year	-	-
Merger effect (*)	236	-
Balance at beginning of the year	236	-
Additions (Note 3)	375	-
Of which:		
Santander España	*375*	-
Amortization charge	(28)	-
Impairment losses	-	-
Disposals or changes in scope	-	-
Balance at end of year	**583**	**-**

(*) See further detail Note 1.d and Note 1.i.

During 2018, the Bank has registered a goodwill generated in the following corporate operations:

- Merger by absorption of Banco Popular Español, S.A.U.: the Bank acquired on June 7, 2017 100% of the capital stock of Banco Popular Español, S.A.U., arising as a result of the business combination, a goodwill of 248 million of euros recorded in consolidated books (see Note 3.b.ii). Subsequently, on September 28, 2018, the merger deed by absorption of Banco Popular Español, S.A.U was registered in the Mercantile Registry of Cantabria by Banco Santander, S.A., with accounting effects on January 1, 2018, arising a goodwill in the individual books of the Bank, at that date, of EUR 236 million (see Note 3.b) .iv, Note 1.d and Note 1.i.).

- Repurchase of the credit and debit card business marketed by the Banco Popular Group in Spain and Portugal (see Note 3.b.i) generating the business combination a goodwill of EUR 375 million.

In accordance with Bank of Spain Circular 4/2017, will be amortized over a period of ten years. In addition, the Bank periodically reviews the term and method of amortization and, if it considers that they are not adequate, the impact will be treated as a change in the accounting estimates.

As of December 31, 2018, the amount of goodwill recorded by the Bank, net of accumulated amortization, amounts to EUR 583 million.

Santander Group, at least once per year and whenever there is evidence of impairment, performs an analysis of the potential loss of value of the goodwill it has recorded with respect to its recoverable value. The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, which are the Bank's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

For the purposes of the comments in the previous paragraph, the Bank's directors have identified the commercial banking business in Spain as the cash generating unit to which the goodwill arising is assigned, both for the acquisition and subsequent merger by absorption of Banco Popular Español, S.A.U. as for the repurchase of the credit and debit card business and due from Banco Popular Group.

Its book value is determined taking into account the book value of all the assets and liabilities that make up the commercial banking business in Spain, together with the corresponding Goodwill.

This book value is compared with its recoverable amount in order to determine if there is any impairment. The recoverable amount of the Santander España cash-generating unit has been determined as the fair value of said cash generating unit obtained from quotations, market references (multiples) and internal estimates. At the end of the year, said value exceeded the book value.

Based on the above, and in accordance with the estimates from, the directors of the Bank, during 2018 and 2017 the Bank has not recognised goodwill impairment losses within Impairment losses on other assets (net) – Goodwill and other intangible assets caption.

b) *Other intangible assets*

i) Breakdown

The detail of Intangible assets - Other intangible assets in the balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
With finite useful life			
IT Developments	488	392	392
Accumulated amortisation	(293)	(167)	(167)
Balance at end of year	**195**	**225**	**225**

(*) See further detail Note 1.d and Note 1.i..

ii) Changes

The changes in Intangible assets - Other intangible assets in the balance sheets were as follows

	Millions of euros	
	2018	2017
Balance at end of prior year	225	160
Merger effect (*)	-	-
Balance at beginning of the year	225	160
Net additions and disposals	96	136
Amortization charge	*(126)*	(71)
Balance at end of year	**195**	**225**

(*) See further detail Note 1.d and Note 1.i..

In 2018 and 2017 impairment losses were not recognised under non financial assets (net) Impairment losses in the income statement.

17. Other assets and Other liabilities

The detail of Other assets and Other liabilities in the accompanying balance sheets is as follows:

	Millions of euros					
	Assets			Liabilities		
	31/12/2018	01/01/2018(*)	31/12/2017	31/12/2018	01/01/2018(*)	31/12/2017
Transactions in transit	83	32	-	-	15	6
Insurance contracts linked to pensions (Note 14)	1,654	1,782	1,732	-	-	-
Inventory	-	-	-	-	-	-
Prepayments and accrued income	524	402	264	1,609	1,714	1,396
Other (**)	2,766	1,285	1,169	2,735	2,044	1,323
Total:	**5,027**	**3,501**	**3,165**	**4,344**	**3,773**	**2,725**

(*) See further detail Note 1.d and Note 1.i.

(**)Includes, mainly, unsettled transactions.

18. Deposits from central banks and credit institutions

The detail by classification, type and currency of Deposits from central banks and Deposits from credit institutions in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
CENTRAL BANKS			
Classification:			
Financial liabilities designated at fair value through profit or loss	12,377	7,913	7,913
Financial liabilities at amortised cost	48,519	48,103	25,016
	60,896	**56,016**	**32,929**
Type:			
Time deposits	59,818	55,568	32,480
Deposits available with prior notice	-	-	-
Repurchase agreements	1,078	448	449
Of which: valuation adjustments	(349)	(202)	*(90)*
	60,896	**56,016**	**32,929**
Currency:			
Euro	47,252	46,697	23,610
US dollar	13,018	8,736	8,736
Pound Sterling	355	37	37
Other currencies	271	546	546
	60,896	**56,016**	**32,929**
CREDIT INSTITUTIONS			
Classification			
Financial liabilities designated at fair value through profit or loss	8,772	14,616	15,209
Financial liabilities at amortised cost	55,883	63,168	60,008
	64,655	**77,784**	**75,217**
Nature:			
Current accounts / Intraday deposits	18,034	19,098	18,297
Time deposits	24,502	24,820	22,821
Deposits available with prior notice	-	-	-
Repurchase agreements	22,119	33,866	34,099
Of which: valuation adjustments	389	39	27
	64,655	**77,784**	**75,217**
Currency:			
Euro	44,986	65,365	62,876
US dollar	15,426	10,595	10,548
Sterling Pound	3,608	1,556	1,534
Other currencies	635	268	259
	64,655	**77,784**	**75,217**

(*) See further detail Note 1.d and Note 1.i.

The Bank, having benefited from the various long-term financing programs of the European Central Bank (TLTRO I, TLTRO II), maintains deposits at amortised cost from these programs amounting to EUR 45,200 million as at 31 December 2018 (2017: EUR 22,000 million).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

19. Customer deposits

The detail by classification, type and geographical area, of Customer deposits in the accompanying balance sheets is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
CUSTOMER DEPOSITS			
Classification:			
Financial liabilities held for trading	-	-	-
Financial liabilities designated at fair value through profit or loss	13,930	9,192	9,192
Financial liabilities at amortised cost	240,693	240,522	179,558
	254,623	**249,714**	**188,750**
Type:			
Current accounts / Intraday deposits	202,178	188,288	151,169
Time deposits	46,254	55,466	31,621
Deposits available with prior notice	-	-	-
Repurchase agreements	6,191	5,960	5,960
Of which: subordinated deposits	-	-	-
Of which: issued securities	*628*	*628*	*600*
Of which: valuation adjustments	*2,482*	*931*	*197*
	254,623	**249,714**	**188,750**
Sector:			
Public sector	19,283	17,341	11,441
Other financial companies	38,832	38,553	32,486
Non-financial companies	63,197	60,716	45,117
Households	133,311	133,104	99,706
	254,623	**249,714**	**188,750**
Geographical area:			
Spain	224,307	226,361	167,660
European Union (excluding Spain)	22,382	17,449	16,481
United States and Puerto Rico	3,037	1,146	977
Other OECD countries	1,764	1,600	1,215
Latin America (non-OECD)	2,324	2,220	1,642
Rest of the world	809	938	775
	254,623	**249,714**	**188,750**

(*) See further detail Note 1.d and Note 1.i.

Funds received under financial asset transfers in the table above includes the liabilities associated with securitisation transactions (see Note 10.e).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

20. Marketable debt instruments

a) Breakdown

The detail by classification and type, of Marketable debt securities in the accompanying balance sheets is as follows.

	Millions of euros		
	31/12/2018	01/012018(*)	31/12/2017
Classification:			
Financial liabilities at amortised cost (Note 19)	77,095	63,006	53,058
	77,095	**63,006**	**53,058**
Type:			
Certificates of deposit	1,495	34	34
Guaranteed bonds	48,611	47,721	29,774
Mortgage bonds	*38,470*	*39,178*	*21,911*
Others mortgage bonds and guaranteed bonds	*10,141*	*8,543*	*7,863*
Other non-convertible issued securities (Notes 19&21)	53,380	41,163	41,109
Of which subordinated liabilities	*17,984*	*16,176*	*15,413*
Treasury shares (**)	(27,785)	(27,100)	(19,067)
Valuation adjustments	1,394	1,188	1,208
	77,095	**63,006**	**53,058**

(*) See further detail Note 1.d and Note 1.i.

(**) At 31 December 2017, the registered balance corresponds mainly to guaranteed bonds.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

b) Certificates of deposit

The detail of Certificates of deposits by currency of issuance is as follows:

	Millions of euros			31 December 2018	
Currency of issuance	31/12/2018	01/01/2018(*)	31/12/2017	Outstanding issue amount in foreign currency (millions)	Annual interest rate (**)
US dollar	1,422	34	34	1,629	2.67%
Hong Kong dollar	73	-	-	651	1.99%
Balance at end of the year	**1,495**	**34**	**34**		

(*) See further detail Note 1.d and Note 1.i.

(**) Average interest rate of the issuances at 31 December 2018 based on their principal amounts.

i. Changes

The changes in Certificates of deposits in 2018 and 2017 were as follows:

	Millions of euros	
	2018	2017
Balance at end of the prior year	34	81
Merger effect (*)	-	-
Balance at beginning of the year	34	81
Issues	3,107	237
Redemptions	(1,675)	(283)
Exchange differences and other changes	29	(1)
Balance at end of the year	**1,495**	**34**

(*) See further detail Note 1.d and Note 1.i.

In 2018 the Bank issued certificates of deposits amounting to EUR 3,107 million (2017: EUR 237 million), with an average maturity of 4 months (three months during 2017) and of which EUR 1,675 million were amortised in 2018 (2017: EUR 283 million).

c) *Marketable mortgage-backed securities*

The detail by currency of issuance, of Marketable mortgage-backed securities is as follows:

Currency of issuance	Millions of euros			31 December 2018
	31/12/2018	01/01/2018(*)	31/12/2017	Annual interest rate (**)
Euros	38,470	39,178	21.911	1.31%
Balance at end of the year	**38,470**	**39,178**	**21,911**	

(*) See further detail Note 1.d and Note 1.i.

(**) Average interest rate of the various issues at 31 December 2018 based on their nominal values.

i. Changes

The changes in 2018 and 2017 in Marketable mortgage-backed securities were as follows:

	Millions of euros	
	2018	2017
Balance at the end of the prior year	21,911	21,971
Merger effect(*)	17,267	-
Balance at the beginning of the year	39,178	21,971
Reclassification of deposits	-	400
Issues	3,537	4,375
Of which:		
June 2017	-	*4,350*
November 2017	-	*12*
June 2018	*350*	-
October 2018	*2,987*	-
November 2018	*200*	-
Transfers	-	-
Amortizations on maturity	(3,845)	(4,835)
Advanced amortizations	(400)	-
Balance at end of the year	**38,470**	**21,911**

(*) See further detail Note 1.d and Note 1.i.

ii. Disclosures required pursuant to the Mortgage Market Law 2/1981, of 25 March, of the Spanish Royal Decree 716/2009, of 24 April, implementing certain provisions of this Law, and to Bank of Spain Circular 7/2010, of 30 November, and Bank of Spain Circular 5/2011, of 30 November.

The members of the board of directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (Note 49).

The Bank´s procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Bank.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation (See note 2.i).

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Bank entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the property register, by mortgage on all those that at any time are recorded in favor of the issuer and are not affected by the issuance of mortgage bonds and / or are subject to mortgage participations, and / or mortgage transfer certificates, and, if they exist, by substitution assets eligible to be hedged and for the economic flows generated by derivative financial instruments linked to each issue, and without prejudice to the issuer's unlimited liability.

The mortgage bonds include the credit right of its holder against the issuing entity, guaranteeing in the manner provided for in the previous paragraph, and involve the execution to claim from the issuer the payment after due date. The holders of these securities are recognised as preferred creditors, singularly privileged, with the preference, included in number 3º of article 1,923 of the Spanish Civil Code against any other creditor, in relation with the entire group of loans and mortgage loans registered in favor of the issuer, except those that act as coverage for mortgage bonds and / or are subject to mortgage participations and / or mortgage transfer certificates.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90.1.1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The outstanding mortgage-backed bonds issued by the Group totalled EUR 22,023 million at 31 December 2018 (all of which were denominated in euros), of which EUR 21,523 million were issued by Banco Santander, S.A. and EUR 500 million were issued by Santander Consumer Finance, S.A. The issues outstanding at 31 December 2018 and 2017 are detailed in the separate financial statements of each of these companies.

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.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

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Following is a detail, by their main features, of the marketable mortgage-backed bonds outstanding at 31 December 2018 and 2017:

	Millions of euros						
	31/12/2018	01/01/2018(*)	31/12/2017	Nominal amount 31-12-2018	Nominal amount 01-01-2018	Annual interest rate (%)	Maturity date
Euros							
Issue April 2005	993	993	993	1,001	1,001	4.00	April 2020
Issue February 2006	1,488	1,488	1,488	1,500	1,500	3.87	February 2026
Issue May 2007	1,494	1,494	1,494	1,500	1,500	4.63	May 2027
Issue January 2010	100	100	100	100	100	0.24	January 2022
Issue February 2011	100	100	100	100	100	2.33	February 2019
Issue June 2012	100	100	100	100	100	3.41	June 2020
Issue June 2012		500	500	500	500	4.50	December 2018
Issue January 2013		1,985	1,985	2,000	2,000	2.88	January 2018
Issue November 2014	1,728	1,728	1,728	1,750	1,750	1.13	November 2024
Issue November 2014	1,238	1,238	1,238	1,250	1,250	2.00	November 2034
Issue September 2015	994	994	994	1,000	1,000	0.75	September 2022
Issue January 2016	997	997	997	1,000	1,000	1.50	January 2026
Issue February 2016	933	933	933	907	907	2.04	February 2036
Issue March 2016	100	100	100	100	100	1.52	March 2028
Issue June 2016	4,000	4,000	4,000	4,000	4,000	0.13	June 2021
Issue June 2016	150	150	150	150	150	0.00	June 2020
Issue December 2016	250	250	250	250	250	0.45	December 2021
Issue June 2017	350	350	350	350	350	0.13	June 2022
Issue June 2017	2,000	2,000	2,000	2,000	2,000	0.02	June 2021
Issue June 2017	2,000	2,000	2,000	2,000	2,000	0.16	June 2022
Issue November 2017	12	12	12	12	12	0.00	November 2029
Cedula BEI	100	100	100	100	100	0.13	August 2019
Cedula Pitch	299	299	299	300	300	0.51	July 2022
Issue April 2010 (Banco Popular)	39	39		40	40	4.55	July 2020
Issue September 2010		100		0	100		September 2018
Issue April 2010		1,100		0	1,100		April 2018
Issue June 2010	88	88		88	88	4.20	June 2019
Issue June 2011	200	200		200	200	1.98	June 2019
Issue August 2012		100		0	100		August 2018
Issue August 2012		50		0	50		August 2018
Issue January 2013	600	600		600	600	3.75	January 2019
Issue April 2013	200	200		200	200	2.43	April 2021
Issue July 2013	15	15		15	15	5.28	June 2029
Issue July 2013	400	400		400	400	1.43	September 2026
Issue July 2013	500	500		500	500	1.68	October 2027
Issue July 2013	1,500	1,500		1,500	1,500	1.93	November 2028
Issue December 2013	100	100		100	100	2.16	December 2021
Issue February 2014	1,000	1,000		1,000	1,000	2.18	February 2026
Issue March 2014	200	200		200	200	1.33	March 2022
Issue April 2014	1,000	1,000		1,000	1,000	2.13	October 2019
Issue March 2014	250	250		250	250	0.48	September 2022
Issue April 2015	1,000	1,000		1,000	1,000	1.00	April 2025
Issue June 2015	575	575		575	575	0.15	June 2023
Issue July 2015	1,250	1,250		1,250	1,250	0.75	September 2020
Issue October 2015	750	750		750	750	0.88	September 2021
Issue March 2016	1,500	1,500		1,500	1,500	1.00	March 2022
Issue October 2016	500	900		500	900	0.00	October 2021
Issue December 2016	250	250		250	250	1.13	December 2024
Issue March 2017	1,000	1,000		1,000	1,000	0.50	March 2024
Issue April 2017	1,600	1,600		1,600	1,600	0.77	April 2027
Issue July 2014 (Banco Pastor)	1,000	1,000		1,000	1,000	2.82	July 2028
Issue June 2018	350			350		0.00	June 2023
Issue October 2018	987			1,000		1.12	October 2028
Issue October 2018	2,000			2,000		0.29	October 2022
Issue November 2018	200			200		0.40	November 2023
Balance at end of the year	**38,470**	**39,178**	**21,911**				

(*) See further detail Note 1.d and Note 1.i.

The detail of the principal amount of the Bank's mortgage securities outstanding at 31 December 2018 and 2017 is as follows:

	Principal amount (Millions of euros)		
	31/12/2018	01/01/2018(*)	31/12/2017
1. Mortgage bonds outstanding	-		-
2. Mortgage-backed bonds issued	38,537	39,238	21,970
Of which: Recognised in liabilities	*28,845*	*16,415*	*8,528*
2.1. Debt instruments. Issued through a public offering	38,537	29,170	21,970
- Term to maturity of up to one year	2,088	3,600	2,500
- Term to maturity of one to two years	2,540	1,800	200
- Term to maturity of two to three years	7,800	2,500	1,250
- Term to maturity of three to five years	8,825	12,250	10,000
- Term to maturity of five to ten years	15,100	6,750	5,750
- Term to maturity of more than ten years	2,184	2,270	2,270
2.2. Debt instruments. Other issues	-	10,068	-
2.3. Deposits	-	-	-
- Term to maturity of up to one year	-	-	-
- Term to maturity of one to two years	-	-	-
- Term to maturity of two to three years	-	-	-
- Term to maturity of three to five years	-	-	-
- Term to maturity of five to ten years	-	-	-
- Term to maturity of more than ten years	-	-	-
3. Mortgage participation certificates issued (1)	-	-	-
4. Mortgage transfer certificates issued (1) (2)	15,807	18,304	17,030
4.1. Issued through a public offering (Note 10.e)	15,756	17,030	17,030

(*) See further detail Note 1.d and Note 1.i.

(1) Relating solely to mortgage loans and credits not derecognised.

(2) The average term to maturity weighted by amount, expressed in months, rounded up, was 471 months (498 months during 2017).

Asset transactions

Pursuant to Bank of Spain Circulars 7/2010 and 5/2011, of 30 November, on the implementation of certain aspects of the mortgage market, the table below details: the principal amount of all the mortgage loans and credits, those that are eligible pursuant to Royal Degree 716/2009 on the regulation of the Spanish mortgage market for the purposes of calculating the limit of mortgage-backed bond issues, the mortgage loans and credits covering mortgage bond issues, those that have been transferred through mortgage participation certificates or mortgage transfer certificates, and the uncommitted transactions relating to the Bank. The breakdown of the mortgage loans at 31 December 2018 and 2017 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

	Principal amount (Millions of euros)		
	31/12/2018	01/01/2018(*)	31/12/2017
Total mortgage loans and credits (1)	**100,798**	**111,136**	**70,875**
Mortgage participation certificates issued	1,049	1,215	561
Of which: loans recognised in assets	-	-	-
Mortgage transfer certificates issued	16,044	18,679	17,141
Of which: loans recognised in assets	*15,807*	*18,304*	*17,030*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	83,705	91,242	53,173
i) Non-eligible mortgage loans and credits (3)	24,648	31,554	15,757
- *Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009*	*11,461*	*13,781*	*9,099*
- *Other non-eligible loans*	*13,187*	*17,773*	*6,658*
ii) Eligible mortgage loans and credits (4)	59,057	59,688	37,416
- *Un-measurable amounts* (5)	*27*	*50*	-
- *Measurable amounts*	*59,030*	*59,638*	*37,416*
a) Mortgage loans and credits covering mortgage bond issues	-	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues (6)	*59,030*	*59,638*	*37,416*

(*) See further detail Note 1.d and Note 1.i.

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognised.

(2) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings.

(3) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009.

(4) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

(5) Pursuant to Art. 12 of Royal Decree 716/2009.

(6) The Bank revalues its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

Following is a detail of the principal amount of the outstanding mortgage loans and credits and of the principal amount of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the measurement limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average term to maturity, interest rate, borrower and type of guarantee:

	Principal amount (millions of euros)					
	31/12/2018		01/01/2018(*)		31/12/2017	
	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 (**)	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)
By origin of transactions						
Originated by the entity	79,354	55,680	86,574	56,040	52,074	36,389
From subrogations	4,351	3,377	4,668	3,648	1,099	1,027
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By currency						
Euro	82,628	58,524	90,189	59,096	52,929	37,416
Other currencies	1,077	533	1,053	592	244	-
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By payment status						
Current	74,154	57,572	76,782	58,125	46,882	36,447
Past due	9,551	1,485	14,460	1,563	6,291	969
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By term to maturity						
Less than 10 years	25,877	15,770	31,267	16,520	19,817	10,701
10 to 20 years	31,248	25,301	34,007	26,041	19,915	16,671
20 to 30 years	22,134	16,888	21,031	15,671	11,514	9,404
More than 30 years	4,446	1,098	4,937	1,456	1,927	640
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By interest rate						
Fixed-rate loans	8,760	5,883	8,419	4,680	5,523	3,480
Floating-rate loans	74,945	53,174	82,823	55,008	47,650	33,936
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By borrower						
Legal entities and individual traders	28,933	15,181	37,128	16,461	18,140	8,309
Of which: Property developments(including land)	*3,466*	*614*	*5,547*	*655*	*2,709*	-
Other individuals and non-profit institutions serving households	54,772	43,876	54,114	43,227	35,033	29,107
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**
By type of guarantee						
Completed buildings – residential	61,443	47,631	63,075	47,120	38,802	30,692
Of which: Officially sponsored housing	*3,478*	*2,557*	*3,071*	*2,089*	*2,524*	*1,716*
Completed buildings – commercial	8,764	5,172	11,181	5,518	4,876	2,401
Completed buildings – other	8,770	4,355	10,165	4,709	6,442	3,194
Buildings under construction – residential	946	105	970	88	516	*1*
Of which: Officially sponsored housing	*51*	-	*40*	-	*32*	-
Buildings under construction – commercial	60	12	95	19	19	*2*
Buildings under construction – other	153	27	200	38	76	*1*
Land – developed consolidated land	1,835	840	3,389	1,163	1,382	569
Land – other	1,734	915	2,167	1,033	1,060	556
	83,705	**59,057**	**91,242**	**59,688**	**53,173**	**37,416**

(*) See further detail Note 1.d and Note 1.i.

(**) 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.

Following is a detail, by loan-to-value ratio, of the principal amount of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the measurement limits established in Article 12 of Royal Decree 716/2009:

	31 December 2018				
	Principal amount by LTV range (millions of euros)				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	**23,089**	**22,363**	**13,605**	**-**	**59,057**
Home property	*17,540*	*16,591*	*13,605*	-	*47,736*
Other property	*5,549*	*5,772*	-	-	*11,321*

(*) Pursuant to Art. 3 of Royal Decree 716/2009.

Following is a detail of the changes in 2018 in the principal amount of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Millions of euros	
	Eligible mortgage loans and credits (**)	Non-eligible mortgage loans and credits (***)
Balance at 31 December 2017	**37,416**	**15,757**
Merger effect(*)	22,272	15,797
Balance at 1 January 2018	**59,688**	**31,554**
Period additions:	9,609	5,157
Originated by the Bank	*6,846*	*3,437*
Subrogations from other entities	*110*	*7*
Other	*2,653*	*1,713*
Period disposals:	10,240	12,063
Repayments on maturity	*270*	*1,678*
Early repayments	*3,870*	*5,947*
Other (****)	*6,100*	*4,438*
Balance at 31 December 2018	**59,057**	**24,648**

(*) See further detail Note 1.d and Note 1.i.

(**) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

(***) That do not comply with the requirements of Art. 3 of Royal Decree 716/2009.

(****) The Bank performs a reappraisal its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

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Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

	Millions of euros		
	Principal amount (**)		
	31/12/2018	01/01/2018(*)	31/12/2017
Potentially eligible (***)	457	285	285
Non-eligible	2,055	1,492	1,492

(*) See further detail Note 1.d and Note 1.i.

(**) Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold.

(***) Pursuant to Art. 3 of Royal Decree 716/2009.

d) *Other non-convertible marketable securities*

The balance of Other non-convertible marketable securities relates to territorial bonds (cédulas territoriales), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

Currency of issuance	Millions of euros			31 December 2018
	31/12/2018	01/01/2018(*)	31/12/2017	Annual interest rate (**)
Euro	7,475	6,543	5,863	0.84%
US dollar	2,666	2,000	2,000	3.05%
Balance at end of the year	**10,141**	**8,543**	**7,863**	

(*) See further detail Note 1.d and Note 1.i.

(**) Average interest rate of the various securities at 31 December 2017 based on their nominal amounts.

i. *Changes*

The changes in Other non-convertible marketable securities were as follows:

	Millions of euros		31 December 2018	Maturity date
	2018	2017	Annual interest rate (%) (**)	
Balance at end of the prior year	7,863	9,306		
Merger effect(*)	680	-		
Balance at beginning of year	8,543	9,306		
Issues	1,873	1,000		
Of which:				
December 2018	*1,873*	-	*3.00%*	*December 2023*
October 2017	-	*1,000*	1.81%	*October 2022*
Redemptions	(68)	(2,327)		
Exchange differences	(207)	(116)		
Balance at end of the year	**10,141**	**7,863**		

(*) See further detail Note 1.d and Note 1.i.

(**) Based on the nominal amount.

On 17 December 2018, the Bank launched two internationalization bond issues for a nominal amount of EUR 1,000 million and US 1,000.05 million which matures on December 18, 2023, represented by 10,000 internationalisation bonds with a face value of EUR 100,000 each and 6,667 internationalisation bonds of US 150,000 each, respectively.

Likewise, during 2018, the Bank partially amortized internationalisation bonds issued in 2015 amounting to 68 million euro.

On 10 October 2017, the Bank launched an internationalization bond issue for a nominal amount of US 1,200 million which matures on October 9, 2022, represented by 8,000 internationalisation bonds with a face value of US 150,000. Likewise, during 2017, the Bank partially amortized internationalisation bonds issued in 2016 amounting to 237 million euro.

ii. Disclosures required by Bank of Spain Circular 4/2015, of 29 of July

Territorial bonds

The members of the board of directors have stated that in the territorial bond issuances the Bank has established specific policies and procedures in relation to the financing activities of public entities pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the total principal amount of the loans used to secure the territorial bonds outstanding at 31 December 2018:

	Principal amount (*) (Millions of euros)
	Residents in Spain
Central governments	314
Autonomous or regional governments	7,705
Local governments	1,208
	9,227

(*) Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2018:

	Principal amount (Millions of euros)
Issued through a public offering	-
Other issues	6,272
Of which: Treasury shares	*5,000*
Term to maturity of up to one year	-
Term to maturity of one to two years	5,400
Term to maturity of two to three years	218
Term to maturity of three to five years	404
Term to maturity of five to ten years	250
Term to maturity of more than ten years	-
	6,272

The coverage ratio of the territorial bonds with respect to the loans was 67,7% at 31 December 2018 (57,41% at 31 December 2017).

Internationalisation bonds

The members of the board of directors have stated that in the internationalisation bond issuances the Bank has established specific policies and procedures in relation to its financing activities with regard to agreements to export goods and services and business internationalisation processes pursuant to Bank of Spain Circular 4/2015, of 29 July.

Following is a detail of the outstanding internationalisation bonds issued, and of the loans used to secure them, at 31 December 2018:

Issue date	Maturity date	Millions of euros					Coverage ratio of bonds to loans
		Internationalisation bonds			Cover loans		
		Principal amount		Present value (**)	Principal amount	Present value (**)	
		Not issued through a public offering (*)	Of which: Own securities		Computable for the purposes of the issue limit		
February 2015	February 2019	205	205	205	215	233	87.91%
April 2015	April 2019	690	690	694	774	853	81.39%
March 2016	March 2020	67	67	68	70	77	87.58%
December 2016	December 2020	97	97	99	116	118	83.64%
October 2017	October 2022	933	933	951	1,115	1,188	80.07%
December 2018	December 2023	1,000	1,000	1,009	1,276	1,387	72.74%
December 2018	December 2023	873	873	888	1,188	1,270	69.89%
		3,865	**3,865**	**3,914**	**4,754**	**5,126**	

(*) Relate in full to Debt securities.

(**) Represents the value pursuant to Article 12 of Royal Decree-Law 579/2014.

None of the internationalisation bonds issued by the Bank had replacement assets assigned to them.

21. Other non convertible issuances

a) Breakdown

The detail by type and currency of Subordinated liabilities in the accompanying balance sheets is as follows:

	Millions of euros (**)		
	31/12/2018	01/01/2018 (*)	31/12/2017
Type:			
Other non convertible issuances	53,380	41,164	41,109
Of which subordinated liabilities	*17,984*	*15,426*	*15,413*
	53,380	**41,164**	**41,109**
Currency:			
Euro	28,455	25,314	25,259
US dollar	19,473	12,835	12,835
Pound Sterling	2,683	643	643
Other currencies (***)	2,774	2,372	2,372
	53,380	**41,164**	**41,109**

(*) See further detail Note 1.d and Note 1.i.

(**) This amount includes the principal, in other currencies.

(***) As of December 31, 2018, this amount corresponds to yen (EUR 1,264 million), Swiss francs (EUR 700 million) and Australian dollar (EUR 490 million).

b) *Changes*

The changes in Subordinated marketable debt securities in the foregoing table for the years 2018 and 2017 are as follows:

	Millions of euros	
	2018	2017
Balance at end of prior year	**41,109**	**4,566**
Merger Effect (*)	55	-
Balance at beginning of the year	41,164	4,566
Merger of issuing companies	-	34,311
Issues	26,542	18,857
Redemptions	(15,222)	(15,204)
Exchange differences	896	(1,421)
Balance at end of the year	**53,380**	**41,109**

(*) See further detail Note 1.d and Note 1.i.

Inside the account balance recorded in Other non-convertible issuances, is included commercial paper issues, as well as other issues made by the Bank.

- Commercial paper

On June 5, 2018, Banco Santander, S.A. approved the annual renewal of the "Program for the issuance of commercial paper or promissory notes in the United States", authorizing certain authorized persons to establish the necessary conditions to carry out said renewal, as well as those of the emissions made under its protection. Said Program has as issuer Banco Santander, S.A., for a maximum nominal global amount of up to 20,000,000 thousand American dollars.

In the same way, dated April 20, 2018, Banco Santander, S.A. approved the annual renewal of the "European Commercial Paper Issuance Program", which was originally agreed on May 29, 2008, authorizing certain authorized persons to set the necessary conditions to effect such renewal, as well as those of the emissions that are made to his protection. Said Program has as issuer Banco Santander, S.A. for a maximum nominal overall amount of up to 15,000,000 thousand euros.

Commercial paper issues in both currencies are listed on the Irish Stock Exchange and give their holders the right to receive a remuneration payable at the expiration of the issue, at the fixed or variable interest rate that each of them offers. , and that at the end of 2017 and 2016 were between -0.535% and 1.85% per year and -0.36% and 1.48% per annum, respectively, with the average nominal interest rate of 0.432% annual, respectively, and that at the close of the financial year 2018 was between -0.50% and 3.285% annually, with the average nominal interest rate of 1.655% per year.

In this way, on April 18, 2017, Banco Santander, S,A, adopt the annual renewal of the "Program for the issuance of commercial paper or promissory notes in Euros", which was originally agreed on May 29, 2008, allowing certain authorized persons to set the necessary conditions to realize this renewal, as well as the emissions that are made under his protection, The issuers of this program are Banco Santander, S,A, and Santander Commercial Paper, S,A,U, (with the guarantee of the Bank in the last case), for a maximum nominal global amount to 15,000,000 thousand euros.

- Remaining issuances

During the year 2018, Banco Santander, S.A. has reported 37 issues for a nominal amount of 6,132 million euros (without considering perpetual issues amounting to 2,750 million euros, see note 21.c). The average remuneration of these emissions has been fixed at 2.65% per annum.

During 2017, Banco Santander, S,A, it has reported 47 issues for a nominal amount of 11,477 million euros (without considering perpetual issues amounting to 1,700 million euros, (see note 21.c)), The average remuneration of these emissions has been fixed at 2.31% annual.

c) *Other information*

This item includes the preferred shares (participaciones preferentes) and other financial instruments issued by the Bank which, although equity for legal purposes, do not meet the requirements for classification as equity (preferred shares).

The preference shares do not carry any voting rights and are non-cumulative, they were subscribed to by non-Bank third parties and, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

For the purposes of payment priority, preferred shares (participaciones preferentes) are behinded to all general creditors and to subordinated deposits, The remuneration of these securities, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by Spanish banking regulations on equity, The other issues are subordinated and, therefore, for the purposes of payment priority, they are behinded to all general creditors of the issuers.

As of December 31, 2018, there are the following convertible issues in shares of the Bank:

On March 19, 2018, Banco Santander, S.A. carried out the issuance of contingently convertible preference shares convertible into ordinary shares of the newly issued Bank (the CCPS) for a nominal amount of 1,500 million euros. The remuneration of the CCPPs, whose payment is subject to certain conditions and is also discretionary, was fixed at 4.75% per annum for the first five years (being revised thereafter applying a margin of 409.7 basis points over the rate). Mid-Swap to five years (5 year Mid-Swap Rate).

At December 31, 2017, the following issues were convertible into Bank shares:

On March 5, May 8 and September 2, 2014, Banco Santander, S.A. announced that its executive committee had resolved to launch three issues of preference shares contingently convertible into newly issued ordinary shares of the Bank (“CCPSs”) for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million, respectively, The interest on the CCPSs, payment of which is subject to certain conditions and is discretionary, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

On March 25, May 28, and September 30, 2014, the Bank of Spain confirmed that the CCPSs were eligible as Additional Tier 1 capital under the new European capital requirements of Regulation (EU) No 575/2013, The CCPSs are perpetual, although they may be redeemed early in certain circumstances and would convert into newly issued ordinary shares of Banco Santander if the Common Equity Tier 1 ratio of the Bank or its consolidated group fell below 5.125%, calculated in accordance with Regulation (EU) No 575/2013, The CCPSs are traded on the Global Exchange Market of the Irish Stock Exchange.

On April 25, and September 29, 2017, Banco Santander, S,A, issued preferred shares contingently convertible in newly issued common shares of the Bank (the "CCPP"), for a nominal amount of 750 million euros, and 1,000 million euros, respectively, The remuneration of the CCPPs, whose payment is subject to certain conditions and is also discretionary, was fixed at 6.75% annually for the first five years (being reviewed thereafter by applying a margin of 680.3 basis points over the 5-year Mid-Swap Rate) for the issue paid out in April, and at 5.25% annually for the first six years (reviewed thereafter by applying a margin of 499.9 basis points over the 5-year Mid-Swap Rate) for the issue paid out in September.

The interest on the CCPSs in 2018 amounted to EUR 425 million (2017: EUR 310 million).

22. Other financial liabilities

Following is a detail of Other financial liabilities in the accompanying balance sheets:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Trade payables	726	719	701
Payment obligations	1,587	2,221	2,173
Public agency revenue collection accounts	3,122	2,379	2,030
Unsettled financial transactions	1,996	2,905	2,872
Other accounts	1,054	2,088	1,604
	8,485	**10,312**	**9,380**

(*) See further detail Note 1.d and Note 1.i.

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,

	2018	2017
	Days	
Average period of payment to suppliers	12	10
Ratio of transactions paid	12	10
Ratio of transactions pending payments	49	36
	Millions of euros	
Total payments made	3,602	2,947
Total payments outstanding	4	4

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction,

Note 48 contains a detail of the residual maturity periods of Other financial liabilities at each year-end,

23. Provisions

a) Breakdown

The detail of Provisions in the balance sheets at 31 December 2018 and 2017 is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Provision for pensions and similar obligations	5,006	5,780	5,372
Of which:			
Pensions and similar defined benefit obligations post-employment	*3,895*	*4,202*	*4,141*
Other long-term remunerations to employees	*1,111*	*1,578*	*1,231*
Provisions for taxes and other legal contingencies	498	339	316
Provisions for commitments and guarantees given	263	330	196
Rest of provisions	914	1,363	731
	6,681	**7,812**	**6,615**

(*) See further detail Note 1.d and Note 1.i.

b) Changes

The changes in Provisions in 2018 and 2017 were as follows:

	Millions of euros									
	2018					2017				
	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	4,141	1,231	196	1,047	6,615	4,627	1,588	267	857	7,339
Merger effect(*)	61	347	134	655	1,197	-	-	-	-	-
Balance at beginning of year	**4,202**	**1,578**	**330**	**1,702**	**7,812**	-	-	-	-	-
Changes in value recognised in equity	(43)	-	-	-	(43)	23	-	-	-	23
Additions charged to income:										
(Interest income)/Interest expense (Notes 34, 35)	38	18	-	-	56	77	20	-	-	97
Staff costs (Note 42)	17	1	-	-	18	10	1	-	-	11
Provisions or reversal of provision	-	216	40	374	630	-	82	(66)	481	497
	55	235	40	374	704	87	103	(66)	481	605
Payments to pensioners and pre-retirees	(326)	(600)	-	-	(926)	(584)	(468)	-		(1.052)
Amounts used and other changes	7	(102)	(107)	(664)	(866)	(12)	8	(5)	(291)	(300)
Balances at end of year	**3,895**	**1,111**	**263**	**1,412**	**6,681**	**4,141**	**1,231**	**196**	**1,047**	**6,615**

(*) See further detail Note 1.d and Note 1.i.

(**) Includes 205 million euros under Provisions (net), as restructurings.

c) Provision for pensions and similar obligations

The detail of Provision for pensions and similar obligations at 31 December 2018 and 2017 is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Provisions for pensions and similar defined benefit plan obligations	5,006	5,774	5,372
Of which:			
Provisions for pensions	*3,895*	*4,202*	*4,141*
Provisions for similar obligations	*1,111*	*1,578*	*1,231*
Of which: pre-retirements	*1,096*	*1,567*	*1,220*
Provisions for pensions and similar defined contribution plan obligations	-	-	-
Total provisions for pensions and similar obligations	**5,006**	**5,780**	**5,372**

(*) See further detail Note 1.d and Note 1.i.

i. Post-employment benefits

At the end of 2012, the Bank reached an agreement with the employees' representatives to convert the defined benefit obligations arising from the collective agreement into defined contribution plans, In addition, the senior executives' contracts with defined-benefit pension obligations were amended to convert such obligations into a defined-contribution employee welfare system,

The amount of the obligations accrued by the totality of the personal assets, both collective agreement and management, object of transformation of a defined benefit to measure, amounted to 999 million euros, The transformed processes were externalized by the subscription of various insurance contracts with Spanish insurance entities, After the election of a transformation, at December 31, 2018 and 2017, practically all pension commitments with active personnel correspond to defined contribution plans, The total contributions made to said aircraft during the year 2018 amounted to 82 million euros (74 million during the year 2017) (See Note 42).

In addition, at 31 December 2018 and 2017, the Bank had certain defined benefit obligations, The table below shows the present value of the Bank's defined benefit post-employment benefit obligations and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2018 and for the preceding four years:

	Millions of euros					
	2018	01/01/2018(*)	2017	2016	2015	2014
Present value of the obligations:						
To current employees	58	117	22	43	44	38
To retired employees	5,331	5,685	4,244	4,433	4,567	4,657
Other	-	34	19	297	286	304
	5,389	5,836	4,285	4,773	4,897	4,999
Fair value of plan assets	(1,496)	(1,636)	(146)	(154)	(155)	(164)
Assets not recognised	2	2	2	2	1	-
Provisions - Provisions for pensions	**3,895**	**4,202**	**4,141**	**4,621**	**4,743**	**4,835**
Of which:						
Internal provisions for pensions	*2,241*	*2,420*	*2,409*	*2,787*	*2,819*	*2,868*
Insurance contracts linked to pensions (Note 14)	*1,654*	*1,782*	*1,732*	*1,834*	*1,924*	*1,967*
Of which:						
Group insurance entities	*1,445*	*1,544*	*1,494*	*1,565*	*1,625*	*1,622*
Other insurers	*209*	*238*	*238*	*269*	*299*	*345*

(*) See further detail Note 1.d and Note 1.i.

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:

	2018	2017
Annual discount rate	1.55%	1.40%
Expected return on plan assets rate	1.55%	1.40%
Mortality tables	PE2000P M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	2018	2017
Expected rate of return on reimbursement rights	1.55%	1.40%

The amounts recognised in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2018	2017
Service cost:		
Current service cost (Note 42)	17	10
Past service cost (including reductions)	2	-
Pre-retirement cost	1	-
Settlements	(3)	(2)
Net interest (Note 35)	73	77
Expected return on insurance contracts linked to pensions (Note 34)	(35)	(35)
	55	**50**

In addition, in 2018 Other comprehensive income – items not reclassified to profit or loss– Actuarial gains or (-) losses on defined benefit pension plans has caused an additional actuarial profit of EUR 42 million respect to defined benefit obligations (2017: EUR 25 million of actuarial loss).

The changes in 2018 and 2017 in the present value of the accrued defined benefit obligations were as follows:

	Millions of euros	
	2018	2017
Present value of the obligations at end of the prior year	4,285	4,773
Merger effect(*)	1,551	-
Present value of the obligations at beginning of the year	5,836	4,773
Current service cost	17	10
Interest cost	98	80
Pre-retirement cost	1	-
Settlements	(3)	(2)
Benefits paid for settlements(**)	-	(260)
Other benefits paid	(420)	(332)
Past service cost	2	-
Actuarial (gains)/losses (***)	(144)	35
Exchanges rate differences and others	2	(19)
Present value of the obligations at end of the year	**5,389**	**4,285**

(*) See further detail Note 1.d and Note 1.i.

(**) In October 2017, the Bank and the employees' representatives get an agreement for the elimination and compensation of specific passive rights based on extra-agreement agreements, The settlement of this commitments was made through the payment of 260 million euros, without generating an impact on equity or the income statement during the year.(***) Including in 2018 demographic actuarial gains of EUR 21 million and financial actuarial profit of EUR 123 million (2017: demographic actuarial profit of EUR 5 million and financial actuarial losses of EUR 40 million).

The changes in 2018 and 2017 in the fair value of the plan assets are as follows:

	Millions of euros	
	2018	2017
Fair value of plan assets at end of prior year	146	154
Merger effect (*)	1,490	-
Fair value of plan assets at beginning of year	1,636	154
Expected return on plan assets	25	3
Benefits paid	(114)	(7)
Contributions payable by the employer	21	(1)
Exchange rate differences and others	-	(6)
Actuarial gains/(losses)	(72)	3
Fair value of plan assets at end of year	**1,496**	**146**

(*) See further detail Note 1.d and Note 1.i.

The changes in 2018 and 2017 in the fair value of the insurance contracts linked to pensions are as follows:

	Millions of euros	
	2018	2017
Fair value of insurance contracts linked to pensions at end of the prior year	1,732	1,834
Merger effect (*)	50	-
Fair value of insurance contracts linked to pensions at beginning of the year	1,782	1,834
Expected return on insurance contracts (Note 34)	35	35
Actuarial gains/(losses)	(30)	8
Premiums paid/(surrenders)	2	-
Benefits paid	(135)	(145)
Fair value of insurance contracts linked to pensions at end of the year (Note 14)	**1,654**	**1,732**

(*) See further detail Note 1.d and Note 1.i.

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

ii. Other long-term employee benefits

In various years the Bank offered to some certain of its employees the possibility of leaving its employ prior to their retirement, Therefore, provisions are recognised to cover the obligations to pre-retirees -in terms of both salaries and other employee benefit costs- from the date of their pre-retirement to the date of their effective retirement.

In 2018, Banco Santander, S.A. reached an agreement with the employees representatives to accept the pre-retirement and voluntary redundancy offer. The provision recognised to cover these obligations amounted to EUR 206 million at 31 December 2018 (31 December 2017: EUR 70 million), corresponding to the pre-retirement offer for that year).

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2018 and for the preceding four years were as follows:

		Millions of euros				
	2018	01/01/2018(*)	2017	2016	2015	2014
Present value of the obligations:						
To pre-retirees	1,111	1,584	1,220	1,578	1,727	2,144
Long-service bonuses and other benefits	15	11	11	10	10	10
Provisions - Provisions for pensions	**1,126**	**1,595**	**1,231**	**1,588**	**1,737**	**2,154**
Fair value of plan assets	(15)	(17)	-	-	-	-
Provisions - Provisions for pensions	1,111	1,578	-	-	-	-
Insurance plans linked to pensions	-	**1**	-	-	-	-
Group insurers	-	-	-	-	-	-
Other insurance entities	-	**1**	-	-	-	-

(*) See further detail Note 1.d and Note 1.i.

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.

2. Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2018	2017
Annual discount rate	1.55%	1.40%
Expected return on plan assets rate	1.55%	1.40%
Mortality tables	PE2000 M/F	PE2000 M/F
Cumulative annual CPI growth	1%	1%
Annual benefit increase rate	Between 0% & 1.5%	Between 0% & 1.5%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the income statement in relation to the aforementioned defined benefit obligations are as follows:

	Millions of Euros	
	2018	2017
Current service cost	1	1
Interest cost (Note 35)	18	20
Extraordinary charges -		
Actuarial (gains)/losses recognised in the year	*7*	*12*
Pre-retirement cost	205	70
Other	4	-
	235	**103**

(*) See further detail Note 1.d and Note 1.i.

The changes in 2018 and 2017 in the present value of the accrued obligations for other long-term benefits were as follows:

	Millions of euros	
	2018	2017
Present value of the obligations at end of the prior year	1,231	1,588
Merger effect(*)	364	-
Present value of the obligations at beginning of the year	1,595	1,588
Current service cost	1	1
Interest cost (Note 35)	18	20
Past service cost	4	
Pre-retirement cost	205	70
Effect of curtailment/settlement	-	-
Benefits paid	(601)	(468)
Actuarial (gains)/losses	6	12
Other	(102)	8
Present value of the obligations at end of the year	**1,126**	**1,231**

(*) See further detail Note 1.d and Note 1.i.

The movement that has occurred, during the years 2018 and 2017, in the fair value of the assets of the plan, has been as follows:

	Millions of euros	
	2018	2017
Fair value of plan assets at end of the year	-	-
Merger effect (*)	17	-
Fair value of plan assets at the beginning of the year	17	-
Expected return on plan assets	-	-
Benefits paid	(1)	-
Contributions by the employer	-	-
Contributions by the employee and others	-	-
Actuarial gains / (losses)	(1)	-
Present value of the obligations at end of the year	**15**	-

(*) See further detail Note 1.d and Note 1.i.

The movement that has taken place, during the years 2018 and 2017, in the current value of the insurance contracts linked to pensions, has been as follows:

	Millions of euros	
	2018	2017
Fair value of insurance contracts linked to pensions at the end of the previous year	-	-
Merger effect (*)	1	-
Fair value of insurance contracts linked to pensions at the end of the previous year	1	-
Expected performance of insurance contracts (Note 34)	-	-
Actuarial gains / (losses)	-	-
Premiums paid / (ransoms)	-	-
Benefits paid	(1)	-
Present value of the obligations at end of the year	-	-

(*) See further detail Note 1.d and Note 1.i.

iii. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations, At 31 December 2018, 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 5,33% and -4,88%, respectively, and an increase or decrease in the present value of the long-term obligations of 1,11% and – -1,09%, These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2018 the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and certain Group companies in Brazil challenging the increase in the rate of Brazilian social contribution tax on net income from 9% to 15% stipulated by Interim Measure 413/2008, ratified by Law 11.727/2008, a provision having been recognised for the amount of the estimated loss. Due to recent unfavorable decisions of the courts, the Group in Brazil has withdrawn their actions and paid the amount claimed, using the existing provision.

- 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 favorable to Banco Santander (Brasil) S.A.. The appeals filed by the other entities before the Federal Supreme Court, both for PIS and COFINS, are still pending. The risk is classified as possible and there is a provision for the amount of the estimated loss.

- 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 the years 1998, 2001, 2005 and 2006 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. 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 the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.

- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Santander Brasil Tecnologia S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000, 2001 and part of 2002. In July 2015, after the unfavorable decision of CARF, both entities appealed at Federal Justice in a single proceeding. There is a provision recognised for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), currently Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005, questioning the tax treatment applied to a sale of shares of Real Seguros, S.A. Actually it is appealed before the CARF. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it is considered to be a contingent liability.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to corporate income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortization 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 amortization 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 amortization of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A from years 2007 to 2012. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brazil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

- Banco Santander (Brasil) S.A. is involved in appeals in relation to infringement notices initiated by tax authorities regarding the offsetting of tax losses in the CSLL ('Social Contribution on Net Income') of year 2009. The appeal is pending decision in CARF. A provision was recognised in connection with the amount of the estimated loss.

- 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. Final resolution is anticipated within the coming months, with no effect on income, as it is fully provisioned.

- Banco Santander has appealed before European Courts the Decisions 2011/5/CE of 28 October 2009, and 2011/282/UE of 12 January 2011 of the European Commission, ruling that the deduction regulated pursuant to Article 12.5 of the Corporate Income Tax Law constituted illegal State aid. On November 2018 the General Court confirmed these Decisions but these judgements have been appealed at the Court of justice of the European Union. The Group has not recognised provisions for these suits since they are considered to be a contingent liability.

  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 2018, the main non-tax-related proceedings concerning the Group were as follows:

- Payment Protection Insurance (PPI): claims associated with the sale by Santander UK plc of payment protection insurance or PPI to its customers. As of 31 December 2018, the remaining provision for PPI redress and related costs amounted to GBP 246 million (EUR 275 million) and GBP 356 million (EUR 406 million) as of 31 December 2017. This provision represents management's best estimate of Santander UK plc future liability in respect of misselling of PPI policies and is based on recent claims experience and consideration of the FCA Consultation paper CP18/33 (Regular premium PPI complaints and recurring non-disclosure of commission – feedback on CP18/18, final guidance, and consultation on proposed mailing requirements) issued on 7 November 2018. It has been calculated using key assumptions such as the estimated number of customer complaints received, the number of rejected misselling claims that will be in scope for Plevin v Paragon Personal Finance Limited [2014] UKSC 61 redress, and the determination of liability with respect to a specific portfolio of claims. The provision will be subject to continuous review, taking into account the impact of any further claims received and FCA guidance.

- Delforca: dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial. The bank is claiming to Delforca a total of EUR 66 million from the liquidation of the swaps. Two arbitration proceedings were instigated before the Spanish Court of Arbitration with an outcome of two awards in favour of the Bank. However, these two arbitration awards were annulled for procedural issues. Mobiliaria Monesa (Delforca's parent company) has commenced a civil proceeding against the Bank claiming damages which, as of date have not been determined. The proceeding has been stayed because the jurisdiction of the Court has been challenged. Within insolvency proceedings before the Commercial Court, both Delforca and Mobiliaria Monesa have instigated a claim against the Bank seeking the recovery of EUR 56.8 million that the Bank received from the liquidation of the swap. The Bank has not recognised any provisions in this connection.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: the claim was filed in 1998 by the association of retired Banespa employees (AFABESP) requesting the payment of a half-yearly bonus envisaged in the entity's Bylaws in the event that the entity 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 the bank did not make a profit and partial payments were made from 1996 to 2000, as agreed by the Board of Directors and the relevant clause was eliminated in 2001. The Regional and the High Employment Court ordered the bank to pay this half-yearly bonus since the event until nowadays. The Bank filed an appeal which awaits judgment before the Federal Supreme Court (STF). The Bank has not recognised any provisions in this connection.

- “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 homologated 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 February 2018.The provisions recorded for the economic plan processes are considered sufficient.

- CNMC: after an administrative investigation on several financial entities, including Banco Santander, S.A., in relation to possible collusive practices or price-fixing agreements, as well as exchange of commercially sensitive information in relation to financial derivative instruments used as hedge of interest rate risk for syndicated loans, on 13 February 2018, the Competition Directorate of the Spanish “National Commission for Antitrust and Markets” (CNMC) published its decision, by which it fined the Bank and another three financial institutions with EUR 91 million (EUR 23.9 million for the Bank) for offering interest rate derivatives in breach of Articles 1 of the Spanish Act 15/2007 on Defence of Competition and 101 of the Treaty of Functioning of the European Union. According to the CNMC, there is evidence that there was coordination between the hedging banks/lenders to coordinate the price of the derivatives and offer clients, in each case, a price different from the “market price”. This decision has been appealed before the Spanish National Court by the Bank, that has already paid the fine.

- Floor clauses (“cláusulas suelo”): As a 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 January 2, Banco Popular Español, S.A.U. made extraordinary provisions that were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. The Group considered that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. For this matter, after the purchase of Banco Popular Español, S.A.U., EUR 357 million provisions have been used by the Group (EUR 238 million in 2017 and EUR 119 million in 2018) mainly for refunds as a result of the extrajudicial process mentioned above. As of December 31, 2018, the amount of the Group's provisions in relation to this matter amounts to EUR 104 million which covers the probable risk.

- 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, 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 Popular Español, S.A.U., Banco Santander, S.A. or other Santander Group companies deriving from or related to the acquisition of Banco Popular Español, S.A.U.. There are also criminal investigations in progress led by the Spanish National Court in connection with Banco Popular Español, S.A.U., although not with its acquisition. On 15 January 2019, the Spanish National Court, applying article 130.2 of the Spanish Criminal Code, declared the Bank the successor entity to Banco Popular Español, S.A.U. (following the merger of the Bank and Banco Popular Español, S.A.U.on 28 September 2018), and, as a result, determined that the Bank assumed the role of the party being investigated in the criminal proceeding. The Bank has resorted this decision.

At this time it is not possible to foresee the total number of demands and additional claims that could be put forth by the former shareholders, nor their economic implications (particularly considering that the resolution decision in application of the new laws is unprecedented in Spain or any other Member State of the European Union and that possible future claims might not specify any specific amount, allege new legal interpretations or involve a large number of parties). The estimated cost of the potential compensation to the shareholders of Banco Popular Español, S.A.U. has been accounted for as disclosed in Note 3 of the consolidated financial statements.

- German shares investigation: the Cologne Public Prosecution Office is conducting an investigation against the Bank, and other group entities based in UK - Santander UK plc, Abbey National Treasury Services plc and Cater Allen International Limited -, in relation to a particular type of tax dividend linked transactions known as cum-ex transactions. The Group is cooperating with the German authorities. As the investigations are at preliminary stage, the results and the effects for the Group, which may potentially include the imposition of financial penalties, cannot be anticipated. The Bank has not recognised any provisions in this connection.

- 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. SC was informed that these states serve on behalf of a group of 32 state Attorneys General. The subpoenas contain 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 has responded to these requests within the deadlines specified in the CIDs and has otherwise cooperated with the Attorneys General with respect to this matter. The provisions recorded for this investigation are considered sufficient.

- Financial Industry Regulatory Authority ("FINRA") Puerto Rico Arbitrations: as of 31 December 2018, Santander Securities LLC (SSLLC) had received 589 FINRA arbitration cases related to Puerto Rico bonds and Puerto Rico closed-end funds (CEFs). The statements of claims allege, among other things, fraud, negligence, breach of fiduciary duty, breach of contract of the acquirers, unsuitability, over-concentration of the investments and defect to supervise. There were 420 arbitration cases that remained pending as of 31 December 2018. The provisions recorded for these matters are considered sufficient.

  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 Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business (including those in connection with lending activities, relationships with employees and other commercial or tax matters).

With the information available to it, the Group considers that, at 31 December 2018, it had reliably estimated the obligations associated with each proceeding and had recognised, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal risks. It also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

iii. Administrative sanctions

In accordance with the applicable regulations, during fiscal year 2018, the following administrative sanctions were imposed on the Bank: (i) a fine of 4.5 million euros imposed by the CNMV for the undue collection of incentives derived from investments in foreign and domestic collective investment schemes; and (ii) a fine of 500,000 euros imposed on Banco Popular Español (prior to the merger with the Bank) by the CNMV for the breach detected in the review of certain aspects of the customer service operations.

24. Tax matters

a) *Consolidated Tax Group*

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities). On 1 January 2018 those entities that were part of the Consolidated Tax Group which parent company was Banco Popular Español, S.A.U., and that meet the requirements have been integrated in the aforementioned Consolidate Tax Group.

b) *Years open for review by the tax authorities*

In 2018 the conformity and non-conformity acts relating to the 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 that have been appealed, Banco Santander, S.A., as the Parent of the Consolidated Tax Group, considers, in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the financial statements, and there are sound arguments as proof in the appeals pending or to be filed against them. Consequently, no provision has been recorded for this concept. Following the completion of these actions for 2009 to 2011, subsequent years up to and including 2018 are subject to review. At the date of approval of these accounts, the beginning of VAT proceedings for periods not yet prescribed up to and including 2016 have been notified.

Likewise, in 2018 the partial actions relating to corporate income tax for 2016 of the Consolidated Tax Group of which Banco Popular Español, S.A.U. was the parent until 31 December 2017, were completed, and a certificate of conformity was drawn up confirming the tax return filed by the taxpayer. In relation to this Consolidated Tax Group, the years 2010 to 2017 inclusive are subject to review.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Bank's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Bank's financial statements.

c) *Reconciliation*

The reconciliation of the income tax expense calculated at the standard tax rate (30%) and the related expense recognised are as follow (in millions of euros):

	Millions of euros	
	Expenses / (Incomes)	
	2018	2017
Profit before taxes	3,385	2,977
Income and expense with no tax effect due to permanent differences	(6,286)	(4,138)
Of which Exemption for dividend and capital gains	*(4,033)*	*(3,813)*
Adjusted profit or loss	(2,901)	(1,161)
Income tax at 30%	1,016	893
Income and expense with no tax effect	(932)	(922)
	84	**(29)**

d) *Tax recognised in equity*

In addition to the income tax recognised in the income statement, the Bank recognised the following amounts in equity in 2018 and 2017:

	Millions of euros		
	Amounts receivable/(Amounts payable)		
	31/12/2018	01/01/2018(*)	31/12/2017
Fixed-income securities - Available for sale	132	(13)	59
Equity securities - Available for sale	(10)	(4)	230
Cash flow hedges	(39)	-	2
Other valuation adjustments (Note 25)	(12)	-	8
Circular 4/2017 insolvency coverage effect	-	111	-
	71	**94**	**299**

(*) See further detail Note 1.d and Note 1.i.

e) *Deferred taxes*

Tax assets in the balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets, Tax liabilities includes the liability for the Bank's various deferred tax liabilities.

In Spain Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, established a regime whereby certain deferred tax assets may continue to be computable as prudential capital, within the "Global regulatory framework for more resilient banks and banking systems" (known as the Basel III accords) and pursuant to the implementing regulations of these accords, namely, Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 ("CRD IV").

Under prudential capital regulations, deferred tax assets that rely on future profitability to be realised should be deducted from regulatory capital while taking into consideration whether they arise from tax loss and tax credit carryforwards or temporary differences, The deferred tax assets in the latter category, including those arising from allowances for loan losses, allowances for foreclosed assets and provisions for pension and pre-retirement obligations, do not rely on future profitability since they may be converted into tax receivables in specific circumstances and, therefore, they are not deducted from regulatory capital (hereinafter "monetizable tax assets").

In 2015 the regulations on monetizable tax assets were completed with the introduction of a financial contribution which involved the payment of 1,5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetizable assets generated prior to 2016.

The detail of Tax assets and Tax liabilities is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Tax assets:	**13,320**	**13,521**	**10,009**
Current	2,993	2,320	2,240
Deferred	10,327	11,201	7,769
Of which:			
Relating to pensions	*3,460 (**)*	*3,458 (**)*	*3,387 (**)*
Relating to allowances for loan losses	*3,024 (**)*	*3,510 (**)*	*1,545 (**)*
Relating to deductions and negative tax bases	*2,402*	*2,452*	*2,452*
Tax liabilities:	**1,303**	**1,385**	**1,208**
Of which, deferred tax liabilities	*1,303*	*1,385*	*1,208*

(*) See further detail Note 1.d and Note 1.i.

(**) Monetizable, not deducted from regulatory capital.

At the accounting closing date, deferred taxes, both assets and liabilities, are reviewed in order to verify if adjustments to them are necessary in accordance with the results of the analyses performed.

These analyses include, among other, (i) the results generated in previous years, (ii) projections of results, (iii) estimation of the reversal of the temporary differences according to their nature and (iv) period and limits established in the legislation in force for the recovery of the different deferred tax assets, concluding on the Bank's ability to recover its deferred tax assets recorded.

The Group has performed an analysis of the recoverability of deferred tax assets recorded as of December 31, 2018, which supports their recoverability in a maximum term of 15 years.

Additionally, the Tax Group in Spain has not recognised deferred tax assets in respect of tax losses, investment deductions and other incentives that amounted to approximately EUR 5,200 million from which EUR 225 million is subject, among other requirements, to time limits.

f) Regulatory changes

In 2018 and 2017 significant fiscal reforms have not been approved. However, in order to regulate the tax effects of the first application of Circular 4/2017 of the Bank of Spain, Royal Decree-law 27/2018 of December 28 has established a transitory regime, according to which the charges and payments to reserve accounts recorded in the first application, which have fiscal effects, will be included in the tax base of the Corporate Tax in equal parts in each of the first three tax periods beginning on January 1, 2018.

In application of the aforementioned Royal Decree-law will be integrated into the taxable base of Banco Santander S.A. corresponding to 2018 a negative adjustment for an approximate amount of 14 million euros, pending the integration of an approximate amount of 27 million euros.

g) Other information

In compliance with the information obligation established in the 2005 Contribution Standards Instrument issued by the Financial Conduct Authority of the United Kingdom, it is indicated that the shareholders of the Bank who are residents of the United Kingdom will be entitled to request a tax credit for taxes paid abroad with respect to the withholdings that the Bank has to make on the dividends to be paid to said shareholders if the total dividend income exceeds the amount of exempt dividends, of 2,000 pounds sterling for the year 2018/19. Bank shareholders who are residents of the United Kingdom and maintain their participation in the Bank through Santander Nominee Service will be directly provided with information on the amount withheld as well as any other information they may need to complete their tax returns in the United Kingdom. The rest of the Bank's shareholders who are residents of the United Kingdom should contact their bank or their securities agency.

Banco Santander, S.A. It is part of the Large Companies Forum and since 2010 has been a member of the Code of Good Tax Practices in Spain. Also, Santander UK Plc. is a member of the HMRC Code of Practice on Taxation for Banks in the United Kingdom, actively participating in both cases in the cooperative compliance programs that are being developed by these tax administrations.

25. Other comprehensive income

The balances of Other comprehensive income include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the 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.

The amounts of these items are recognised gross, including the amount of the Other comprehensive income relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Breakdown of Other accumulated comprehensive income - Items that will not be reclassified in results and Items that can be classified in results

	Millions of euros			
	Banco Santander, S.A. 31/12/2018 (Circular 4/1017) (**)	Merger effect 1/1/2018 (Circular 4/2017) (*)	Banco Santander, S.A. 1/1/2018 (Circular 4/2017) (**)	Banco Santander, S.A. 31/12/2017 (Circular 4/2004)
Other accumulated comprehensive income	**(459)**	**111**	**(162)**	**(150)**
Items that will not be reclassified in results	**(722)**	**(4)**	**(643)**	**(1,096)**
Actuarial gains and losses on defined benefit pension plans	(1,065)	(3)	(1,096)	(1,096)
Non-currrent assets held for sale	-	-	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-	-	-
Rest of valuation adjustments	-	-	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	343	(1)	453	
Ineffectiveness of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	-	-	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged ítem)	-	-	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-	-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	-	-	-	-
Items that can be classified in results	**263**	**117**	**483**	**946**
Hedges of net investments in foreign operations (effective portion)				
Exchange differences				
Cash flow hedges (effective portion)	37	(55)	-	-
Changes in the fair value of debt instruments measured at fair value through changes in other comprehensive income	226	172	483	226
Hedging instruments (ítems not designated)	-	-	-	-
Financial assets available-for-sale				-
Debt instruments				946
Equity instruments				*498*
Non-current assets held for sale	-	-		
	-	-	-	-
Participación en otros ingresos y gastos reconocidos en inversiones en negocios conjuntos y asociadas	-	-	-	-

(*) See further detail Note 1.d and Note 1.i.
(**) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

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 consolidated statement of income and expense.

c) *Other accumulated comprehensive income - Items that will not be reclassified in results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income*

Includes the net amount of unrealised fair value changes of equity instruments at fair value with changes in other comprehensive income.

The following is a breakdown of the composition of the balance as of 31 December 2018 (Bank of Spain Circular 4/2017) 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:

	Millions of euros				Millions of euros				Millions of euros			
	31/12/18 (**)				01/01/18 (*)				31/12/17			
	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	Capital gains by valuation	Capital losses by valuation	Net gains/losses by valuation	Fair value
Equity instruments	*595*	*(252)*	*343*	*1,751*	*452*	-	*452*	*1,940*				

(*) See further detail Note 1.d and Note 1.i.

(**) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

d) *Other accumulated comprehensive income -Items that may be reclassified to profit or loss - Hedging derivatives – Cash flow hedges (Effective portion)*

Other comprehensive income – Items that may be reclassified to profit or loss - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the consolidated income statement in the periods in which the hedged items affect it (See Note 11).

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) and available-for-sale (Bank of Spain Circular 4/2004 and subsequent modifications)*

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 (Bank of Spain Circular 4/2017) and Financial assets available-for-sale (Bank of Spain Circular 4/2004 and subsequent amendments) (See Notes 7 and 8).

The breakdown, by type of instrument and geographical origin of the issuer, of Other comprehensive income – Items that may be reclassified to profit or loss - Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (Bank of Spain Circular 4/2017) and Financial assets available-for-sale (Bank of Spain Circular 4/2004 and subsequent amendments) at 31 December 2018 y 2017 is as follows:

	Millions of euros											
	31/12/2018 (**)				01/01/2018(*)				31/12/2017			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	327	(101)	226	32,741	684	(29)	655	46,732				

(*) See further detail Note 1.d and Note 1.i.

(**) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

At the end of 2017 the Bank assessed whether there is any objective evidence that the instruments classified Changes in the fair value of debt and equity instruments measured at fair value with changes in other comprehensive income (Bank of Spain Circular 4/2017) and Financial assets available-for-sale (Bank of Spain Circular 4/2004 and subsequent modifications) (debt securities and equity instruments) were impaired.

This assessment included but was not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

As of 1 January 2018, with the entry into force of Bank of Spain Circular 4/2017, the Bank estimates the expected losses on debt instruments measured at fair value with changes in other comprehensive income. These losses are recorded with a charge to the consolidated income statement for the period.

Until 31 December 2017, in the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis were assessed, the duration and significance of the fall in its market price below cost for the Bank was taken into account. As a general rule, for these purposes the Bank considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Bank assessed, on a case-by-case basis, each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Bank considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss was recognised in the income statement for the amount of the loss registered in equity under Other comprehensive income – Items that may be reclassified to profit or loss – Items not reclassified to profit or loss – Other Valuation adjustments. Also, where the Bank was not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument was written down to its fair value.

At 31 December 2018, the losses incurred in more than twelve months recognised under 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 arising from equity instruments 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 2018 is set forth below.

27. Issued capital

a) Changes

At 31 December 2017 the Bank's share capital consisted of 16,136,153,582 shares with a total par value of EUR 8,068 million.

On 7 November 2018, a capital increase of EUR 50 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 100,420,360 shares were issued (0.62% of the share capital).

Therefore, the Bank's new capital consists of EUR 8,118 million at 31 December 2018, represented by 16,236,573,942 shares of EUR 0.50 of nominal value each one and all of them from a unique class and serie.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Mexico and Warsaw Stock Exchanges, and all of them have the same features and rights. Santander shares are listed on the London Stock Exchange under Crest Depository Interest (CDI's), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDRs), each BDR representing one share. During 2018 and the beginning of 2019 the number of markets where the Bank is listed has been reduced; the Bank's shares has been delisted from Buenos Aires, Milan, Lisboa and Sao Paulo's markets.

At 31 December 2018, the only shareholders listed in the Bank's shareholders register with ownership interests of more than 3%1 were State Street Bank & Trust Company (13.09%), The Bank of New York Mellon Corporation (8.85%), Chase Nominees Ltd. (6.69%), EC Nominees Limited (3.96%) and BNP Paribas (3.79%).

However, the Bank considers that these ownership interests are held in custody on behalf of third parties and that none of them, as far as the Bank is aware, has an ownership interest of more than 3% of the Bank's share capital [2] or voting power.

As of 31 December 2018, the shareholders of the Bank did not have owners of shares resident in tax havens with a participation of more than 1% of the share capital.

(1) The threshold stipulated in Royal Decree 1362/2007 of 19 October, which implemented the Spanish Securities Market Act 24/1988 of 28 July defining the concept of significant holding.

(2) The website of the *Comisión Nacional del Mercado de Valores* (www.cnmv.es) contains a notice of significant holding published by Blackrock, Inc. on 09 August 2017, in which it notifies an indirect holding in the voting rights attributable to Bank shares of 5.585%, plus a further stake of 0.158% held through financial instruments. During 2018, Blackrock Inc. informed the Spanish CNMV of the following movements regarding its voting rights in the Bank: 23 April 2018, reduction below 5%, and 8 May 2018, increase above 5%. However, according to the Bank's shareholder register, Blackrock, Inc did not hold more than 3% of the voting rights on that date, or on 31 December 2018.

b) Other considerations

The ordinary general meeting of shareholders of 7 April 2017 also agreed to delegate to the board of directors the broadest powers so that, within one year from the date of the meeting, it can indicate the date and set the conditions for a capital increase with the issuance of new shares, for an amount of EUR 500 million. The capital increase will have no value or effect if, within the period of one year, the board of directors does not exercise the powers delegated to it.

Likewise, the additional capital authorised by the ordinary general meeting of shareholders on 7 April 2017 is not more than 3,645,585,175 euros. The term available to the Bank's administrators to execute and carry out capital increases up to that limit ends on 7 April 2020. The agreement grants the board the power to totally or partially exclude the pre-emptive subscription right under the terms of article 506 of the Capital Companies Law, although this power is limited to 1,458,234,070 euros.

At 23 March 2018, the ordinary general meeting of shareholders also agreed to delegate to the board of directors the broadest power to execute the capital increase agreement adopted by the shareholders meeting and the authorization to the Board of directors to increase it.

At 31 December 2018 the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Grupo Financiero Santander México, S.A. de C.V.; Banco Santander - Chile; Cartera Mobiliaria, S.A., SICAV; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.) and Santander Consumer USA Holdings Inc.

At 31 December 2018 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 63 million shares, which represented 0.39% of the Bank's share capital. In addition, the number of Bank shares owned by third parties and received as security was 212 million shares (equal to 1.30% of the Bank's share capital).

At 31 December 2018 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.

28. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The reduction of EUR 74 million in 2016 is the result for the capital increases arising from the Santander Dividendo Elección scrip dividend scheme. The increase in the balance of Share premium in 2017 is the result of the capital increase of EUR 6,343 million approved on 3 July 2017 (See note 31.a) and the reduction of EUR 48 million is due the capital increases charge to reserve arising from the Santander Diviendo Elección program.

The decrease produced in 2018 is a consequence of the reduction of EUR 50 million to cope with the capital increase as a result of the Santander Dividendo Elección program.

Also, in 2018 and 2017 and 2016 an amount of EUR 10 million was transferred from the Share premium account to the Legal reserve (2017: EUR 154 million) (See note 25.b.i).

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 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 income statement.

b) Breakdown

The detail of Shareholders' Equity - Reserves at 31 December 2018 and 2017 is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Legal reserve	1,624	1,613	1,613
Voluntary reserve	6,275	7,085	7,087
Reserve for amortised capital	11	11	11
Reserve for treasury shares	901	1,029	1,029
Other reserves	(495)	(475)	43
	8,316	**9,263**	**9,783**

(*) See further detail Note 1.d and Note 1.i.

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve, These transfers must be made until the balance of this reserve reaches 20% of the share capital, The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2018 the Bank transferred EUR 10 million from the Share premium account to the Legal reserve (2017: EUR 154 million) (See Note 28).

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 2018 the Legal reserve was of the stipulated level.

ii. Voluntary Reserve

During year 2018 there was a decrease in voluntary reserves amounting to EUR 812 million; which corresponds to an increase of EUR 19 million for merger reserves (Note 1.i), a decrease of EUR 426 million for the interests of the PPCC (Note 21), a decrease of EUR 663 million for the corporate restructuring corporation in Mexico through an inverse merger between Banco Santander (México), SA Multiple Banking Institution as absorber of its parent company, Grupo Financiero Santander México, S.A.B. of C.V. (note 13.b) and with an increase of EUR 257 million for other items.

iii.Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law*, a restricted reserve has been* recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares plus the own treasury shares amount.

iv. Other reserves

During fiscal year 2018 there was a decrease in Other reserves due to the impact of the first application of Circular 4/2017 for an amount of 517 million euros.

30. Other equity instruments and own shares

a) Equity instruments issued not capital and other equity instruments

Other equity instruments includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration and other items not recognised in other Shareholders' equity items.

On July 13, 2017, Banco Santander and Banco Popular Español, S.A. (hereinafter, Banco Popular) reported that they had decided to launch a commercial action in order to retain retail customers of their networks affected by the resolution of Banco Popular (the "Loyalty Action").

Under the Loyalty Action, customers who meet certain conditions and have been affected by the resolution of Banco Popular could receive, without any payment on their part, negotiable securities issued by Banco Santander for a nominal amount equivalent to the investment in shares or in certain subordinated obligations of Banco Popular (with certain limits) of which they were holders at the date of Banco Popular resolution. To benefit from this action, it was necessary for the client to renounce legal actions against the Group.

The Loyalty Action would be carried out through the delivery to the customer of contingently redeemable perpetual obligations ("Loyalty Bonds") of Banco Santander, S.A. The Loyalty Bonds will accrue a coupon in cash, discretionary, non-cumulative, payable for past due quarters.

This issue was made by Banco Santander, S.A. on September 8, 2017 for a nominal amount of 981 million euros, fully subscribed by Banco Popular Español, S.A. As of December 31, 2018, the cost recorded in the Equity Instruments caption other than equity in the Bank's balance sheet amounts to 565 million euros (686 million euros as of December 31, 2017).

Loyalty Bonds are perpetual values; however, they may be fully amortized at the discretion of Banco Santander, S.A., with prior authorization from the European Central Bank, on any of the coupon payment dates, seven years after issuance.

b) *Own shares*

Shareholders' equity - Own shares includes the amount of own equity instruments held by 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.

On 21 October 2013 and 23 October 2014 the Bank's board of directors amended the regulation of its treasury share policy in order to take into account the criteria recommended by the CNMV, establishing limits on average daily purchase trading and time limits. Also, a maximum price per share was set for purchase orders and a minimum price per share for sale orders.

The Bank's shares owned by the consolidated companies accounted for 0.075% of issued share capital at 31 December 2018 (31 December 2017: 0.024%; 31 December 2016: 0.010%).

The average purchase price of the Bank's shares in 2018 was EUR 4.96 per share and the average selling price was EUR 4.98 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares was of EUR 80 millions of loss in 2018 (2017: EUR 22 million profit).

31. Memorandum items

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the consolidated entities although they may not impinge on their net assets.

a) *Guarantees and contingent and commitments*

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:

	Million of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Loans commitment granted	**72,208**	**68,164**	**62,233**
Available in lines of credit	*71,496*	*66,509*	*61,067*
Deposits in the future	*712*	*1,655*	*1,166*
Financial guarantees granted	**6,508**	***8,135***	***7,212***
Financial guarantees	-	-	-
Credit derivatives sold	*6,508*	*8,135*	*7,212*
Other commitments granted	**57,855**	***49,329***	**40,680**
Irrevocable documentary credits	*2,823*	*1,759*	*1,365*
Other guarantees and guarantees granted	*23,976*	*21,276*	*15,658*
Other	*31,056*	*26,294*	*23,837*
	136,571	**125,628**	**110,305**

(*) See further detail Note 1.d and Note 1.i.

The breakdown as at 31 December 2018 of the exposures and the provision fund (see note 23) out of balance sheet by impairment stage under Bank of Spain Circular 4/2017 is EUR 133,679 million and EUR 60 million in stage 1, EUR 1,897 million and EUR 28 million in stage 2 and EUR 994 million and EUR 175 million in stage 3, respectively. Additionally, the Bank had provisions for guarantees and commitments granted for an amount of EUR 195 and a doubtful exposure amounting to EUR 714 million, as at 31 December 2017.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include stand-by credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

The detail is as follows:

	Million of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Other commitments granted	**57,855**	**49,329**	**40,680**
Irrevocable documentary credits	2,823	1,759	1,365
Other guarantees and guarantees lent	23,976	21,276	15,658
Other commitments	31,056	26,294	23,837
Of which:			
Subscribed values pending disbursement	*4*	*12*	*12*
Conventional procurement contracts assets	*14,459*	*12,264*	*12,264*
Other contingent commitments	*16,593*	*14,018*	*11,561*

(*) See further detail Note 1.d and Note 1.i.

b) *Other information*

i. Assets advanced as collateral

At 31 December 2018 and 2017 there were certain assets owned by the Bank that secured transactions performed by it or by third parties, as well as various liabilities and contingent liabilities assumed by the Bank, with respect to which the transferee has the right, by contract or by custom, to transfer them again or to pledge them.

The carrying amount at 31 December 2018 and 2017 of the Bank's financial assets pledged as security for these liabilities, contingent liabilities and similar items was as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Financial assets held for trading (**)	13,819	21,212	21,212
Of which:			
Public debt Public Sector Agencies	*1,389*	*5,424*	*5,424*
Fix rent instruments	*8,333*	*8,634*	*8,634*
Equity instruments	*4,097*	*7,154*	*7,154*
Financial assets designated at fair value through profit or loss	5,332	3,812	3,812
Financial assets available-for-sale (***)			25,259
Financial assets at fair value through other comprehensive income	15,129	31,022	
Loans and receivables			3,532
Investments held to maturity			286
Financial assets at amortised cost	6,155	3,818	
	40,435	**59,864**	**54,101**

(*) See further detail Note 1.d and Note 1.i.

(**) The variation of the trading portfolio and financial assets at fair value with changes in other comprehensive income is mainly due to decrease in repo assignments.

32. Hedging derivatives

The Group, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This cover the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).

- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.

- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

The notional and fair values of the hedging instruments of Banco Santander, S.A. included in the heading of the hedge derivatives derivative balance sheet, as a function of the risk and the type of coverage, for assets and liabilities, as of December 31, 2018 are shown below:

	Million of euros				
	2018				
	Notional Value	**Carrying amount**		**Changes in fair value used for calculating hedge ineffectiveness**	**Balance sheet line items**
		Assets	Liabilities		
Fair value hedges:	**42,915**	**1,726**	**3,166**	**222**	
Interest rate risk	36,607	1,495	2,917	178	
Equity swap	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	34,945	1,484	2,766	268	*Hedging derivatives*
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Inflation swap	-	-	-	9	*Hedging derivatives*
Swaption	51	6	6	0	*Hedging derivatives*
Collar	-	-	-	-	*Hedging derivatives*
Floor	1,611	5	145	(99)	*Hedging derivatives*
Exchange rate risk	2,596	0	0	3	
Fx forward	2,596	0	0	3	*Hedging derivatives*
Interest rate and exchange rate risk	3,658	231	249	41	
Interest rate swap	3,250	227	248	4	*Hedging derivatives*
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	408	4	1	37	*Hedging derivatives*
Inflation risk	-	-	-	-	
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Credit risk	54	-	-	-	
CDS	54	-	-	-	*Hedging derivatives*
Cash flow hedges:	**8,092**	**119**	**67**	**109**	
Interest rate risk	8,092	119	67	109	
Fx forward	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	8,092	119	67	109	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Floor	-	-	-	-	*Hedging derivatives*
Exchange rate risk	-	-	-	-	
Future FX and c/v term FV	-	-	-	-	*Hedging derivatives*
FX forward	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Floor	-	-	-	-	*Hedging derivatives*
Deposits borrowed	-	-	-	-	*Deposits*
Interest rate and exchange rate risk	-	-	-	-	
Interest rate swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Inflation risk	-	-	-	-	
FX forward	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Equity risk	-	-	-	-	
Option	-	-	-	-	*Hedging derivatives*
Other risk	-	-	-	-	
Future FX and c/v term RF	-	-	-	-	*Hedging derivatives*
Hedges of net investments in foreign operations:	**20,746**	**263**	**273**	-	
Exchange rate risk	20,746	263	273	-	
FX forward	20,746	263	273	-	*Hedging derivatives*
	71,753	**2,108**	**3,506**	**331**	

Banco Santander, S.A. covers the risks of its balance sheet in a variety of ways. On the one hand, documented as fair value hedges, it covers the interest rate, foreign currency and credit risk of fixed-income portfolios at a fixed rate (REPOs are included in this category). Resulting, in an exposure to changes in their fair value due to variations in market conditions based on the various risks hedged, which has an impact on the Bank's income statement. To mitigate these risks, the Bank contracts derivatives, mainly Interest rate Swaps, Cap&Floors, Forex Forward and Credit Default Swaps. On the other hand, the interest and exchange rate risk of loans granted to corporate clients at a fixed rate is generally covered. These coverages, are carried out through Interest Rate Swaps and Cross Currency Swaps.

In addition, the Bank manages the interest and exchange risk of debt issues in their various categories (issuing covered bonds, perpetual, subordinated and senior bond) and in different currencies, denominated at fixed rates, and therefore subject to changes in their fair value. These issues are covered through Interest Rate Swaps and Cross Currency Swaps.

The Bank's methodology for measuring the effectiveness of this type of coverage is based on comparing the markets value of the hedged items (based on the objective risk of the hedge) and of the hedging instruments in order to analyse whether the changes in the market value of the hedged items are offset by the market value of the hedging instruments, thereby mitigating the hedged risk. Prospectively, the same analysis is performed, measuring the theoretical market values in the event of parallel variations in the market curves of a positive basis point.

Finally, the Bank also manages and hedges the interest rate risk of its mortgage portfolio and various variable rate issues in cash flow hedges, which hedge the exposure of flows due to the risk of variations in interest curves, which may have an impact on the income statement. These hedges are made through mainly Interest Rate Swaps.

The hypothetical derivative methodology is used to measure the effectiveness of these cash flow hedges, in order to determine the level of risk compensation based on the comparison of the discounted net cash flows of the hedging instruments and the hedged items.

Regarding net foreign investments hedges, basically, Banco Santander S.A. assumes, as a priority objective in risk management, to minimize – up to a determined limit set up by the responsible for the financial management of the Group- the impact on the calculation of the capital ratio of their permanent investments included within the consolidation perimeter of the Group, and whose shares are legally named in a different currency than the holding has. For this purpose, financial instruments (generally derivatives) on exchange rates are hired, that allow mitigating the impact on the capital ratio of changes in the forward exchange rate. The Group hedges the risk, mainly, for the following currencies: BRL, CLP, MXN, CAD, COP, CNY, GBP, CHF, NOK, USD and PLN. The instruments used to hedge the risk of these investments are Forex Swaps, Forex Forward and buys/sells of spot currencies.

Aditionally, the profile information of maturities and the price/average rate for Banco Santander, S.A. is shown:

	31 de December de 2018					
	Millions of euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**541**	**2,951**	**1,316**	**15,121**	**22,986**	**42,915**
Interest rate risk						
Interest rate instruments						
Nominal	500	665	425	12,987	22,030	36,607
Average fixed interest rate (%) GBP	-	-	-	-	*7.08*	
Average fixed interest rate (%) EUR	*3.75*	*0.63*	*2.06*	*1.81*	*3.20*	
Average fixed interest rate (%) CHF	-	-		*0.76*	*1.04*	
Average fixed interest rate (%) USD	-	-	*1.38*	*3.43*	*4.11*	
Exchange rate risk						
Exchange rate instruments						
Nominal	-	*1.825*	*771*	-	-	*2.596*
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	41	461	120	2.085	951	3.658
Average fixed interest rate (%) AUD/EUR	-	-	-	*4.00*	*4.80*	
Average fixed interest rate (%) CZK/EUR	-	-	-	*0.86*	-	
Average fixed interest rate (%) EUR/COP	-	-	*7.54*	-	-	
Average fixed interest rate (%) HKD/EUR	-	-	-	*2.52*	-	
Average fixed interest rate (%) JPY/EUR	-	-	-	*0.64*	*1.28*	
Average fixed interest rate (%) NOK/EUR	-	-	-	-	*3.61*	
Average fixed interest rate (%) USD/COP	*6.13*	*6.71*	-	*9.47*	-	
Average AUD/EUR exchange rate	-	-	-	*1.50*	*1.50*	
Average CZK/EUR exchange rate	-	-	-	*25.41*	*26.03*	
Average EUR/GBP exchange rate	-	*1.15*	-	-	-	
Average EUR/COP exchange rate	-	-	-	-	-	
Average EUR/MXN exchange rate	-	-	-	-	-	
Average HKD/EUR exchange rate	-	-	-	*8.72*	-	
Average JPY/EUR exchange rate	-	-	-	*132.01*	*125.88*	-
Average MXN/EUR exchange rate	-	-	-	*14.70*		-
Average NOK/EUR exchange rate	-	-	-	-	*9.61*	-
Average USD/BRL exchange rate	-	-	*0.27*	-	-	-
Average USD/COP exchange rate	-	-	-	-	-	-
Credit rate risk						
Credit risk instruments						
Nominal	-	-	-	49	5	54
Cash flow hedges	**1,942**	-	-	**6,130**	**20**	**8,092**
Interest rate risk						
Interest rate instruments						
Nominal	1,942	-	-	6,130	20	8,092
Average fixed interest rate (%) EUR	-	-	-	0.51	0.55	
Hedges of net investments in foreign operations	**373**	**497**	**10,587**	**9,289**	-	**20,746**
Exchange rate risk						
Exchange rate instruments						
Nominal	373	497	10,587	9,289	-	20,746
Average BRL/EUR exchange rate	*4.46*	-	*4.46*	*4.73*	-	
Average CLP/EUR exchange rate	-	*766.01*	*768.25*	*795.10*	-	
Average CNY/EUR exchange rate	-	-	*8.14*	-	-	
Average COP/EUR exchange rate	-	*3.728,01*	*3.685.80*	-	-	
Average GBP/EUR exchange rate	-	*0.91*	*0.89*	-	-	
Average MXN/EUR exchange rate	*22.98*	-	*24.51*	*24.50*	-	
Average PLN/EUR exchange rate	-	-	*4.38*	*4.26*	-	
Total	**2,856**	**3,448**	**11,903**	**30,540**	**23,006**	**71,753**

The following table contains details of the hedged exposures covered by Banco Santander, S.A. hedging strategies of 31 December 2018:

	31 December 2018 Million of euros							
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item	Change in fair value of hedged ítem for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities	Assets
Fair value hedges	**8,285**	**20,789**	**768**	**(820)**		**(250)**	-	-
Interest rate risk	**4,236**	**18,154**	**762**	**(798)**		**(215)**	-	-
Deposits	1,411	-	277	-	Deposits	(52)	-	-
Bond	1,197	18,154	459	(798)	Bond	(172)	-	-
Repo	1,627	-	25	-	Repo	8	-	-
Loans of securities	1	-	1	-	Loan of securities	1	-	-
Exchange rate risk	**3,378**	-	**5**	-		**(3)**	-	-
Deposits	1,614	-	9	-	Deposits	8	-	-
Bonds	1,764	-	(4)	-	Bond	(11)	-	-
Interest and Exchange rate risk	**617**	**2,635**	**1**	**(22)**		**(32)**	-	-
Borrowed deposits	183	-	-	-	Deposits	(2)	-	-
Bonds	0	2,536	-	(22)	Bonds	(31)	-	-
Repos	434	99	1	-	Repo	1	-	-
Credit risk	**54**	-	-	-		-	-	-
Bonds	54	-	-	-	Bond	-	-	-
Net foreign investments hedges	-	-	-	-		**(55)**	**55**	**(2)**
Interest rate risk	-	-	-	-		**(55)**	**55**	**(2)**
Deposits	-	-	-	-	Deposits	(27)	27	-
Bond	-	-	-	-	Bond	(28)	28	(2)
Exchange rate risk	-	-	-	-		-	-	-
	8,285	**20,789**	**768**	**(820)**		**(350)**	**55**	**(2)**

The cumulative amount of adjustments of the fair value hedging instruments that remain in the balance for covered items that are no longer adjusted by profit and loss of coverage as of 31 December 2018 is EUR 6 million euros.

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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 2018:

	31 December 2018				
	EUR million				
	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income
Fair value hedges	-	**(28)**		-	
Interest rate risk	-	(37)		-	
Deposits	-	(22)	Gains or losses of financial assets/liabilities	-	
Bond	-	(15)	Gains or losses of financial assets/liabilities	-	
Interest and Exchange rate risk	-	**9**		-	
Deposits	-	2	Gains or losses of financial assets/liabilities	-	
Bond	-	7	Gains or losses of financial assets/liabilities	-	
Cash flow hedges	**109**	-		**16**	
Interest rate risk	109	-		16	Interest margin
Deposits	27	-	Gains or losses of financial assets/liabilities	17	Interest margin
Bond	26	-	Gains or losses of financial assets/liabilities	(1)	
Credit facilities	56	-	Gains or losses of financial assets/liabilities	-	
	109	**(28)**		**16**	

The following table shows a reconciliation of each component of equity and an analysis of other comprehensive income in relation to hedge accounting for Banco Santander, S,A,:

	Millions of euros
	2018
Balance at end of prior year	-
Merger effect (*)	**(55)**
Balance at beginning of year	(55)
Cash flow hedges	
Risks of interest rate	***109***
Deposits	*27*
Asset bonds	*26*
Liquidity lines	*56*
Taxes	(17)
Balance at end of year	**37**

(*) See further detail Note 1,d and Note 1,i,

33. Off-balance-sheet funds under management

At 31 December 2018, the Bank held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 64,288 million (31 December 2017: EUR 66,912 million), Also, at 31 December 2018, the funds marketed but not held under management amounted to EUR 27,394 million (31 December 2017: EUR 12,522 million).

The reduction in unmanaged commercialized resources and as a counterpart the increase in resources managed off-balance sheet is mainly due to the acquisition on December 22, 2017 by SAM UK Investment Holding Limited (wholly-owned subsidiary of Banco Santander, SA), of 50% of Santander Asset Management, with the Santander Group achieving control of 100% of this entity's business at the end of 2017.

34. Interest income

Interest and similar income in the accompanying income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value, and the rectifications of income as a result of hedge accounting, Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Debt instruments		
Central Banks	11	12
Public sector	739	756
Credit entities	425	397
Other financial companies	263	243
Non-financial companies	92	26
	1,530	**1,434**
Loans and advances		
Central Banks	80	49
Public sector	241	166
Credit entities	341	239
Other financial companies	302	285
Non-financial companies	2,399	1,770
Households	1,801	1,064
	5,164	**3,573**
Other assets		
Of which: Insurance contracts linked to pensions (Note 23,c)	*35*	*35*
	151	**84**
Deposits		
Central Banks	360	110
Public sector	-	1
Credit entities	138	136
Other financial companies	18	29
Non-financial companies	3	2
Households	0	-
	519	**278**
Hedging derivatives - Interest rate risk	**(3)**	**81**
Other financial liabilities	**7**	**-**
Debt securities issued	**13**	**10**
	7,381	**5,460**

Most of the interest and similar income was generated by the Bank's financial assets that are measured either at amortised cost or at fair value through Other comprehensive income.

35. Interest expense

Interest expense and similar charges in the accompanying income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Debt securities Issued	**1,363**	**1,153**
Debt securities		
Central Banks	-	-
Public sector	23	20
Credit entities	4	2
Other financial companies	8	-
Non-financial companies	-	-
	35	**22**
Loans and advances		
Central Banks	139	64
Public sector	8	10
Credit entities	121	95
Other financial companies	45	58
Non-financial companies	5	1
Households	-	-
	318	**228**
Deposits		
Central Banks	224	117
Public sector	118	142
Credit entities	625	337
Other financial companies	336	374
Non-financial companies	142	140
Households	490	515
	1,935	**1,625**
Other financial liabilities	**153**	**111**
Hedging derivatives - Interest rate risk	**(63)**	**(33)**
Pensions and other obligations of defined post-employment benefits (Note 23)	**91**	**97**
Others	**28**	**-**
	3,860	**3,203**

Most of the interest expense and similar charges was generated by the Bank's financial liabilities that are measured at amortised cost.

36. Dividend income

Dividend income includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of income from equity instruments is as follows:

	Millions of euros	
	2018 (*)	2017
Financial assets held for trading	232	237
Of which:		
Spain	*120*	*128*
Rest of Europe	*109*	*104*
America	*3*	*5*
Rest of the world	*-*	*-*
Non-trading financial assets mandatorily at fair value through profit or loss	5	
Financial assets available-for-sale		36
Financial assets at fair value through other comprehensive income	42	
Investments in subsidiaries, jointly controlled entities and associates	3,872	3,320
Group entities	*3,611*	*3,123*
Associates	*261*	*197*
	4,151	**3,593**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognised in 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Grupo Financiero Santander México, S.A.B. de C.V.	298	365
Sterrebeeck B.V.	350	790
Santander Consumer Finance, S.A.	-	380
Santander Holding USA	352	-
Santander Financial Exchanges Limited	-	463
Santander UK Group Holdings Plc.	977	487
Santusa Factoring y Confirming, S.A., E.F.C	350	-
Santander Totta, SGPS, S.A.	61	63
Banco Santander (Brasil) S.A.	211	225
Bank Zachodni WBK S.A. (actualmente Santander Bank Polska S.A.)	49	89
Santander Holding Internacional, S.A.	101	-
Santander Investment Services S.A. (actualmente Santander Investment S.A.)	63	-
Zurich Insurance América, S.L. (actualmente Zurich Santander Insurance America, S.L.)	175	171
SAM UK Investment Holding Limited	517	-
Fomento e Inversiones, S.A.U	-	71
Santander Chile Holding, S.A.	45	35
Banco Santander, S.A. (Uruguay)	36	28
Ingeniería de Software Bancario, S.L.	26	-
Allianz Popular, S.L.	52	-
WiZink Bank, S.A.	40	-
Socur, S.A.	24	-
Otras sociedades	145	153
	3,872	**3,320**

37. Commission income

Fee and commission income comprises the amount of all fees and commissions accruing in favour of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission income in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Collection and payment services:		
Bills	53	21
Demand accounts	287	219
Cards	280	250
Cheques	16	12
Direct debit and payroll orders	37	24
Transfers, drafts and other payment orders	88	60
	761	**586**
Marketing of non-banking financial products:		
Collective Investment	399	396
Insurance	227	206
Other	-	3
	626	**605**
Securities services:		
Securities underwriting and placement	114	136
Transfer orders	2	-
Other	4	4
	120	**140**
Clearing and settlement	**68**	**32**
Asset management	**59**	**39**
Custody	**63**	**55**
Structured finance	**226**	**200**
Loan granted commitments granted	**162**	**127**
Financial granted guarantees granted	**234**	**190**
Other:		
Foreign currency exchange	81	56
Documentary credits	25	22
Other concepts	428	230
	534	**308**
	2,853	**2,282**

38. Commission expense

Fee and commission expense shows the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Clearing and settlement	85	70
Loan commitments received	21	10
Financial guarantees received	90	39
Custody	3	-
Other (*)	240	191
	439	**310**

(*) 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 2018 and 2017 is as follows:

	2018 (*)	2017
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net (Bank of Spain Circular 4/2017)	**516**	
Financial assets at amortized cost	12	
Other financial assets and liabilities	504	
Of which: debt instruments	499	
Of which: equity instruments	-	
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net (Bank of Spain Circular 4/2004)		*367*
Of which financial assets available for sale		*348*
Of which: debt instruments		*348*
Of which: equity instruments		-
Gains or losses on financial assets and liabilities held for trading, net (**)	74	348
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	(61)	
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net (**)	2	(32)
Gains or losses from hedge accounting, net	(28)	(11)
	503	**672**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

(**) Includes the net result obtained by operations with debt securities, equity instruments, derivatives and short positions included in this portfolio when the Group jointly manages its risk in these instruments.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Loans and receivables	42,896	31,264	34,043
Central Banks	103	-	-
Credit institutions	17,538	5,949	11,243
Customers	25,255	25,315	22,800
Debt instruments (**)	12,501	15,793	15,242
Equity instruments	8,868	10,255	10,168
Derivatives	51,637	39,876	38,894
	115,902	**97,188**	**98,347**

(*) See further detail Note 1.d and Note 1.i.

(**) Include EUR 7,622 million related to Spanish and foreign government debt securities at 31 December 2018 (31 December 2017 EUR 11,129 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2018 and 2017, respectively, The Bank mitigates and reduces this exposure as follows.

With respect to derivatives, the Bank has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment, The Bank also applies a risk premium accrual policy for derivatives arranged with customers.

Loans and receivable to credit institutions and loans and receivable to customers included reverse repos amounting to EUR 28,641 million at 31 December 2018 (31 December 2017 EUR 23,347 million).

In addition, assets amounting to EUR 1,337 million have a mortgage guarantee at 31 December 2018 (EUR 1,262 million at 31 December 2017).

At 31 December 2018 the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

	Millions of euros		
	31/12/2018	01/01/2018(*)	31/12/2017
Deposits	35,079	31,721	32,313
Central Banks	12,377	7,913	7,913
Credit Institutions (**)	8,772	14,616	15,209
Customers (**)	13,930	9,192	9,192
Short positions	6,323	8,718	8,718
Derivatives	51,698	40,286	39,234
	93,100	**80,725**	**80,266**

(*) See further detail Note 1.d and Note 1.i.

(**) The variation in financial liabilities at fair value with credit institutions is due to a decrease in temporary asset transfers (CTA) during fiscal year 2018, In addition, customers' balances have raised due to an increase in balance of deposits taken with other financial companies.

At 31 December 2018, 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

The detail of Exchange differences (net) in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
Net gains/losses on:	2018	2017
Foreign currency purchases and sales	135	463
Translation of monetary items to the functional currency	(184)	(708)
	(49)	**(245)**

The Bank manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/losses on financial assets and liabilities (see Note 39).

41. Other operating income and other operating expenses

The detail of Other operating income in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Exploitation of investment property and operating leases	171	155
Commissions on financial instruments offsetting related direct costs	60	47
Sales and other income from the provision of non-financial services	8	12
Other (*)	219	88
	458	**302**

(*) The "Other" line mainly includes fees charged for expenses passed on to Group entities.

The detail of Other operating expenses in the income statements is as follows:

	Millions of euros	
	2018	2017
Contribution to Deposit Guarantee Fund (Note 1.h)	(224)	(154)
Contribution to Resolution Fund (*) (Note 1.h)	(237)	(181)
Other operating expenses	(180)	(171)
	(641)	**(506)**

(*) Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund.

42. Staff costs

a) Breakdown

The detail of Staff costs in 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Wages and salaries	2,045	1,511
Social security costs	430	299
Additions to provisions for defined benefit pension plans (Note 23)	18	11
Contributions to defined contribution pension funds (Note 23)	82	74
Equity-instrument-based remuneration	6	5
Other staff costs	236	209
	2,817	**2,109**

b) Headcount

The average number of employees at the Bank, by professional category, is as follows:

	Average number of employees	
	31/12/2018	31/12/2017
Executive and Senior management	22	22
Other line personnel	30,399	21,369
Staff at branches abroad	615	469
	31,036	**21,860**

The number of employees, at the end of 2018 and 2017 was 30,901 and 21,755 respectively, of which 30,106 employees correspond to employees of the Bank as of December 31, 2018, without considering the branches abroad.

The functional breakdown, by gender, at 31 December 2018 is as follows:

	Breakdown by gender			
	Executives		Other line personnel	
	Men	Women	Men	Women
Breakdown by gender	76%	24%	54%	46%

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, 2018 and 2017, is as follows:

	31/12/2018	31/12/2017
Senior management (**)	-	-
Other management	22	18
Other staff	282	193
	304	**211**

The average number of Bank employees with disabilities greater than or equal to 33%, at the end of 2018 and 2017 fiscal years, was 241 and 209, respectively.

c) *Share-based payments*

The main share-based payments granted by the Group in force at 31 December, 2018, 2017 and 2016 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 conditional delivery share plan; (ii) deferred conditional variable remuneration plan, (iii) performance share plan and (iv) Deferred variable compensation plan linked to multiannual objectives. The characteristics of the plans are set forth below:

Deferred variable remuneration systems	Description	Plan`s beneficiaries	Conditions	Calculation Base
(i) Deferred and conditional variable remuneration plan (2013)	The purpose of this plan is to defer a portion of the variable remuneration of the beneficiaries over a period of three years for it to be paid in Santander shares.	Group executives or employees whose variable remuneration or annual bonus for 2013 exceeded, in general, EUR 0.3 million (gross)	In addition to that of the beneficiary remaining in the Group's employ, that none of the following circumstances should occur in the period prior to each 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 risk profile.	The amount in shares is calculated based on the tranches of the following scale: - 300 thousands euros or less 0% deferred - 300 to 600 thousands euros 20% deferred - More than 600 thousands euros 30% deferred. Deferral period: 3 years.
(ii) Deferred conditional variable remuneration plan (2013, 2014, 2015, 2016, 2017 and 2018)	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 third (2013), fourth (2014), sixth (2016) cycles, and over three or five years for the fifth (2015), seventh (2017) and eight (2018) 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.	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, fourth and third cycle) In the case of the seventh, sixth and eight cycle, the beneficiaries are Material Risk Takers (Identified staff) that are not beneficiaries of the Deferred Multiyear Objectives Variable Remuneration Plan.	For the third, fourth, fifth and sixth cycles (2013 to 2016), the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations upon none of the following circumstances existing during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: (i) Poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or (iv) Significant changes in the Group's economic capital or risk profile	Third cycle (2013), 3 years deferral: - Executive directors: 40% and 60% immediate and deferred payments, respectively. - Division directors and other executives of the Group with a similar profile: 50% and 50% immediate and deferred payments, respectively. - Other Executives part of the Identified Staff: 40% and 60%, immediate and deferred payments, respectively. Fourth and fifth cycles (2014 and 2015, respectively): - Executive directors and members of the Identified Staff with total variable remuneration higher than 2.6 million euros: 40% paid immediately and 60% deferred over 5 years (3 years in fourth 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 over5 years (3 years in fourth cycle) - Other beneficiaries: 60% paid immediately and 40% deferred over 3 years.

Deferred variable remuneration systems	Description	Plan`s beneficiaries	Conditions	Calculation Base
			In the case of the seventh and eight cycles (2017 and 2018), the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered: (i) significant failures in risk management committed by the entity , or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) Regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and (iv) Irregular behaviours, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions. Paid half in cash and half in shares	Sixth cycle (2016): - 60% of bonus will be paid immediately and 40% deferred over a three year period. Seventh and eight cycle (2017 and 2018): - Executive Directors and members of identified staff with target total variable remuneration higher or equal to 2.7 million euros: 40% paid immediately and 60% deferred over 5 years - Executive Directors and members of identified staff with total Variable remuneration between 1.7 million euros and 2.7 million euros: 50% paid immediately and 50% paid over 5 years - Other beneficiaries: 60% paid immediately and 40% deferred over 3 years.

Deferred variable remuneration systems	Description	Plan`s beneficiaries	Conditions	Calculation Base
(iii) Performance share plan (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 (2015) 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.	Executive Directors and senior managers Other Material Risk Takers or Identified Staff Other beneficiaries in the case only of the second cycle.	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 during the period prior to each of the: (i) Poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or risk profile For the second cycle (2015), based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.	First cycle (2014): - Relative Total Shareholder Return (TSR) measured against a group of 15 comparable institutions (the "peer group") in the periods 2014-2015; 2014-2016; and 2014-2017 Second cycle (2015), the basis of calculation is the fulfilment of the following objectives: - Relative performance of the earning per share growth (EPS) growth of the Santander Group for the 2015-2017 period compared to a peer group of 17 credit institutions. - ROTE of the Santander Group for financial year 2017 - Employee satisfaction, measured by whether or not the corresponding Group company is included in the "Top 3" of the best banks to work for. - number of principal markets in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017 - retail loyal clients - SME and corporate loyal clients

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Deferred variable remuneration systems	Description	Plan`s beneficiaries	Conditions	Calculation Base
(iv) Deferred Multiyear Objectives Variable Remuneration Plan (2016, 2017 and 2018)	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.	Executive directors, senior management and certain executives of the most relevant roles in the Group.	In 2016 (first cycle), the accrual is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations that none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: (i) Poor performance of the Group; (ii) breach by the beneficiary of the internal regulations, including in particular that relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when appropriate under a change in accounting regulations; Or (iv) Significant changes in the Group's economic capital or risk profile. In 2017 and 2018 (second and third cycles), the accrual is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: (i) Significant failures in risk management committed by the entity, or by a business unit or risk control unit; (ii) the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; (iii) Regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and	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 contries 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 and third cycles (2017 and 2018, respectively) are under the same deferral rules, save for the variable remuneration considered is target and not the actual award. In 2016 the metrics for the deferred portion subject to long-term objectives are: - Earning per share (EPS) growth in 2018 over 2015. - Relative Total Shareholder Return (TSR) 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 2017 (second cycle) and 2018 (third cycle) the metrics for the deferred portion subject to long-term objectives are: - EPS growth in 2019 over 2016 and in 2020 over 2017, for each respective cycle - Relative Total Shareholder Return (TSR) measured against a group of 17 credit institutions.in the periods 2017-2019 and 2018.-2019, respectively. - Compliance with the fully-loaded common equity tier 1 (“CET1”) ratio target for financial years 2019 and 2020, respectively.

Deferred variable remuneration systems	Description	Plan`s beneficiaries	Conditions	Calculation Base
			(iv) Irregular behaviours, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions. Paid half in cash and half in shares. The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank.	

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 thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons (**)	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/16	**24,762**						
Options granted (Sharesave)	17,296	4,91	2016	Employments	7,024	01/11/16 01/11/16	01/11/19 01/11/21
Options exercised	(338)	3,67					
Options cancelled (net) or not exercised	(12,804)	3,51					
Plans outstanding at 31/12/16	**28,916**						
Options granted (Sharesave)	3,916	4.02	2017	Employments	4.260	01/11/17 01/11717	01/11/20 01/11/22
Options exercised	(1,918)	3.77					
Options cancelled (net) or not exercised	(3,713)	3.40					
Plans outstanding at 31/12/17	**27,201**		2018	Employments	4,880	01/11/18	01/11/21
Options granted (Sharesave)	6,210	3.46				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 31/12/18	**26,838**						

(*) At December 31, 2018, 2017, 2016 and 2015, the euro/pound sterling exchange rate was EUR 1.11790 GBP 1; EUR 1.12710 GBP 1, EUR 1.16798 GBP 1 and EUR 1.36249 GBP 1, respectively.

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme in 2016, 2017 and 2018 see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on 21 June 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 19 June, 2009, 11 June, 2010, 17 June, 2011, 28 March, 2012, 22 March, 2013, 28 March, 2014, 27 March, 2015, 18 March, 2016, 7 April, 2017, and 23 March, 2018, 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 2016, 2017 and 2018:

The fair value of the plan has been determined, at the grant date, based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2016, 2017 and 2018 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) 2015 *Performance share* plan:

The fair value of this plan was calculated at the grant date based on a valuation report by an independent expert. On the basis of the design of the plan for 2015 and the levels of achievement of similar plans at comparable entities, the expert concluded that the reasonable range for estimating the initial achievement coefficient was approximately 60% to 80% and, accordingly, the fair value was considered to be 70% of the maximum. Therefore, as the maximum level was determined as being 91.50%, the fair value is 64.05% of the maximum amount.

c) *Performance share* plans 2014:

It was assumed that the beneficiaries will not leave the Group's employ during the term of each plan.

The fair value of the Bank's relative TSR position was calculated, on the grant date, on the basis of the report of an independent expert whose assessment was carried out using a Monte Carlo valuation model to perform 10,000 simulations to determine the TSR of each of the companies in the benchmark group, taking into account the variables set forth below. The results (each of which represents the delivery of a number of shares) are classified in decreasing order by calculating the weighted average and discounting the amount at the risk-free interest rate.

	PI14
Expected volatility (*)	51.35%
Annual dividend yield based on last few years	6.06%
Risk-free interest rate (Treasury Bond yield (zero coupon) over the period of the plan)	4.073%

(*) Calculated on the basis of historical volatility over the corresponding period (three years).

The application of the simulation model resulted in a percentage value of 55.39% for Plan I-14. Since this valuation refers to a market condition, it cannot be adjusted after the grant date.

d) Santander UK *Sharesave* plans:

The fair value of each option granted by Santander UK was estimated at the grant date using a European/American Partial Differential Equation model with the following assumptions:

	2018	2017	2016
Risk-free interest rate		0.89%-1.08%	0.31%-0.41%
Dividend increase		5.48%-5.51%	5.92%-6.21%
Volatility of underlying shares based on historical volatility over five years		26.16%-26.31%	31.39%-32.00%
Expected life of options granted		3 and 5 years	3 and 5 years

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43. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Technology and systems	601	479
Fixtures and supplies	688	535
Other administrative expenses	722	482
Technical reports	179	144
Advertising	108	136
Per diems and travel expenses	59	41
Surveillance and cash courier services	61	42
Communications	45	15
Taxes other than income tax	176	65
Insurance premiums	16	12
	2,655	**1,951**

b) Technical reports and other

Technical reports include the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows (amounts corresponding to PwC in 2018 and 2017):

	Millions of euros	
	2018 (*)	2017
Audit fees	90.0	88.1
Audit-related fees	6.5	6.7
Tax fees	0.9	1.3
All other fees	3.4	3.1
Total	**100.8**	**99.2**

(*) From which corresponding to Banco Santander, S.A., 28.0 million euros, 2.1 million euros, 0.1 million euros and 0.5 million euros, respectively, (25.9 million euros, 1.9 million euros, 0.0 million euros and 0.9 million euros, respectively at 31 December 2017, including the amounts corresponding to Banco Popular, in order to facilitate comparability)

The Audit fees heading includes 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 20-F Form 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 June 30 and limited quarterly consolidated reviews for the Brazilian regulator as of March 31, June 30 and September 30 and the regulatory reports required by the auditor corresponding to the different locations of the Santander Group,

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, Securitization.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB), applicable to the Group, and they did not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 173,9 million in 2018 (2017: EUR 115,6 million)

The "Audit fees" caption includes the fees corresponding to the audit of the year, regardless of the date of conclusion of the same. In case of subsequent adjustments to them, which in any case are not significant, in order to facilitate the comparison, they are presented in this note in the year to which the audit corresponds. The rest of the services are presented

c) *Number of offices*

The number of offices at December 2018 and 2017, is as follow:

Number of offices	Group	
	31/12/2018	31/12/2017
Spain(*)	4,427	4,681
International	8,790	9,016
	13,217	**13,697**

(*) Of which belong to Banco Santander, S.A. 4,174 offices at 31 December 2017. Included 1,426 of Grupo Banco Popular.

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates and of non-financial assets, net

The detail of Impairment losses on other assets (net) in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Investments in subsidiaries, joint ventures and associates (Note 13)	(79)	273
	(79)	**273**

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 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
On disposal of tangible assets	6	13
On disposal of investments in subsidiaries, jointly controlled entities and associates	62	559
Of which (Note 13.b.i.i):		
Wizink Bank, S.A.	*38*	
Bansamex S.A.	*5*	-
Metrovacesa S.A.	*(6)*	
Capital reductions and refunds of share premium by subsidiaries	-	*551*
	68	**572**

46. Gains or losses on non-current assets held for sale classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the accompanying income statements for 2018 and 2017 is as follows:

	Millions of euros	
	2018	2017
Impairment of non-current assets held for sale (Note 12)	(39)	(100)
Gain / (loss) on disposal	21	5
	(18)	**(95)**

47. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2018, distinguishing between subsidiaries, associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties, Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

	Millions of euros			
	Subsidiaries, associates and jointly controlled entities	Members of the board of directors (*)	Executive vice presidents (*)	Other related parties (*)
Assets	**143,833**	**-**	**30**	**256**
Equity instruments	81,758	-	-	-
Debt instruments	15,440	-	-	-
Loans and advances	46,635	-	30	256
From which: impaired financial assets	7	-	-	-
Liabilities	**16,014**	**19**	**12**	**356**
Deposits credit institution and clients	16,014	19	12	356
Marketable debt securities	-	-	-	0
Income statement	**5,785**	**-**	**-**	**33**
Interest and similar income	1,009	-	-	14
Interest expense and similar charges	321	-	-	1
Interest from equity instruments	3,744	-	-	-
Gains / (Losses) on financial instruments and other	(15)	-	-	-
Fee and commission income	628	-	-	18
Fee and commission expense	98	-	-	-
Other	**360,410**	**2**	**2**	**3,932**
Contingent liabilities	10,642	1	2	443
Contingent commitments	3,923	-	-	3,279
Financial instruments - derivatives	345,845	1	-	210

(*) Includes transactions performed both with the Bank and with other Group entities.

Additionally, the above-mentioned breakdown shows pension insurance contracts with Group insurance companies amounting to 1,445 million euros as of December 31, 2018 (1,494 million euros as of December 31, 2017).

48. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the balance sheets as at 31 December 2018 and 2017 is as follows:

	31 December 2018 (*)							
	EUR million							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to5 years	More than 5 years	Total	
Assets:								
Cash, cash balances at Central Banks and other deposits on demand	51,931	-	-	-	-	-	51,931	(0.21%)
Financial assets at fair value through other comprehensive income								
Debt instruments	-	758	755	5,280	1,970	23,978	32,741	1.53%
Financial assets at amortised cost	-	106	135	182	1,145	22,804	24,372	2.53%
Debt instruments								
Loans and advances	-	20	-	14	12	-	46	0.00%
Central banks and credit institutions	11,930	2,667	4,885	8,025	8,195	154	35,856	0.06%
Customers deposits	15,324	15,330	14,510	39,402	53,783	98,320	236,669	2.13%
	79,185	**18,881**	**20,285**	**52,903**	**65,105**	**145,256**	**381,615**	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits								
Central banks	226	2,042	1,440	-	44,811	-	48,519	(0.40%)
Credit institutions	24,823	12,893	6,988	6,195	3,709	1,275	55,883	0.63%
Customer deposits	190,204	8,655	7,330	21,042	12,690	772	240,693	0.17%
Marketable debt securities	-	3,689	5,824	5,735	26,174	35,673	77,095	1.99%
Other financial liabilities	2,163	-	3,018	2,029	483	777	8,470	n/a
	217,416	**27,279**	**24,600**	**35,001**	**87,867**	**38,496**	**430,659**	
Difference (assets less liabilities)	**(138,231)**	**(8,398)**	**(4,315)**	**17,902**	**(22,762)**	**106,760**	**(49,044)**	

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

	31 December 2017							
	Millions of euros							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	
Assets:								
Cash and balances with central banks and deposits on demand	33,734	-	-	-	-	-	33,734	(0.40)%
Available-for-sale financial assets								
Debt instruments	-	474	462	630	6,754	23,626	31,946	2.08%
Loans and receivables								
Debt instruments	-	163	188	87	1,157	11,897	13,492	0.82%
Loans and advances	20,132	16,519	26,452	26,945	36,734	79,744	206,527	1.94%
Credit institution and central banks	8,961	*3,252*	*3,260*	*10,715*	*4,472*	*1,053*	*31,713*	*0.66%*
Customers	*11,171*	*13,267*	*23,192*	*16,230*	*32,262*	*78,692*	*174,814*	*2.17%*
Investment held-to-maturity investments								
Debt instruments	-	-	-	1,892	-	-	1,892	0.41%
	53,866	**17,156**	**27,102**	**29,554**	**44,645**	**115,268**	**287,591**	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits	178,472	19,906	11,528	19,590	33,762	1,324	264,582	0.51%
Credit institution and central banks	*28,123*	15,637	6,160	8,220	25,588	1,296	85,024	0.37%
Customers	*150,349*	4,269	5,368	11,370	8,174	28	179,558	0.58%
Marketable debt securities	-	3,703	1,307	1,986	17,588	28,474	53,058	2.11%
Other financial liabilities	3,362	6	1,951	570	1,286	2,205	9,380	n/a
	181,834	**23,615**	**14,786**	**22,146**	**52,636**	**32,003**	**327,020**	
Difference (assets less liabilities)	**(127,968)**	**(6,459)**	**12,316**	**7,408**	**(7,991)**	**83,265**	**(39,429)**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the balance sheets as at 31 December 2018 and 2017, based on the nature of the related items, is as follows:

	Equivalent value in EUR million	
	2018 (*)	2017
Assets		
Cash and balances at central banks and other deposits on demand	7,554	6,145
Financial assets held for trading	27,969	17,036
Non-trading financial assets mandatorily at fair value through profit or loss	1,779	
Financial assets designated at fair value through profit or loss	16,511	2,052
Financial assets available-for-sale		2,501
Financial assets at fair value through other comprehensive income	4,477	
Loans and receivables		35,391
Financial assets at amortised cost	50,781	
Investments held to maturity		-
Hedging derivatives	410	214
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
Investments	41,520	41,685
Tangible assets	2	1
Intangible assets	3	-
Tax assets	6	4
Other assets	389	115
Non-current assets held-for-sale	-	-
	151,401	**105,144**
Liabilities		
Financial liabilities held for trading	23,683	13,800
Financial liabilities designated at fair value through profit or loss	20,978	11,459
Financial liabilities at amortised cost	54,740	34,307
Hedging derivatives	216	218
Changes in the fair value of hedged items in portfolio hedges of interest risk rate	-	-
Provisions	50	49
Tax liabilities	-	-
Refundable equity on demand	-	-
Other liabilities	203	426
	99,870	**60,259**

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2017 to Bank of Spain Circular 4/2017 as at January 1, 2018 (Note 1.b).

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, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlying and are settled by delivery thereof.

Similarly, financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives having equity instruments whose market value cannot be estimated reliably as their underlying- are measured at amortised cost in the accompanying balance sheets.

The following is a comparison between the value of the Group's financial instruments valued using other criteria rather than fair value and their corresponding fair value at year-end:

Financial assets and liabilities measured at other than fair value

The fair value of financial instruments measured at amortised cost at 31 December 2018 was as follows:

a. The fair value of debt securities is 1.54%% higher than the carrying amount.

b. The fair value of the loans and advances is 0.10% lower than the carrying amount.

c. The fair value of Deposits is 0.28% less than the carrying amount.

d. The fair value of Marketable debt securities is 1.06% greater than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2018 to determine the fair values of the financial assets and liabilities recognised at cost detailed above:

- Loans and receivables: The fair value has been estimated using the present cost method, the estimation has considered factors such as the expected maturity of the portfolio, market interest rates, spreads of new concession of operations, or market spreads – If these were available.

- Held to maturity portfolio: The fair value has been determined based on market prices for those instruments.

- Financial liabilities at amortised cost:

  i. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

  ii. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

  iii. Customer deposits: Fair value has been estimated using the present value technique. The estimation has considered factors such as the expected maturity of the operations and the current financing cost of the Group in similar operations.

  iv. Marketable debt securities: Fair value has been determined based on market prices for these instruments, when available, or using the present value technique, by applying interest rates and market spreads.

  Additionally, the fair value of Cash, Cash Balances at central banks and other deposits on demand has been assimilated to its carrying amount, mainly because of short-term balances.

  Also, Available-for-sale financial assets at 31 December 2017 included certain equity instruments amounting to EUR 550 million relating to companies that were not listed on organised markets. These equity instruments were recognised at cost, because it was not possible to estimate their fair value reliably since it was based on significant non-observable inputs.

49. Risk management

a) Cornerstones of the risk function

The risk management and control model is based on the principles set down below:

The risk management and control model is based on the principles below:

- Advanced risk management policy, with a forward-looking approach that allows the Group to maintain a medium-low risk profile, through a risk appetite defined by the board.
- Risk culture that applies to all employees throughout the Group.
- Clearly defined three lines of defence model that enable us to identify, manage, control, monitor and challenge all risks.
- Autonomous subsidiaries model with robust governance based on a clear structure that separates the risk management and the risk control functions.
- Information and data management processes that allow all risks to be identified, assessed, managed and reported at appropriate levels.
- Risks are managed by the units that generate them.

These principles are aligned with the Group's strategy and business model, taking into account the requirements of regulators and supervisors, as well as the best market practices.

The Board is responsible for approving the general risk control and management policy, including tax risks.

1. Risk map

The main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof, includes the following:

- Credit risk: risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which the Santander Group has either directly provided credit or for which it has assumed a contractual obligation.
- Market risk: risk incurred as a result of changes in market factors that affect the value of positions in the trading book.
- Trading risk
- Structural risk.
- Liquidity risk: risk of the Group does not have the liquid financial assets necessary to meet its obligations at maturity, or can only obtain them at a high cost.
- Capital risk: risk of Santander Group not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.

In addition, the Group considers the following risks:

- Operational risk: is defined as the risk of loss due to the inadequacy or failure of internal processes, people and systems, or due to external events. This definition includes legal risk.
- Compliance risk and conduct: is that which arises from practices, processes or behaviours that are not adequate or that do not comply with internal regulations, legality or supervisory requirements.
- Reputational risk: is defined as the risk of a current or potential negative economic impact due to a reduction in the perception of the Group by employees, customers, shareholders/investors and society in general.
- Model risk: is the risk of loss arising from inaccurate predictions that may lead the Group to make sub-optimal decisions, or from the inappropriate use of a model.
- Strategic risk: the risk of loss or damage arising from strategic decisions or their poor implementation, which affect the long-term interests of our main stakeholders, or of an inability to adapt to the changing environment.

2. Risk governance

The Group has a strong governance framework, which pursues the effective control of the risk profile, within the risk appetite defined by the board.

This governance framework 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

2.1 **Lines of defence**

At Banco Santander, we follow a three lines of defense control model:

- The first line of defence is all business functions and business support functions that originate risks and have primary responsibility in the management of those risks. The role of these functions is to establish a management structure for the risks generated as part of their activity ensuring that these remain within approved risk limits.

- The second line of defence is risk Control and Compliance and Conduct function. The role of these functions is to provide independent oversight and challenge to the risk management activities of the first line of defence.

- The third line of defence: Internal Audit function. This function controls and regularly checks that the policies, and procedures are adequate and effectively implemented in the management and control of all risks.

The risk control, compliance and conduct, and internal audit functions are separated and have direct access to the board of directors and/or its committees.

2.2 Risk committee structure

Ultimately, the board of directors is responsible for risk management and control and, in particular, for approving and periodically reviewing the Group's risk culture and risk appetite framework.

Except for specific topics detailed in its bylaws, the board has the capacity to delegate its faculties to other committees. This is the case of the risk supervision, regulation and compliance committee and the Group's Executive committee, which has specific risk related responsibilities.

The Group Chief Risk Officer (Group CRO) leads the risk function within the Group, advises and challenges the executive line and reports independently to the risk supervision, regulation and compliance committee and to the board.

Other bodies that form the highest level of risk governance, with authorities delegated by the board of directors, are the executive risk committee and the risk control committee, detailed below:

Risk control committee (CCR):

To control and ensure that risks are managed in accordance with the risk appetite approved by the board, providing a comprehensive overview of all risks. This includes identifying and monitoring both current and potential risks, and evaluating their potential impact on the Group's risk profile.

This committee is chaired by the Group Chief Risk Officer (Group CRO).

Additionally, each risk factor has its own fora, committees and meetings to manage the risks under their control. Among others, they have the following responsibilities:

- Advice the CRO and the risk control committee that risks are managed in line with the Group's risk appetite.

- Carrying out complete and regular monitoring of each risk factor.

- Oversee the measures adopted to comply with the expectations of the supervisors and internal and external auditors.

Executive risk committee (ERC):

This committee is responsible for managing all risks, within the powers delegated by the board. The committee makes decisions on risks assumed at the highest level, ensuring that they are within the established risk appetite limits for the Group.

This committee is chaired by the Chief executive officer and it is composed with nominated executive directors and other Group´s senior management. The Risk, Finance and Compliance and Conduct functions, among others, are represented. The Group CRO has a veto right on the committee's decisions.

2.3 The Group's relationship with subsidiaries regarding risk management

Alignment of units with the corporate centre

In all the subsidiaries, the management and control model follows the frameworks established by the Group's board of directors. The local units adhere to them by their respective boards. The Group reviews and validates any local adaptations as needed. Corporate centre participates in the relevant decision-making through their validation.

Committee structure

The "Group-subsidiary governance model and good governance practices for subsidiaries" recommends that each subsidiary should have Risk committees and other Executive risk committees, in line with best corporate governance practices, consistent with those already in place in the Group.

The subsidiary entities governance bodies are structured taking into consideration local requirements, both regulatory and legal, as well as their specific dimension and complexity, in a manner that is consistent with those of the parent company, as established in the internal governance framework, thereby facilitating communication, reporting and effective control.

3. Management processes and tools

3.1 Risk appetite and structure of limits

The Group defines the risk appetite as the amount and type of risks that are considered prudent to assume for implementing our business strategy in the event of unexpected circumstances. Severe scenarios that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price are taken into account.

The risk appetite is set by the board for the whole Group. Every main business unit sets its own risk appetite according to the adaptation of the Group methodology and its own circumstances. The boards of the subsidiaries are responsible for approving their respective risk appetite proposals once they have been reviewed and validated by the Group.

The Group shares a common risk appetite model. It sets out the requirements for processes, metrics, governance bodies, controls and standards for implementation across the Group, cascading down management policies and limits to lower levels.

Corporate risk appetite principles

The following principles govern the Santander Group's risk appetite in all its units:

- Responsibility of the board and of senior management.
- Holistic risk view (Enterprise Wide Risk), risk profile backtesting and challenge. The risk appetite must consider all significant risks and facilitate an aggregate view of the risk profile through the use of quantitative metrics and qualitative indicators.
- Forward-looking view. The risk appetite must consider the desirable risk profile for the short and medium term, taking into account both the most plausible circumstances and adverse/stress scenarios.
- Embedding and alignment with strategic and business plans. The risk appetite is an integral part of the strategic and business planning, and is embedded in the daily management through the transfer of the aggregated limits to those set at portfolio level, unit or business line, as well as through the key risk appetite processes.
- Coherence across the various units and a common risk language throughout the Group. The risk appetite of each unit of the Group must be coherent with that across the Group.
- Periodic review, backtesting and adoption of best practices and regulatory requirements. Monitoring and control mechanisms are established to ensure the risk profile is maintained, and the necessary corrective and mitigating actions are taken in the event of non-compliance.

Limits, monitoring and control structure

The risk appetite is formulated annually and includes a series of metrics and limits to establish in quantitative and qualitative terms the maximum risk exposure that every unit and the Group as a whole is willing to assume.

Compliance with risk appetite limits is regularly monitored. Specialised control functions report the risk profile adequacy to the board and its committees, on quarterly basis.

Limit breaches and non-compliance with the risk appetite are reported to the relevant governance bodies. An analysis of the causes, an estimation of the duration of the breach and corrective actions proposals are also submitted.

Linkage between the risk appetite limits and those of the business units and portfolios is a key element for making the risk appetite an effective risk management tool.

Pillars of the risk appetite

The risk appetite is expressed via limits on quantitative metrics and qualitative indicators that measure the exposure or risk profile by type of risk, portfolio and, segment and business line, under both current and stressed conditions. These metrics and risk appetite limits are articulated in five axes that define the positioning that Santander wants to adopt or maintain in the deployment of its business model, described as follows:

- The volatility in the income statement that the Group is willing to accept.
- The solvency position that the Group wants to maintain.
- The minimum liquidity position that the Group wants to have.
- The maximum levels of concentration that the Group considers reasonable to admit.
- Non-financial transversal risks.

3.2. Risk identification and assessment (RIA)

The Group carries out the identification and assessment of the different risks that is exposed to, involving the different lines of defence, establishing management standards that not only meet regulatory requirements but also reflect best practices in the market, and reinforce our risk culture.

In 2018, the approach centred on three main areas: standards control environment review, perimeter completeness by integrating new units, together with the risk performance indicators review and their alignment with the risk appetite.

In addition the RIA exercise analyses the evolution of risks and identifies areas of improvement:

- Risk performance, enabling the understanding of residual risk by risk type through a set of metrics and indicators calibrated using international standards.
- Control environment assessment, measuring the degree of implementation of the target operating model, as part of our advanced risk management.
- Forward-looking analysis, based on stress metrics and identification and/or assessment of the main threats to the strategic plan (Top risks), enabling specific action plans to be put in place to mitigate potential impacts and monitoring these plans.

Based on the periodic RIA exercise, the Group's risk profile as of December 2018 remains as solid medium-low.

3.3. Scenario analysis

We analyse the impact triggered by different scenarios in the environment, in which the Group operates. These scenarios are expressed both in terms of macroeconomic variables, as well as other variables that may impact our risk profile.

Scenario analysis is a robust and useful tool for management at all levels. It enables the Group to assess its resilience in stressed environments or scenarios, and identifies measures to reduce exposure under these scenarios. The objective is to reinforce the stability of income, capital and liquidity.

The robustness and consistency of the scenario analysis exercises are based on the following pillars:

- Development and integration of models that estimate the future performance of metrics (for example, credit losses), based on both historic information (internal to the Group and external from the market), and simulation models.

- Inclusion of expert judgement and portfolio manager's know-how.
- Challenge and backtesting of model results to ensure they are adequate.
- Robust governance of the whole process, covering models, scenarios, assumptions and rationale for the results, and their impact on management.

Scenario analysis forms an integral part of several key processes of the Group:

- Regulatory uses: stress test scenarios using the guidelines set by the European regulator or by each local supervisor.
- Internal capital adequacy assessment (ICAAP) or liquidity assessment (ILAAP) in which, while the regulators can impose certain requirements, the Group develops its own methodology to assess its capital and liquidity levels under different stress scenarios to support planning and adequately managing the Group's capital and liquidity.
- Risk appetite. Contains stressed metrics on which maximum levels of losses (minimum liquidity levels) are established that the Group does not want to exceed. These exercises are related to those for capital and liquidity, although they have different frequencies and present different granularity levels.
- Recurrent risk management in different processes/exercises:
    - Budgetary and strategic planning process, in the development of business policies for risk approval, in the global risk analysis made by senior management and in specific analysis regarding the profile of activities or portfolios.
    - Identification of Top risks on the basis of, a systematic process to identify and assess all the risks which the Group is exposed to. The Top risks are selected and a macroeconomic or idiosyncratic scenario is associated with each one, to assess their impact on the Group.
    - Recovery plan annually to establish the available tools the Group will have, to survive in the event of an extremely severe financial crisis. The plan sets out a series of financial and macroeconomic stress scenarios, with differing degrees of severity that include idiosyncratic and/or systemic events.
    - IFRS9 from 1 January 2018, the processes, models and scenario analysis methodology are included in the new regulatory provision requirements.

3.4 Risk Reporting Framework (RRF)

Our reporting model has strengthened by consolidating the overall view of all risks, based on complete, precise and recurring information that allows the Group's senior management to assess the risk profile and decide accordingly.

The risk reporting taxonomy, contains three types of reports received by senior management on a monthly basis: the Group risk report, the risk reports of each unit, and the reports of each of the risk factors identified in the Group's risk map.

b) Credit risk

1. Introduction to the credit risk treatment

Credit risk is the risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which the Group has either directly provided credit or for which it has assumed a contractual obligation.

There are different limit models depending on the segment:

- Large corporate groups: we use a pre-classification model based on a system for measuring and monitoring economic capital. The result is the level of risk that the Group is willing to assume with a customer/group, in terms of Capital at Risk, nominal CAP, and maximum periods according to the type of transaction (in the case of financial entities, limits are managed through Credit Equivalent Risk (CER). It includes the actual and expected risk with a customer based on its usual operations, always within the limits defined in the risk appetite and established credit policies.

- Corporates and institutions that meet certain requirements (deep knowledge, rating, etc.): we use a more simplified pre-classification model through an internal limit that establishes a reference of the level of risk to be assumed with the customer. The criteria will include, among others, repayment capacity, debt in the system and the banking pool distribution.

  In both cases, transactions over certain thresholds or with specific characteristics might require the approval of an analyst or committee.

- For individual customers and SMEs with low turnover, large volumes of credit transactions can be managed more easily with the use of automatic decision models for classifying the customer/ transaction binomial.

  In specific situations where a series of requirements are met, pre-approved transactions are granted to customers or potential customers (campaigns).

2. Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

Main credit risk aggregates arising on customer business

(Management information data)

	Credit risk with customers (*) (millions of euros)			Non-performing loans			NPL ratio (%)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Continental Europe	**429,454**	**424,248**	**331,706**	**22,537**	**24,674**	**19,638**	**5.25**	**5.82**	**5.92**
Spain	239,479	251,433	172,974	14,833	15,880	9,361	6.19	6.32	5.41
Santander Consumer Finance	97,922	92,589	88,061	2,244	2,319	2,357	2.29	2.50	2.68
Portugal	38,340	39,394	30,540	2,279	2,959	2,691	5.94	7.51	8.81
Poland	30,783	24,391	21,902	1,317	1,114	1,187	4.28	4.57	5.42
UK	**262,196**	**247,625**	**255,049**	**2,755**	**3,295**	**3,585**	**1.05**	**1.33**	**1.41**
Latin América	**171,898**	**167,516**	**173,150**	**7,461**	**7,464**	**8,333**	**4.34**	**4.46**	**4.81**
Brazil	84,212	83,076	89,572	4,418	4,391	5,286	5.25	5.29	5.90
Mexico	33,764	28,939	29,682	822	779	819	2.43	2.69	2.76
Chile	41,268	40,406	40,864	1,925	2,004	2,064	4.66	4.96	5.05
Argentina	5,631	8,085	7,318	179	202	109	3.17	2.50	1.49
US	**92,152**	**77,190**	**91,709**	**2,688**	**2,156**	**2,088**	**2.92**	**2.79**	**2.28**
Santander Bank, National Association	51,049	44,237	54,040	450	536	717	0.88	1.21	1.33
Santander Consumer USA	26,424	24,079	28,590	2,043	1,410	1,097	7.73	5.86	3.84
Group Total	**958,153**	**920,968**	**855,510**	**35,692**	**37,596**	**33,643**	**3.73**	**4.08**	**3.93**

(*) Includes gross lending to customers, guarantees and documentary credits.

Risk is diversified among the main regions where the Group operates: Continental Europe (45%), United Kingdom (27%), Latin America (18%) and the United States (10%), with an adequate balance between mature and emerging markets.

These levels of lending, together with lower non-performing loans (NPLs) of EUR 35,692 million (-5.1% vs. 2017) reduced the Group's NPL ratio to 3.73% (-35 bp against 2017).

In order to cover potential losses arising from these NPLs, in accordance with the new provision calculation in accordance with IFRS9, the Group recorded allowances for loan loss of EUR 8,873 million (-2.6% vs. December 2017), after deducting post write-off recoveries. This decrease is materialised in a reduction of the cost of credit to 1.00 % (7 bp less than the previous year).

Information on the estimation of impairment losses

The Group estimates the impairment losses by calculating the expected loss at 12 months or for the entire life of the transaction, based on the stage in which each financial asset is classified in accordance with IFRS9.

Then, considering the most relevant units of the group (United Kingdom, Spain, United States, Brazil, as well as Chile, Mexico, Portugal, Poland, Argentina and the Group Santander Consumer Finance) representing about 95% of the total of the Group's provisions, the detail of the exhibition and the impairment losses associated with each of the stages as of 31 December 2018 is shown. In addition, depending on the current credit quality of the transactions, the exposure is divided into three grades (investment, speculation and default):

Exposure and impairment losses by stage *(Million of euros)*				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	685,507	7,176	-	692,683
Speculation grade	222,495	47,439	-	269,035
Default	-	-	30,795	30,795
Total Risk (**)	908,002	54,616	30,795	993,412
Impairment losses	3,823	4,644	12,504	20,970

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

The other units up to the total Group amounts contributed EUR 151,906, 700 and 1,743 million of exposure, and impairment losses of EUR 152, 163 and 1,145 million, in stage 1, stage 2 and stage 3, respectively.

The rest of the balance, considering the financial instruments not included before, amounts to EUR 242,867 million, mostly classified in stage 1.

In addition, at 31 December 2018, the Group had EUR 757 million (1 January 2018: EUR 803 million) of purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

The Group monitors the evolution of credit risk provisions, in collaboration with the main geographies, by carrying out sensitivity analyses considering variations in the scenarios macroeconomic variables and their main variables (such as interest rate, house price growth, unemployment rate or GDP growth) that have an impact on the distribution of financial assets in the different stages and the calculation of credit risk provisions.

Aditionally, based on similar macroeconomic scenarios, the Group also performs stress tests and sensitivity analysis in a current basis, such as ICAAP, strategic plans, budgets and recovery and resolution plans. In this sense, a prospective view of the sensitivity of each of the Group's loan portfolio is created in relation to the possible desviation from base scenario, considering both the macroeconomic developments in different scenarios and the three year evolution of the business. These tests include potentially adverse and favorable scenarios.

The classification of transactions into the different stages of IFRS9 is carried out in accordance with the provisions of the risk management policies of the different Group´s units, which are consistent with the risk management policies prepared by Santander Group. In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgment of analysts, which is implemented in accordance with approved governance.

3. Detail of the main geographical areas

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances.

In addition, for the Santander Corporate & Investment Banking perimeter, transactions and balances are included in each geography.

3.1. United Kingdom

Credit risk with customers in the UK amounted to EUR 262,196 million as of December 2018, which means an increase, in local currency, of 6% compared to year end 2017 (and 7% in local currency), and representing 27% of the Group's total loan portfolio.

Mortgage portfolio

This portfolio at the end of December amounted to EUR 176,581 million. It consists of residential mortgages granted to new and existing customers, and all are first mortgages. There are no transactions that entail second or successive liens on mortgaged properties.

All properties are valued independently before each new transaction is approved, in accordance with the Group's risk management principles.

The value of the property used as collateral for mortgages that have already been granted is updated quarterly by an independent agency, using an automatic valuation system in accordance with market practices and applicable legislation.

Information on the estimation of impairment losses

Following is the detail of the Santander UK exposure and impairment losses associated with each of the stages at 31 December 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (investment, speculation and default):

Exposure and impairment losses by stage *(Million of euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	225,929	1,900	-	227,829
Speculation grade	34,655	11,514	-	46,169
Default	-	-	2,795	2,795
Total Exposure (**)	260,584	13,415	2,795	276,793
Impairment losses	224	335	335	894

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander UK considers five prospective macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution projected for the next five years of the main macroeconomic indicators used by Santander UK to estimate expected losses is presented below:

Magnitudes	2019 -2023				
	Pessimistic scenario 2	Pessimistic scenario 1	Base scenario	Optimistic scenario 1	Optimistic scenario 2
Interest rate	2.25%	2.50%	1.50%	1.25%	1.00%
Unemployment rate	8.56%	6.92%	4.34%	3.76%	2.76%
Housing price change	-9.50%	-2.00%	2.00%	2.30%	3.40%
GDP growth	0.30%	0.70%	1.60%	2.10%	2.50%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. In terms of allocation, Santander UK associates the highest weighting with the Base Scenario, while it associates the lowest weightings with the most extreme or acid scenarios. In addition, at 31 December 2018, the weights used by Santander UK reflect the future prospects of the British economy in relation to its current political and economic position so that higher weights are assigned for negative scenarios:

Pessimistic scenario 2	10%
Pessimistic scenario 1	30%
Base scenario	40%
Optimistic scenario 1	15%
Optimistic scenario 2	5%

In relation to the determination of classification in Stage 2, the quantitative criteria applied by Santander UK is 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 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 doubles 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.

In addition, for each portfolio, a series of specific qualitative criteria is defined to indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander UK, among other criteria, considers that an operation presents a significant increase in risk when it presents irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

3.2. Spain

Portfolio overview

Total credit risk (including guarantees and documentary credits) at Santander Spain (excluding the real estate unit, which is discussed subsequently in more detail) amounted to EUR 239,479 million (25% of the Group's total), with an adequate level of diversification by both product and customer segment.

The NPL ratio for the total portfolio was 6.19%, 13 bp less than in 2017. The decrease in lending (which increased the NPL ratio by 13 bp) was offset by the improved NPL figure (which reduced the ratio by 22 bp). This improvement was mainly due to an improved performance of the credit portfolio, the cure of several restructured loans and the sale of loan portfolios.

The coverage rate stood at 45%.

Information on the estimation of impairment losses

Following is the detail of the Santander Spain exposure and impairment losses associated with each of the stages at 31 December 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses per stage *(Million of euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	171,266	289	-	171,555
Speculation grade	25,108	12,603	-	37,711
Default	-	-	14,941	14,941
Total Exposure (**)	196,374	12,892	14,941	224,207
Impairment losses	366	768	5,565	6,699

(*) Detail of credit quality calculated for the purposes of Grupo Santander's management
(**) Amortised cost assets + Loans and advances + loan commitments granted.

The remaining legal entities to reach the entire portfolio in Spain contribute another EUR 125,544, EUR 66 and EUR 1,657 million of exposure, and impairment losses in the amount of EUR 132, EUR 48 and EUR 957 million, in stage 1, stage 2 and stage 3, respectively.

From the information detailed above, Banco Santander, S.A. it reaches a total gross exposure of 279,871 and 72,208 million euros in the heading of financial assets at amortized cost and loan commitments granted for off-balance sheet exposures, respectively (see Note 10 and Note 32, respectively). Impairment losses amount to 7,300 and 263 million euros, respectively.

For the estimation of the expected losses, the prospective information is taken into account. Specifically, Santander Spain considers three prospective macroeconomic scenarios, which are updated periodically, during a time horizon of 5 years. The projected evolution for the next five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	0.28%	0.73%	1.16%
Unemployment rate	15.27%	12.34%	10.83%
Housing price change	0.48%	2.16%	3.84%
GDP growth	1.08%	1.81%	2.62%

Each one of the macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Spain associates the Base scenario with the highest weight, while associating the lower weights to the most extreme scenarios:

Pessimistic scenario	30%
Base scenario	40%
Optimistic scenario	30%

In relation to the determination of the classification in stage 2, the quantitative criteria applied by Santander Spain are based on identifying whether any increase in PD for the entire expected life of the operation is greater than an absolute threshold. The threshold established for each portfolio is different depending on the characteristics of the transactions, and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases by up to a quarter with respect to the PD it had at the time of initial recognition.

In addition, for each portfolio, a series of specific qualitative criteria are defined that 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 Spain, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Portfolio of home purchase loans to families

Residential mortgages in Spain, including Santander Consumer Finance business, amounted to EUR 63,290 million, representing 25% of total credit risk. 99.14% of which have a mortgage guarantee.

In millions of euros	31/12/2018			
	Santander Group Spain		*Of Which: Banco Santander, S.A.*	
	Gross amount	*Of which: Non-performing*	Gross amount	*Of which: Non-performing*
Home purchase loans to families	63,290	2,493	61,453	2,425
Without mortgage guarantee	*545*	*54*	*545*	*54*
With mortgage guarantee	*62,745*	*2,439*	*60,908*	*2,371*

The portfolio of mortgages granted to acquire homes in Spain have characteristics that maintain its medium-low risk profile which limits the expectations of a potential additional deterioration:

- 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 the first home.
- Average affordability rate stood at 28%.
- 83% 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).

In millions of euros	31/12/2018					
	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
Grupo Santander España						
Gross amount	15,393	18,448	18,484	6,408	4,012	62,745
Of which: Watchlist /Non-performing	*239*	*366*	*584*	*479*	*771*	*2,439*
Of which Banco Santander, S.A.:						
Gross amount	15,089	18,053	18,048	6,210	3,508	60,908
Of which: Watchlist /Non-performing	*235*	*359*	*570*	*471*	*736*	*2,371*

Credit policies limit the maximum loan to value to 80% for first residence mortgages and 79.77% in the case of second home mortgages.

Companies' portfolio

Credit risk assumed directly with SMEs and Corporates (EUR 147,634 million) is the main lending segment in Spain, including Santander Consumer Finance business (60% of the total).

Most of the portfolio (90%) corresponds to customers who have been assigned an analyst to monitor them continuously throughout the risk cycle.

The portfolio is broadly diversified without significant concentrations by activity sector.

Real estate activity

The Group manages the real estate activity in Spain in a separate unit, which includes the loans from clients with activity mainly in real estate development, and who have a specialised management model, holdings in real estate companies and foreclosed assets.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Million of euros		
	31/12/18	31/12/17	31/12/16
Balance at beginning of year	6,472	5,515	7,388
Foreclosed assets	(100)	(27)	(28)
Banco Popular (perimeter)	-	2,934	-
Reductions (*)	(1,267)	(1,620)	(1,415)
Written-off assets	(293)	(330)	(430)
Balance at end of year	4,812	6,472	5,515

(*) Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 27.58% (compared with 29.96% at December 2017) due to the decrease of non-performing assets in the troubled loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 35.27%.

Millions of euros	31/12/2018					
	Santander Group Spain			*Of wich: Banco Santander, S.A.*		
	Gross amount	Excess over collateral value	Specific allowance	Gross amount	Excess over collateral value	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	4,812	834	(532)	4,886	839	708
Of which:Watchlist/ Non-performing	*1,327*	*393*	*(468)*	*1,327*	*393*	*644*
Memorandum items: Written-off assets	(3,675)			3,675		

Memorandum items:	31/12/2018	
Millions of euros	Carrying amount	
	Santander Group Spain	*Of wich: Banco Santander, S.A.*
Total loans and advances to customers excluding the public sector (business in Spain)	223,921	215,947
Total consolidated assets (Total business) (Book value)	1,459,271	608,376
Impairment losses and credit risk allowances, Coverage for unimpaired assets (business in Spain)	1,244	1,095

At year-end, the concentration of this portfolio was as follows:

Millions of euros	31/12/2018	
	Loans: Gross amount	
	Santander Group Spain	*Of wich: Banco Santander, S.A.*
1, Without mortgage guarantee	379	379
2, With mortgage guarantee	4,433	4,507
2,1 Completed buildings	2,691	2,750
2,1,1 Residential	1,328	1,373
2,1,2 Other	1,363	1,377
2,2 Buildings and other constructions under construction	1,071	1,086
2,2,1 Residential	609	624
2,2,2 Other	462	462
2,3 Land	671	671
2,3,1 Developed consolidated land	480	480
2,3,2 Other land	191	191
Total	4,812	**4,886**

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 the Group's senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

In order to manage this credit exposure, the Group has specialised teams that not only form part of the risk areas but also supplement the management of this exposure and cover the entire life cycle of these transactions: commercial management, legal procedures and potential recovery management.

As has already been disclosed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

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 2018, the net balance of these assets amounted to EUR 5,226 million (gross amount: EUR 10,333 million; recognised allowance: EUR 5,107 million, of which EUR 3,142 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 2018:

Million of euros	31/12/18 Gross carrying amount	Valuation adjustments	*Of which: impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies	7,909	4,133	*2,733*	3,776
Of which:				
Completed buildings	*3,194*	*1,202*	*706*	*1,992*
Residential	*1,247*	*451*	*211*	*796*
Other	*1,947*	*751*	*495*	*1,196*
Buildings under construction	*299*	*131*	*81*	*168*
Residential	*287*	*128*	*81*	*159*
Other	*12*	*3*	*-*	*9*
Land	*4,416*	*2,800*	*1,946*	*1,616*
Developed land	*1,616*	*997*	*597*	*619*
Other land	*2,800*	*1,803*	*1,349*	*997*
Property assets from home purchase mortgage loans to households	2,016	851	*357*	1,165
Other foreclosed property assets	408	123	*52*	285
Total property assets	**10,333**	**5,107**	***3,142***	**5,226**

In addition, the Group holds an ownership interest in Project Quasar investments 2017, S.L. (See Note 3.b) for EUR 1,701 million.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Millions of euros	31/12/18 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	1,594	643	365	951
Of which:				
Completed buildings	*1,048*	*385*	*203*	*663*
Residential	*334*	*123*	*55*	*211*
Other	*714*	*262*	*148*	*452*
Buildings under construction	*11*	*3*	*-*	*8*
Residential	*-*	*-*	*-*	*-*
Other	*11*	*3*	*3*	*8*
Land	*535*	*255*	*158*	*280*
Developed land	*363*	*174*	*92*	*189*
Other land	*172*	*81*	*67*	*91*
Property assets from home purchase mortgage loans to households	1,796	769	337	1,027
Other foreclosed property assets	375	117	81	258
Total property assets	**3,765**	**1,529**	**783**	**2,236**

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 changes in foreclosed properties were as follows:

	Thousands of Million of euros (*)		
	2018	2017	2016
Gross additions	0.8	1.4	1.3
Disposals	(1.8)	(1.9)	(1.3)
Difference	(1.0)	(0.5)	-

(*) Without considering the Blackstone transaction (See Note 3).

3.3. United States

Credit risk at Santander Consumer Holding USA, Inc, increased to EUR 92,152[3] million at the end of December (representing 10% of the Group's total), is made up of the following business units:

Santander Bank, National Association: business is focused on retail and commercial banking (83%), of which 35% is with individuals and approximately 65% with corporates. One of the main strategic goals is to continue to enhance the wholesale banking business (17%).

The NPL ratio continues to decline, standing at 0.88% (-33 bp in the year) in December. This reduction is explained by a proactive management of certain exposures and the favourable macro development showed in the improvement of customer's credit risk profile in corporates and individuals portfolios. The cost of credit remains at stable levels of 0.24% despite the increase in some segment's coverage ratios.

Information on the estimation of impairment losses

Following is the detail of Santander Bank, National Association exposure and impairment losses associated with each of the stages at 31 December 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment loss by stage *(Million of euros)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	5,149	-	-	5,149
Speculation grade	60,391	3,784	-	64,175
Default	-	-	448	448
Total Exposure (**)	65,540	3,784	448	69,772
Impairment losses	233	204	105	542

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

[3] Includes EUR 9.5 million of SH USA investment.

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander Bank, National Association considers three prospective macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution projected for the next five years of the main macroeconomic indicators used Santander Bank, National Association to estimate expected losses is presented below:

Magnitudes	2019-2023		
	Favorable scenario	Base scenario	Unfavorable scenario
Interest rate	1.32%	2.80%	3.56%
Unemployment rate	6.94%	4.22%	3.88%
House price change	2.22%	3.91%	3.89%
GDP growth	1.53%	2.13%	2.77%

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:

Unfavorable scenario	20%
Base scenario	60%
Favorable scenario	20%

In relation to the determination of Stage 2 classification, the quantitative criteria applied at Santander Bank, National Association are based on identifying whether any increase in PD for the expected life of the transaction is greater than a series of absolute thresholds. Each portfolio has a set of thresholds in accordance with the characteristics and credit risk profile of the products composing it, and a transaction is considered to exceed these thresholds when the PD for the entire life of the transaction increases by up to double with respect to that which it had at the time of initial recognition. In addition, Santander Bank, National Association also assesses the risk of its operations by comparing the FICO (Fair Isaac Corporation) rating of each of them at the present time with respect to the one they had at the time of their recognition, establishing a different absolute threshold for each portfolio according to their characteristics.

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 irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio

Santander Consumer USA Holdings Inc. (SC USA): The risk indicators for SC USA are higher than those of the other United States units, due to the nature of its business, which focuses on auto financing through loans and leasing (97%), seeking the optimisation of the returns associated to the risk assumed. SC USA´s lending also includes a smaller personal lending portfolio (3%).

The NPL rate, however, increased to 7.73%, mainly due to the maturity of those loans forborne in 2017 (hurricanes). The cost of credit, at the end of December stood at 10.01% (+17 bp in the year), due to the average investment lower growth as a result of the vintages amortisation from high production exercises (2015), partially mitigated by the increase in recoveries efficiency and the positive evolution of the used car price. The coverage ratio remains at high levels, 155%.

Information on the estimation of impairment losses

Following is a detail of the Santander Consumer USA Holdings Inc. exposure and impairment losses associated with each of the stages at 31 December 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses by stage (Million of euros)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	224	-	-	224
Speculation grade	20,313	6,600	-	26,913
Default	-	-	2,218	2,218
Total Exposure (**)	20,537	6,600	2,218	29,355
Impairment losses	824	1,720	667	3,211

(*) Detail of credit quality ratings calculated for Group management purposes

(**) Amortised cost assets + Loans and advances + loan commitments granted.

In relation to the methodology used to calculate impairment losses, Santander Consumer USA uses a method for calculating expected losses based on the use of risk parameters: EAD (Exposure at Default), PD (Probability of Default) and LGD (Loss Given Default). The expected loss of an operation is the result of adding the estimated monthly expected losses of the same during its entire life, 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 credit quality of transactions and projections of impairment losses so that transactions with better credit quality require a lower expected loss. Credit quality of transactions, reflected in the internal rating associated with each transaction or the client, shown in the likelihood of default of the transactions.

For the estimation of expected losses, prospective information should be taken into account. Specifically, Santander Consumer USA Holdings Inc. considers three prospective macroeconomic scenarios, periodically updated over a 5-year time horizon. The evolution projected for the next five years of the main macroeconomic indicators used by in Santander Consumer USA Holdings Inc in the estimation of expected losses is shown below:

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	1.32%	2.80%	3.56%
Unemployment rate	6.94%	4.22%	3.88%
Housing price growth	2.22%	3.91%	3.89%
GDP Growth	1.53%	2.13%	2.77%

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:

Pessimistic scenario	20%
Base scenario	60%
Optimistic scenario	20%

In relation to the classification measurement in Stage 2, the quantitative criteria applied by Santander Consumer USA Inc. are based on identifying whether any increase in PD for the expected life of the transaction exceeds a series of absolute thresholds. Each portfolio has a set of thresholds in accordance with the characteristics and credit risk profile of the products in the portfolio, considering that one transaction exceeds these thresholds when the PD for the entire life of the transaction doubles it in comparison to the one that had at the beginning. In addition, Santander Consumer USA Inc. also assesses the risk of its transactions by comparing the FICO (Fair Isaac Corporation) rating of each of them at the current period, in comparison to what they had at the beginning, establishing different absolute thresholds for each portfolio depending on its characteristics.

Additionally, for each portfolio, a series of specific qualitative criteria are defined, which indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the initial recognition. Santander Consumer USA Holdings Inc. among other criteria, considers that a transaction presents a significant increase in risk when it has irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

3.4. Brazil

Credit risk in Brazil amounts to EUR 82,212 million, representing an increase of 1.4% vs. 2017 due to the depreciation of the Brazilian currency, excluding the exchange rate effect, recorded growth is 13%. Santander Brazil therefore accounts for 9% of the Group's credit lending.

Santander Brazil is adequately diversified and has an increasingly marked retail profile, with more than 60% of loans extended to individuals, consumer financing and SMEs.

Information on the estimation of impairment losses

The Santander Brazil exposure's detail and impairment losses associated with each of the stages at 31 December 2018 is presented. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses *(Million of euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	51,150	472	-	51,622
Speculation grade	56,884	5,334	-	62,218
Default	-	-	4,223	4,223
Total Exposure	108,034	5,806	4,223	118,063
Impairment losses	997	768	2,889	4,654

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Particularly, Santander Brazil considers three prospective macroeconomic scenarios, periodically updated, over a time horizon of 5 years. The evolution projected for the next five years of the main macroeconomic indicators used to estimate the expected losses in Santander Brasil is as follows:

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	11.00%	7.70%	6.00%
Unemployment rate	16.27%	9.86%	8.62%
Housing price c	-1.43%	4.26%	5.90%
GDP Growth	-1.18%	2.39%	3.50%

Santander

Each macroeconomic scenario is associated with a determined likehood of occurrence. Regarding its assignation, Brazil links the highest weight to the base scenario whilst links the lowest weights to the most extreme scenarios:

Pessimistic scenario	10%
Base scenario	80%
Optimistic scenario	10%

With respect to the determination of the classification in Stage 2, the quantitative criteria that are applied are based on identifying whether any increase in the PD for all the expected life of the operation is higher than an absolute threshold. Santander Brazil, for the purposes of a better integration in its portfolio management, has adapted the rating of the operations to PD thresholds, setting out different thresholds for each portfolio according to the characteristics of the operations.

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 detail of the exposure and impairment losses presented for the main geographies includes the portfolios of Santander Corporate & Investment Banking. Due to the client type managed in these portfolios, internal risk models are used.

The average projected evolution for the next years of the GDP growth used to estimate the expected losses, together with the weighting of each scenario, is the following:

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP Growth	2.7%	3.6%	4.2%

Each macroeconomic scenarios is associated with a determined likehood of occurrence. As for its allocation, Santander Corporate & Investment Banking associates the highest weight with the Base Scenario, while associating the lower weights with the more extreme scenarios.

Pessimistic scenario	20%
Base scenario	60%
Optimistic scenario	20%

4. Other credit risk aspects

4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Transactions are undertaken through money market financial products with different financial institutions and through counterparty risk products which serve the Group's customer's needs.

According to regulation (EU) 575/2013, counterparty credit risk is the risk that a client in a transaction could default before the definitive settlement of the cash flows of the transaction. It includes the following types of transactions: derivative instruments, transactions with repurchase commitment, stock and commodities lending, operations with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: (i) mark-to-market (MtM) methodology (replacement value of derivatives) plus potential future exposure (add-on) and (ii) the calculation of exposure using *Monte Carlo* simulation for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recoveries.

After markets close, exposures are re-calculated by adjusting all transactions to their new time frame, adjusting the potential future exposure and applying mitigation measures (netting, collateral, etc.), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is performed through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any of Santander's subsidiaries to be known at any time.

4.2. Concentration risk

Concentration risk control is a vital part of management. The Group continuously monitors the degree of concentration of its credit risk portfolios using various criteria: geographical 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 adequate management of the degree of concentration in Santander's credit risk portfolios.

The Group is subject 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 customers linked among themselves will be considered a large exposure when its value is equal or greater than 10% of eligible capital. In addition, in order to limit large exposures, no entity can assume exposures exceeding 25% of its eligible capital with a single customer or group of linked customers, after taking into account the credit risk reduction effect contained in the regulation.

Having applied the risk mitigation techniques, no groups triggered these thresholds at the end of December.

Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 4.47% of the outstanding credit risk with customers (lending to customers plus off-balance sheet risks) as of December 2018.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk at 31 December 2018 is as follows:

Million of euros	31/12/18				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	244,523	60,562	94,532	75,460	13,969
Public sector	177,207	64,528	38,112	67,943	6,624
Of which:					
Central government	*157,656*	*53,060*	*34,497*	*63,490*	6,609
Other central government	*19,551*	*11,468*	*3,615*	*4,453*	*15*
Other financial institutions (financial business activity)	102,985	16,378	*54,473*	*25,751*	6,383
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	383,708	126,503	117,261	126,098	13,846
Of which:					
Construction and property development	*27,699*	*5,578*	4,674	17,311	*136*
Civil engineering construction	*5,606*	*3,352*	*1,642*	595	*17*
Large companies	*220,192*	*56,547*	*72,406*	*78,850*	*12,389*
SMEs and individual entrepreneurs	*130,211*	*61,026*	*38,539*	*29,342*	*1,304*
Households – other (broken down by purpose)	491,836	89,407	276,667	116,686	9,076
Of which:					
Residential	*314,048*	*62,232*	*210,218*	*40,696*	*902*
Consumer loans	*156,806*	*18,065*	*64,258*	*68,872*	*5,611*
Other purposes	*20,982*	*9,110*	*2,191*	*7,118*	*2,563*
Total (*)	**1,400,259**	**357,378**	**581,045**	**411,938**	**49,898**

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Millions of euros	31/12/18				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	171,570	76,878	58,964	29,092	6,636
Public sector	61,265	50,408	5,769	2,969	2,119
Of which:					
Central government	49,884	39,119	5,769	2,877	2,119
Other central government	11,381	11,289	-	92	-
Other financial institutions (financial business activity)	124,156	39,128	56,240	27,490	1,298
Non-financial companies and individual entrepreneurs (Non-financial business activity) (broken down by purpose)	180,821	127,745	27,148	14,351	11,577
Of which:					
Construction and property development	4,121	3,914	169	32	6
Civil engineering construction	3,664	3,056	185	406	17
Large companies	117,422	66,108	26,254	13,614	11,446
SMEs and individual entrepreneurs	55,614	54,667	540	299	108
Households – other (broken down by purpose)	79,642	78,204	783	280	375
Of which:					
Residential	62,256	61,053	666	206	331
Consumer loans	8,212	8,146	26	27	13
Other purposes	9,174	9,005	91	47	31
Total	617,454	372,364	148,904	74,181	22,005

4.3. Sovereign risk and exposure to other public sector entities

As a general criteria in the Group, sovereign risk is that related to transactions with a central bank (including the regulatory cash reserve requirement), Treasury issuances risk (public debt portfolio) and that related to transactions with public institutions with the following features: their funds only come from the state's budgeted income and the activities are of a non-commercial nature.

These criteria, historically used by the Group, differ in some respects from that applied by the European Banking Authority (EBA) for its regular stress exercises. The main differences are that the EBA's criterion does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, the EBA does include public administrations in general (including regional and local bodies), not only the central state sector.

According to the management Group criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not very significant (EUR 8,901 million, 3.5% of total sovereign risk), and exposure to non-local sovereign issuers involving cross-border risk is even less significant (EUR 3,906 million, 1.5% 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 with lower interest rate risk and higher liquidity.

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 2018:

Million of euros					
	31/12/18				
	Portfolio				
Country	Financial assets designated at fair value through profit or loss	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
Spain	1,143	27,078	21,419	-	49,640
Portugal	(43)	4,794	4,002	-	8,753
Italy	(204)	-	465	-	261
Greece	-	-	-	-	-
Ireland	-	-	-	-	-
Rest of eurozone	503	953	1,322	-	2,778
United Kingdom	1,013	1,190	8,666	-	10,869
Poland	2,015	9,203	11	-	11,229
Rest of Europe	-	84	245	-	329
United States	426	6,138	2,113	5	8,682
Brazil	1,839	20,540	3,782	893	27,054
Mexico	3,320	4,279	2,816	-	10,415
Chile	160	1,596	20	-	1,776
Other American countries	103	340	450	-	893
Rest of the world	-	5,688	534	-	6,222
Total	**10,275**	**81,883**	**45,845**	**898**	**138,901**

5. Credit risk management

The credit risk management process consists of identifying, analysing, controlling and deciding on the credit risk incurred by the Group's operations. It considers a holistic view of the credit risk cycle including transaction, customer and portfolio view. Both business and risk areas, together with the senior management participate in the management process.

The identification of credit risk is a key component for the active management and effective control of portfolios. The identification and classification of external and internal risks in each business allows corrective and mitigating measures to be adopted.

5.1. Planning

Identification

Planning allows to set business targets and define specific action plans, within the risk appetite established by the Group. These targets are met by assigning the necessary means (models, resources, systems).

Strategic commercial plans

Strategic commercial plans (SCPs) are a basic management and control tool for the Group's credit portfolios. The SCPs are prepared jointly by the commercial and risks areas, and define the commercial strategies, risk policies and measures/infrastructures required to meet the annual budget targets. These three factors are considered as a whole, ensuring a holistic view of the portfolio to be planned and allowing a map of all the Group's credit portfolios to be drawn.

SCP management integration provides at all times an updated view on the credit portfolios quality, allows to measure credit risk, perform internal controls and periodic monitoring of planned strategies, anticipate deviations and identify significant changes in risk and its potential impact, as well as the application of corrective actions.

The SCPs approval corresponds to the risk executive committee or equivalent body of each entity previous to its validation at Group level in the corporate risk executive committee. The periodic monitoring of SCPs is carried out by the same bodies that approve and validate them.

The process pursues the SCPs alignment with the capital objectives of the Group's units.

Scenario analysis

Credit risk scenario analysis enables senior management to better understand the portfolio evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of capital provisions for stress scenarios.

Scenario analysis is applied to all of the Group's significant portfolios, usually over a 3-year horizon. The process involves the following main stages:

- Definition of benchmark scenarios, either central or most plausible scenarios (baseline), as well as less likely and more adverse economic scenarios (stress scenarios). A global stress scenario is a world crisis situation that impacts each of the countries in which the Group operates. In addition, a local stress scenario impacts in an isolated way some of the main units with a greater degree of stress than the global stress scenario.

- Determination of risk parameters value (probability of default, loss given default, etc.) for the scenarios defined. These parameters are established using internally developed statistical-econometric models, based on default and historical losses, in relation to historical data for macroeconomic variables taking into consideration a complete economic cycle.

- Adaptation of the projection methodology to IFRS9, with an impact on the estimation of the expected loss in each of the IFRS9 stages, associated with each of the scenarios put forward, as well as with other important credit risk metrics deriving from the parameters obtained (non-performing loans, provisions, allowances, etc.).

- Analysis and rationale for the credit risk profile evolution at portfolio, segment, unit and Group levels, in different scenarios and compared to previous years.

- Integration of management indicators to supplement the analysis of the impact caused by macroeconomic factors on risk metrics.

- Likewise, the process is completed with a set of controls and backtesting that ensure the adequacy of metrics and calculations.

The entire process takes place within a corporate governance framework, and is adapted to the growing importance of this framework as well as market best practices, assisting the Group's senior management in gathering knowledge for decision making.

5.2 Assessment of the risk and credit rating process

The connection between the credit risk appetite of the Group and management of the credit portfolios is implemented through the SCPs, which define the portfolio and new originations limits in order to anticipate the portfolio risk profile. The transposition and cascading down of the Group's risk appetite framework credit risk metrics, strengthens the existing control over credit portfolios.

The Group has processes that determine the risk that each customer is able to assume. These limits are set jointly by the business and risks areas and have to be approved by the Executive risk committee (or committees in which it has delegated such authority) and reflect the expected results of the business in terms of risk-return.

In order to assign a rating that reflects the credit quality of the customer, the Group uses valuation and parameter estimation models in each of the segments where it operates: SCIB (Santander Corporate & Investment Banking: sovereigns, financial institutions and large corporates), commercial banking, institutions, SMEs and individuals.

The decision models applied are based on credit rating drivers which are monitored and controlled in order to calibrate and precisely adjust the decisions and ratings they assign. Depending on the segment, drivers may be:

- Rating: resulting from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the analyst's expert judgement. Used for the SCIB, commercial banking, institutions and SMEs (treated on an individual basis) segments.

- Scoring: an automatic assessment system for credit applications. It automatically assigns an individual grade to the customer for subsequent decision making.

Parameter estimation models are obtained through econometric statistical models, internally developed, based on historical loss and default of the portfolios for which they are developed and used to calculate the economic and regulatory capital of each portfolio.

Periodic model monitoring and evaluation is carried out, assessing among others, the adequacy of its use, its predictive capacity, correct performance, and level of granularity. In the same way, the existence and compliance of the policies corresponding to each and every segment is verified (these policies enable the execution of business plans defined under the approved risk appetite).

The resulting ratings are regularly reviewed, incorporating the latest available financial information and experience in the development of banking relations. The depth and frequency of the reviews are increased in the case of customers who require a more detailed monitoring or through automatic warnings in the systems.

5.3. Limits, pre-classifications and pre-approvals definition

There are different limit models depending on the segment:

- Large corporate groups: we use a pre-classification model based on a system for measuring and monitoring economic capital. The result is the level of risk that the Group is willing to assume with a customer/group, in terms of Capital at Risk, nominal CAP, and maximum periods according to the type of transaction (in the case of financial entities, limits are managed through Credit Equivalent Risk (CER). It includes the actual and expected risk with a customer based on its usual operations, always within the limits defined in the risk appetite and established credit policies.

- Corporates and institutions that meet certain requirements (deep knowledge, rating, etc.): we use a more simplified pre-classification model through an internal limit that establishes a reference of the level of risk to be assumed with the customer. The criteria will include, among others, repayment capacity, debt in the system and the banking pool distribution.

In both cases, transactions over certain thresholds or with specific characteristics might require the approval of an analyst or committee.

- For individual customers and SMEs with low turnover, large volumes of credit transactions can be managed more easily with the use of automatic decision models for classifying the customer/ transaction binomial.

  In specific situations where a series of requirements are met, pre-approved transactions are granted to customers or potential customers (campaigns).

5.4. Transaction decision-making

As a general rule, from a risk admission point of view, the concession criteria are linked to the payment capacity of the borrower to comply, in time and form, with the total of the assumed financial obligations – this does not imply an impediment to requiring a higher level of real or personal guarantees.

The payment capacity will be evaluated based on the funds or net cash flows from the customer´s businesses or usual sources of income, without depending on guarantors or assets given as collateral. Such guarantors or assets should always be considered, when evaluating the approval of the transaction, as a second and exceptional way of recovery in case the first has failed.

In general, a guarantee is defined as a reinforcement measure added to a credit transaction for the purpose of mitigating the loss due to a breach of the payment obligation.

Mitigation techniques implementation follows the minimum requirements established in the guarantee management policy: legal certainty (possibility of legally requiring the settlement of guarantees at all times), the lack of substantial positive correlation between the counterparty and the value of the collateral, the correct documentation of all guarantees, the availability of documentation for the methodologies used for each mitigation technique and appropriate monitoring, traceability and regular control of the goods/assets used for the guarantee.

In Santander we apply several credit risk mitigation techniques on the basis, among other factors, of the type of customer and product. Some are inherent to specific transactions (e.g. real estate guarantees) while others apply to a series of transactions (e.g. derivatives netting and collateral). The different mitigation techniques can be grouped into the following categories:

- Personal guarantees
- Guarantees from credit derivatives
- Real guarantees

Effective guarantees are those real and personal guarantees for which its effectiveness as a credit risk mitigant is proved and whose valuation complies with the established policies and procedures. The analysis of the effectiveness of the guarantees must take into account, among others, the necessary time for the execution and ability to enforce the guarantees.

5.5. Monitoring / Anticipation

Monitoring business performance on a regular basis, and comparing performance against agreed plans is a key risk management activity.

All customers must be monitored on an ongoing and holistic manner that enables the earliest possible detection of any incidents that may arise impacting the customer's credit rating. Monitoring is carried out through an ongoing review of all customers, assigning a monitoring classification, establishing pre-defined actions associated to each classification and executing specific measures (pre-defined or ad-hoc) to correct any deviations that could have a negative impact for the Group.

In this monitoring, the consideration of forecasts and transactions characteristics throughout its life, is assured. It also takes into consideration any variations that may have occurred in the classification and its adequacy in the moment of the review.

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Monitoring is carried out by local and global Risk teams, supplemented by Internal Audit. It is based on customer segmentation:

- In the SCIB segment, monitoring, in the first instance, is a direct function of both the commercial manager and the risk analyst, who maintain the direct relationship with the customer and manage the portfolio. This function ensures that an up-to-date view of the customers' credit quality is always available and allows anticipating situations of concern and taking the necessary actions.

- In the commercial banking, institutions and SMEs with an analyst assigned, the function consists in identifying and tracking customers whose situations require closer monitoring, reviewing ratings and continuously analysing indicators.

- In the individual customers, businesses and SMEs with low turnover segments monitoring is carried out through automatic alerts for the main indicators, in order to detect shifts in the performance of the loan portfolio with respect to the forecasts in strategic plans.

5.6. Recovery and collections management

Recovery activity is a significant element in the Group's risk management. This function is carried out by the Recoveries area, which defines a global strategy and an enterprise-wide focus for recovery management.

The Group has a corporate recovery management model that sets the guidelines and general lines of action to be applied in the different countries, taking always into account the local particularities that the recovery activity requires, such as economic environment, business model or a mixture of both.

Recovery has been aligned with the socio-economic reality of the Group's countries and different risk management mechanisms are used with adequate prudential criteria considering unpaid debt conditions.

The diverse features of Santander´s customers make segmentation necessary in order to manage recoveries adequately. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological and digital component, while personalised management focuses on customers who, because of their profile, require a specific manager and more customised management.

Recovery management is divided into four stages: irregularity or early non-payment, non-performing loans recoveries, write-offs recoveries and management of foreclosed assets.

The management scope for the recovery function includes non-productive assets (NPAs), corresponding to the forborne portfolios, NPLs, write-off loans and foreclosed assets, where the Group may use mechanisms to rapidly reduce these assets, such as portfolios or foreclosed assets sales. Therefore, the Group is constantly seeking alternative solutions to juridical processes for collecting debt.

In the write-off loans category, debt instruments are included, whether due or not, for which, after an individualised analysis, their recovery is considered remote due to a notorious and unrecoverable impairment of the solvency of the transaction or the holder. Classification in this category involves full cancellation of the gross carrying amount of the loan and it's derecognition, which does not mean that the Group interrupts negotiations and legal proceedings to recover its amount.

Forborne loan portfolio

The Group has a corporate forbearance policy which acts as a reference for the different local transpositions of all its subsidiaries. These share the general principles established by the Bank of Spain and the EBA. This policy includes the requirements arising from the implementation of IFRS9.

This policy defines forbearance as the modification of the payment conditions of a transaction to allow a customer who is experiencing financial difficulties (current or foreseeable), to fulfil their payment obligations. If the modification was not made, it would be reasonably certain that the customer would not be able to meet their financial obligations. The modification could be made to the original transaction or through a new transaction replacing the previous one.

In addition, this policy also sets down rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their granting and follow up. Therefore, the forbearance transaction must be focused on recovery of the amounts due, the payment obligations must be adapted to the customer's actual situation and losses must be recognised as soon as possible if any amounts are deemed irrecoverable.

Forbearances may never be used to delay the immediate recognition of losses or to hinder the appropriate recognition of risk of default.

Further, the policy defines the classification criteria for the forborne transactions in order to ensure that the risks are suitably recognised, bearing in mind that they must remain classified as non-performing or in watch-list for a prudential period of time (aligned with Regulation EU 680/2014) to attain reasonable certainty that repayment capacity can be recovered.

The forborne portfolio stood at EUR 41,234 million at the end of December. In terms of credit quality, 49% is classified as non-performing loans, with average coverage of 53% (26% 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.

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CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in million of euros, except number of transactions that are in units.	31-12-2018													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered. Real estate guarantee	Maximum amount of the actual collateral that can be considered. Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered. Real estate guarantee	Maximum amount of the actual collateral that can be considered. Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	37	76	16	18	11	4	6	13	7	9	4	4	-	2
Other financial institutions and: individual shareholder	265	11	135	38	16	15	10	110	3	75	16	9	-	9
Non-financial institutions and individual shareholder	187,192	7,383	44,452	13,039	8,116	1,321	6,339	121,445	4,669	26,122	8,156	5,058	689	5,851
Of which: financing for constructions and property development	426	313	1,889	1,932	1,600	30	620	328	245	1,369	1,329	1,038	28	594
Other warehouses	1,578,622	3,476	824,591	17,193	7,905	4,016	4,352	874,840	1,668	181,469	5,834	3,505	823	2,772
Total	**1,766,116**	**10,946**	**869,194**	**30,288**	**16,048**	**5,356**	**10,707**	**996,408**	**6,347**	**207,675**	**14,010**	**8,576**	**1,512**	**8,634**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Amounts in millions of euros, except number of operations that are in units,	31/12/2018													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered Real estate guarantee	Maximum amount of the actual collateral that can be considered Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered, Real estate guarantee	Maximum amount of the actual collateral that can be considered, Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	33	71	14	13	10	-	6	10	7	9	4	4	-	2
Other financial institutions and: individual shareholder	173	10	106	38	16	14	9	77	3	54	16	9	-	8
Non-financial institutions and individual shareholder	31,543	2,647	29,774	10,175	6,551	626	3,414	15,917	1,633	19,759	6,433	3,944	385	3,165
Of which: Financing for constructions and property development	251	110	1,684	1,383	1,153	5	357	195	74	1,233	920	715	5	338
Other warehouses	27,656	412	45,592	4,956	4,189	22	1,099	10,967	187	26,213	2,866	2,300	9	931
Total	**59,405**	**3,140**	**75,486**	**15,182**	**10,766**	**662**	**4,528**	**26,971**	**1,830**	**46,035**	**9,319**	**6,257**	**394**	**4,106**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the foregoing tables were classified at 31 December 2018 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.

The table below shows the changes in 2018 in the forborne loan portfolio:

Millions of euros	31/12/2018	
	Loans: Gross amount	
	Santander Group Spain	*Of wich: Banco Santander, S,A,*
Balance at end of prior year	**36,164**	**8,949**
Merger effect(*)	-	6,609
Beginning balance	36,164	**15,558**
Refinancing and restructuring of the period	10,191	2,595
Memorandum item: Impact recorded in the income statement for the period	*2,659*	*282*
Debt repayment	(11,126)	(3,415)
Foreclosure	(731)	(468)
Derecognised from the consolidated balance sheet	(3,660)	(643)
Others variations	(311)	165
Balance at end of year	30,527	**13,792**

(*) See further detail Note 1,d and Note 1,i,

51% 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 26% of the total forborne loan portfolio and 42% of the non-performing portfolio).

c) Trading market risk, structural and liquidity risk

Activities subject to market risk and types of market risk

The perimeter of activities subject to market risk involves operations where patrimonial risk is assumed as a consequence of variations in market factors. Thus they include trading risks and also structural risks, which are also affected by market shifts.

This risk arises from changes in risk factors - interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices and the volatility of each of these elements - as well as from the liquidity risk of the various products and markets in which the Group operates, and balance sheet liquidity risk:

- Interest rate risk is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- Inflation rate risk is the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to inflation or to a change in the actual rate.

- Exchange rate risk is the sensitivity of the value of a position in a currency other than the base currency to a movement in exchange rates. Hence, a long or open position in a foreign currency will produce a loss if that currency depreciates against the base currency. Among the exposures affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any foreign currency transactions.

- Equity risk is the sensitivity of the value of positions in equities to adverse movements in market prices or expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, equity swaps, etc.).

- Credit spread risk is the risk or sensitivity of the value of positions in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is the difference between financial instruments listed with a margin over other benchmark instruments, mainly the interest rate risk of Government bonds and interbank interest rates.

- Commodities price risk is the risk derived from the effect of potential changes in commodities prices. The Group's exposure to this risk is not significant and is concentrated in derivative transactions on commodities with customers.

- Volatility risk is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

In addition to the above market risks, balance sheet liquidity risk must also be considered. Unlike market liquidity risk, balance sheet liquidity risk is defined as the possibility of not meeting payment obligations on time, or doing so at excessive cost. Among the losses caused by this risk are losses due to forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.

1. Trading market risk management

The Group's trading risk profile remained moderately low in 2018, in line with previous years, due to the fact that the Group's activity has traditionally focused on providing services to its customers, with only limited exposure to complex structured assets, as well as geographic diversification and risk factors.

The standard methodology Santander Group applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame. The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and on a timely manner. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

The detail of the metrics risk related to the Group's balance sheet items as of 31 December 2018 is as follows:

Million of euros	Balance sheet amount	Main market risk metric		Main risk factor for "Other" balance
		VaR	Other	
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	113,663	-	111,663	Interest rate
Financial assets held for trading	92,879	92,140	739	Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	10,730	9,327	1,403	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	57,460	56,584	876	Interest rate
Financial assets designated at fair value through other comprehensive income	121,091	-	121,091	Interest rate, spread
Financial assets at amortised cost	946,099	-	946,099	Interest rate
Hedging derivatives	8,607	8,586	21	Interest rate, exchange rate
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,088	-	1,088	Interest rate
Other assets	107,654	-	-	
Total Assets	**1,459,271**		-	
Liabilities subject to market risk				
Financial liabilities held for trading	70,343	70,054	289	Interest rate, spread
Financial liabilities designated at fair value through profit or loss	68,058	67,909	149	Interest rate
Financial liabilities at amortised cost	1,171,630	-	1,171,630	Interest rate, spread
Hedging derivatives	6,363	6,357	6	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	303	-	303	Interest rate
Other liabilities	35,213	-	-	
Total liabilities	**1,351,910**			
Equity	**107,361**			

VaR during 2018 fluctuated between EUR 16.6 million and EUR 6.4 million (2017: 9.7 and 63.2). The most significant changes were related to variations in exchange and interest rate exposures and also market volatility.

The average VaR in 2018 was EUR 9.7 million, slightly lower than in the two previous years (EUR 21.5 million in 2017).

The following table shows the average and latest values of Var at 99% by risk factor in the last three years as well as the minimum and maximum values.

Total VaR trading (Derivatives: VaR risk per factor of risk)

Million of euros. Structural VaR 99% with a temporary horizon one day.

Million of euros	2018				2017		2016	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Total	**6.4**	**9.7**	**16.6**	**11.3**	**21.5**	**10.2**	**18.3**	**17.9**
Diversification effect	(3.3)	(9.3)	(18.7)	(11.5)	(8.0)	(7.6)	(10.3)	(9.6)
Interest rate	5.9	9.4	15.5	9.7	16.2	7.9	15.5	17.9
Equities	0.8	2.4	6.3	2.8	3.0	1.9	1.9	1.4
Exchange rate	1.6	3.9	11.4	6.2	6.6	3.3	6.9	4.8
Credit spread	1.0	3.4	13.0	4.1	3.6	4.6	4.2	3.3
Commodities	0.0	0.0	0.4	0.0	0.0	0.0	0.1	0.1

The Group continues to have a very limited exposure to instruments or complex structured assets, a management culture for which prudence in risk management is one of its hallmarks in risk management. In both cases, the exposure has reduced comparing with the previous year, for which the Group has:

- Hedge funds: the total exposure is not significant (EUR 28 million at close of December 2018) and is all indirect, acting as counterparty in derivatives transactions. The risk with this type of counterparty is analysed case by case, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- Monolines: exposure to bond insurance companies as of December 2018 was EUR 24 million, all of it indirect, by virtue of the guarantee provided by this type of entity for various financing or traditional securitisation transactions. The exposure in this case is to double default, as the primary underlying assets are of high credit quality.

The Group's policy for approving new transactions related to these products remains very prudent and conservative. It is subject to strict supervision by the Group's senior management. Before approving a new transaction, product or underlying asset, the Risk division verifies:

- The existence of an appropriate valuation model to monitor the value of each exposure: mark-to-market, mark-to-model or mark-to-liquidity.
- The availability in the market of observable data (inputs) needed to apply this valuation model.

  And provided these two conditions are met:

  - The availability of adequate systems, duly adapted to calculate and monitor every day the results, positions and risks of new transactions.

  - The degree of liquidity of the product or underlying asset, in order to make possible their coverage when deemed appropriate.

Calibration and test measures

Actual losses can differ from those forecast by VaR for various reasons related to the limitations of this metric which are detailed later in the section of methodologies. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability.

The most important test consists of backtesting exercises, analysed at the local and global levels and in all cases with the same methodology. Backtesting consists of comparing forecast VaR measurements, with a certain level of confidence and time frame, with actual losses obtained in the same time frame. This enables anomalies in the VaR model of the portfolio in question to be detected (for example, shortcomings in the parameterisation of the valuation models of certain instruments, not very adequate proxies, etc.).

The Group calculates and evaluates three types of backtesting:

- "Clean" backtesting: the daily VaR is compared with the results obtained without taking into account intraday results or changes in the portfolio's positions. This method compares the effectiveness of the individual models used to assess and measure the risks of positions.

- Backtesting on complete results: daily VaR is compared with the day's net results, including the results of intraday transactions and those generated by fees and commissions.

- Backtesting on complete results without mark-ups or fees: the daily VaR is compared to the day's net results from intraday transactions but excluding those generated by mark-ups and fees. This method aims to give an idea of the intraday risk assumed by Group treasuries.

For the first case and for the total portfolio, there were three exceptions of Value at Earnings (VaE) at 99% in 2018 (day on which daily profit was higher than VaE) on 21 and 30 August and 8 October, caused by strong shifts in the exchange rates of emerging economies.

There were also one exception to VaR at 99% (day on which the daily loss was higher than the VaR) on the 29 May, due to the rise in market volatility caused by political instability in Europe, and on 15 and 29 October due to the strong variations in the exchange rates and interest rates in Brazil and Mexico motivated by the general elections volatility.

The number of exceptions which occurred is consistent with the assumptions specified in the VaR calculation model.

2. Structural balance sheet risks[4]

2.1. Main aggregates and variations

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2018, in line with previous years.

Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of SCIB, distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general the structural VaR is not significant according to the assets amounts or capital of the Group:

Structural VaR

Million of euros. Structural VaR 99% with a temporary horizon one day.

	2018				2017		2016	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**485.0**	**568.5**	**799.4**	**556.8**	**878,0**	**815,7**	**869,3**	**922,1**
Diversification effect	(319.7)	(325.0)	(355.4)	(267.7)	(337.3)	(376.8)	(323.4)	(316.6)
VaR interest rate (*)	301.3	337.1	482.5	319.5	373.9	459.6	340.6	327.2
VaR exchange rate	323.3	338.9	386.2	324.9	546.9	471.2	603.4	588.5
VaR equities	180.1	217.6	286.1	180.1	294.5	261.6	248.7	323.0

(*) Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- **Europe and the United States**

The main balance sheets, the Parent, United Kingdom and United States, in mature markets and in a low interest rate setting, usually show positive sensitivities to interest rates in economic value of equity and net interest income.

Exposure levels in all countries are moderate in relation to the annual budget and capital levels.

At the end of December 2018, risk on net interest income over one year , measured as sensitivity to parallel changes in the worst case scenario of ±100 basis points, was concentrated in the euro, at EUR 269 million, the pound sterling, at EUR 203 million, the US dollar, with EUR 130million, and the Polish zloty, at EUR 53 million
.

[4] Includes the total balance sheet, except for financial assets and liabilities held for trading.

- **Latin America**

Latin American balance sheets are usually positioned for interest rate cuts for both economic value and net interest income, except for net interest income in Mexico, where liquidity excess is invested in the short term in the local currency.

In 2018, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

At the end of December, risk on net interest income over one year, measured as sensitivity to parallel changes in the worst case scenario of ±100 basis points, was concentrated in three countries: Brazil (EUR 45 million), Chile (EUR 35 million) and Mexico (EUR 12 million).

Risk to the economic value of equity over one year, measured as sensitivity to parallel ± 100 basis point movements in the worst case scenario, was also concentrated in Brazil (EUR 419 million), Chile (EUR 219 million) and Mexico (EUR 172 million).

- **VaR of on-balance-sheet structural interest rate risk**

In addition to sensitivities to interest rate movements (in which, assessments of ±100 bp movements are complemented by assessments of +/-25 bp, +/-50 bp and +/-75 bp movements to give a fuller understanding of risk in countries with very low rates), the Group also uses other methods to monitor structural balance sheet risk from interest rates movements: these include scenario analysis and VaR calculations, applying a similar methodology to that used for trading portfolios.

Structural interest rate risk, measured in terms of VaR at one-day and at 99%, averaged EUR 352.5 million in September 2018. It is important to note the high level of diversification between the balance sheets of Europe and United States and those of Latin America.

Structural foreign currency risk/hedges of results

Structural exchange rate risk arises from Group transactions in foreign currencies, mainly related to permanent financial investments, results and the hedging of both.

This management is dynamic and seeks to limit the impact on the core capital ratio from exchange rates movements. In 2018, hedging levels of the core capital ratio for foreign exchange rate risk were maintained near 100%.

At the end of 2018, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in Brazilian real, US dollars, UK pounds sterling, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with foreign exchange-rate derivatives.

In addition, the financial area is responsible for managing foreign exchange rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

Structural equity risk

The Group maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as equity instruments or as investments, depending on the percentage or control.

The equity portfolio available for the banking book at the end of December 2018 was diversified in securities in various countries, mainly Spain, China, Morocco, Netherlands and Poland. Most of the portfolio is invested in financial activities and insurance sectors. Among other sectors, to a lesser extent, are for example real estate activities or public administration.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. As of the end of December 2018, the VaR at 99% with a one day time frame was EUR 180.1 million (EUR 261.6 and EUR 323 million at the end of 2017 and 2016, respectively).

2.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of its net interest income and equity value to changes in interest rates. This sensitivity arises from differences in maturity dates and interest rate repricing gaps in the various balance sheet items.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial actions are adopted to align this position with that desired by the Group. These measures can range from opening positions on markets to the definition of the interest rate features of commercialised products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, the sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural exchange-rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a monthly basis.

Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

3. Liquidity risk

Structural liquidity management aims to fund the Group's recurring activity optimizing maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the following principles:

- Decentralized liquidity model.
- Medium- and long-term 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.
- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.
- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

The effective application of these principles by all institutions comprising the Group required the development of a unique management framework built upon three essential pillars:

A solid organisational and governance model that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by Local Asset and Liability Committees (ALCO) in coordination with the Global ALCO, which is the body empowered by Banco Santander's board in accordance with the corporate Asset and Liability Management (ALM) framework.

This governance model has been reinforced as it has been included within the Santander Risk Appetite Framework. This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement.

The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite establishes the limits within which the subsidiaries can operate in order to achieve their strategic objectives.

Management adapted in practice to the liquidity needs of each business. Every year, based on business needs, a liquidity plan is developed which seeks to achieve:

- A solid balance sheet structure, with a diversified presence in the wholesale markets;
- The use of liquidity buffers and limited encumbrance of assets;
- Compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues developing the ILAAP (Internal Liquidity Adequacy Assessment Process), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios.

iii. Asset encumbrance

It is important to note the Group's moderate use of assets as security for structural balance-sheet funding sources.

Following the guidelines laid down by the European Banking Authority (EBA) in 2014, the concept of asset encumbrance includes both on-balance-sheet assets provided as security in transactions to obtain liquidity and off-balance-sheet assets that have been received and re-used for the same purpose, as well as other assets associated with liabilities for reasons other than funding.

The residual maturities of the liabilities associated with the assets and guarantees received and committed are presented below, as of 31 of December of 2018 (thousand of millions of euros)

Residual maturities of the liabilities	unmatured	<=1month	>1month <=3months	>3months <=12months	>1year <=2years	>2years <=3years	3years <=5years	5years <=10years	>10years	TOTAL
Commited assets	28.5	53.7	11.9	29.0	78.6	55.4	28.1	20.4	16.5	322.2
Guarantees received	24.6	15.8	10.7	10.3	1.8	1.8	1.7	1.8	1.1	69.6

The reported Group information as required by the EBA at 2018 year-end is as follows:

On-balance-sheet encumbered assets

Thousand of million of euros	Carrying amount of encumbered assets	Fair Value of encumbered assets	Fair Value of non-encumbered assets	Carrying amount of non-encumbered assets
Loans and advances	214.6		855.0	
Equity instruments	4.2	4.2	10.7	10.7
Debt securities	76.3	76.3	114.8	114.9
Other assets	27.1		156.6	
Total assets	**322.2**		**1,137.1**	

Encumbrance of collateral received

Thousand of million of euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**69.6**	**48.9**
Loans and advances	-	-
Equity instruments	2.7	6.0
Debt securities	65.0	42.9
Other collateral received	1.9	-
Own debt securities issued other than own covered bonds or ABSs	**-**	**1.4**

Encumbered assets and collateral received and matching liabilities

Thousand of million of euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**301.6**	**391.8**

On-balance-sheet encumbered assets amounted to EUR 322.2 thousand million, of which 67% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 69.6 thousand 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 391.8 thousand million of encumbered assets, which give rise to EUR 301.6 thousand million of matching liabilities.

As of December 2018, total asset encumbrance in funding operations represented 24.8% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: €1.5878 thousand million as of December 2018). This percentage is similar to the values presented by the Group before the acquisition of Banco Popular Español, S.A.U. in 2017.

Lastly, regard should be had to the different sources of encumbrance and the role they play in the Group's funding:

- 51.5 % of total encumbered assets relate to security provided in medium- and long-term financing transactions (with residual maturity of more than one year) to fund the commercial balance-sheet activity. This places the level of asset encumbrance in "structural" funding transactions at 12.8 % of the expanded balance sheet under EBA standards.
- The other 48.5 % relate to transactions in the short-term market (with residual maturity of less than one year) or to security provided in derivative transactions whose purpose is not to fund the ordinary business activity but rather to ensure efficient short-term liquidity management.

d) Capital risk

The capital risk function, as second line of defence carries out the control and supervision of the capital activities developed by the first line of defence, which independently challenges mainly through the following processes:

- Supervision of capital planning and adequacy exercises through a review of all their components (balance sheet, profit and loss account, risk-weighted assets and available capital).

- Ongoing supervision of measurement of the Group's regulatory capital by identifying the key metrics for the calculation, setting tolerance levels for identified metrics and reviewing their consumption and the consistency of the calculations, including single transactions with a capital impact.

The function is designed to carry out full and regular monitoring of capital risk by verifying that capital is sufficient and adequately covered in accordance with the Group's risk profile.

The Group commands a sound solvency position, above the levels required by regulators and by the European Central bank.

At 1 March 2019, at a consolidated level, the Group must maintain a minimum capital ratio of 9.70% of CET1 fully loaded (4.5% being the requirement for Pillar I, 1.5% being the requirement for Pillar 2R (requirement), 2.5% being the requirement for capital conservation mattress, 1% being the requirement for G-SIB and 0.20% being the requirement for anti-cyclical capital cushion). Santander Group must also maintain a minimum capital ratio of 1.5% of Tier 1 fully loaded and a minimum total ratio of 13.20% fully loaded.

Regulatory capital

In 2018, the solvency target set was achieved. Santander's CET1 fully loaded ratio stood at 11.30% at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

Reconciliation of accounting capital with regulatory capital (Million of euros)

	2018	2017
Subscribed capital	8,118	8,068
Share premium account	50,993	51,053
Reserves	53,988	52,577
Treasury shares	(59)	(22)
Attributable profit	7,810	6,619
Approved dividend	(2,237)	(2,029)
Shareholders' equity on public balance sheet	**118,613**	**116,265**
Valuation adjustments	(22,141)	(21,777)
Non- controlling interests	10,889	12,344
Total Equity on public balance sheet	**107,361**	**106,832**
Goodwill and intangible assets	(28,644)	(28,537)
Eligible preference shares and participating securities	9,754	7,635
Accrued dividend	(1,055)	(968)
Other adjustments (*)	(9,700)	(7,679)
Tier I (Phase-in)	**77,716**	**77,283**

(*)Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2018	2017
Capital coefficients		
Level 1 ordinary eligible capital (million of euros)	67,962	74,173
Level 1 additional eligible capital (million of euros)	9,754	3,110
Level 2 eligible capital (million of euros)	11,009	13,422
Risk-weighted assets (million of euros)	592,319	605,064
Level 1 ordinary capital coefficient (CET 1)	11.47%	12.26%
Level 1 additional capital coefficient (AT1)	1.64%	0.51%
Level 1 capital coefficient (TIER1)	13.12%	12.77%
Level 2 capital coefficient (TIER 2)	1.87%	2.22%
Total capital coefficient	14.99%	14.99%

Eligible capital (Million of euros)

	2018	2017
Eligible capital		
Common Equity Tier I	**67,962**	**74,173**
Capital	8,118	8,068
(-) Treasure shares and own shares financed	(64)	(22)
Share Premium	50,993	51,053
Reserves	55,036	52,241
Other retained earnings	(23,022)	(22,363)
Minority interests	6,981	7,991
Profit net of dividends	4,518	3,621
Deductions	(34,598)	(26,416)
Goodwill and intangible assets	*(28,644)*	(22,829)
Others	*(5,954)*	(3,586)
Additional Tier I	**9,754**	**3,110**
Eligible instruments AT1	9,666	8,498
T1- excesses-subsidiaries	88	347
Residual value of dividends	-	(5,707)
Others	-	(27)
Tier II	**11,009**	**13,422**
Eligible instruments T2	11,306	9,901
Gen. funds and surplus loans loss prov. IRB	-	3,823
T2-excesses- subsidiaries	(297)	(275)
Others	-	(27)
Total eligible capital	**88,725**	**90,706**

Note: Santander Bank and its affiliates had not taken part in any State aid programmes.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS “Basel III leverage ratio framework” and “Disclosure requirements” documents.

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).

- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.

- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.

- A charge for the potential risk of security funding transactions.

- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

The European Commission's proposals to modify CRR and CRD IV on 23 November 2016, foresee a mandatory requirement of a 3% leverage ratio for Tier 1 capital, which would be added to the own funds requirements in the article 92 of the CRR. The proposals for the Commission's modification also point to the possibility of introducing a buffer of leverage ratio for global systemic entities in the future.

Million of euros	31-12-2018	31-12-2017
Leverage		
Level 1 Capital	77,716	77,283
Exposure	1,489,094	1,463,090
Leverage Ratio	5.22%	5.28%

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity).

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

50. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Bank (see Note 1,b),

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Appendix I

Subsidiaries of Banco Santander, S.A. (1)

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
2 & 3 Triton Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	53	7	11
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF December (1) Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	9	(1)	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	2	0	0
A & L CF September (4) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	19	0	0
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	SECURITISATION	(291)	35	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	BANKING	5	0	6
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	522	5	155
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	12	0
Abbey National Treasury Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	366	21	376
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	299	(115)	454
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	HOLDING COMPANY	2,542	(9)	1,863
Aevis Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	CARDS	1	0	1
AFB SAM Holdings, S.L.	Spain	1.00%	99.00%	100.00%	100.00%	HOLDING COMPANY	116	0	113
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	4	0	5
ALIL Services Limited	Isle of Man	0.00%	100.00%	100.00%	100.00%	SERVICES	3	0	3
Aliseda Participaciones Inmobiliarias, S.L. (i)	Spain	0.00%	0.00%	0.00%	100.00%	REAL ESTATE	-	-	-
Aliseda Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	48	(20)	32
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,209	(6)	1,148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Commercial Bank Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	(227)	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	36	(97)	0
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
AN (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	92	0	27
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	3	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	SERVICES	2	1	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	2	0	2

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		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	SERVICES	0	1	0
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (r)	Portugal	0.00%	99.90%	100.00%	100.00%	INACTIVE	3	0	0
Argenline S.A. (j) (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Asto Digital Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	40	(13)	27
Athena Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	-	FINANCIAL SERVICES	0	(2)	0
Atlantes Azor No. 1	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Atlantes Mortgage No.1 FTC	Portugal	-	(b)	-	-	SECURITISATION	25	0	0
Atlantes Mortgage No.1 plc	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	FINANCIAL SERVICES	61	4	54
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Leases 2018	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS French LT Leases Master	France	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS Swiss Leases 2013 Gmbh	Switzerland	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	SECURITISATION	1	(6)	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	79.52%	100.00%	100.00%	TECHNOLOGY SERVICES	3	0	3
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	44	4	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	10	5	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	36	2	25
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	RENTING	8	0	8
Aviación Intercontinental, A.I.E.	Spain	99.97%	0.03%	100.00%	100.00%	RENTING	82	0	63
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	AIR TRANSPORT	4	(1)	4
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	RENTING	0	0	1
Aviación RC II, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	13	3	9
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	10	1	11
Aviación Santillana S.L.	Spain	99.00%	1.00%	100.00%	-	RENTING	2	0	2
Aviación Scorpius, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	43	0	26
Aviación Suances, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	AIR TRANSPORT	2	2	3
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	26	3	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	FINANCE COMPANY	312	204	443
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	BANKING	297	37	123
Banco Bandepe S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	BANKING	942	45	848
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	14	0	9
Banco de Asunción, S.A. en liquidación voluntaria (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	BANKING	0	0	0
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	1,088	(4)	1,085
Banco Olé Bonsucesso Consignado S.A.	Brazil	0.00%	53.91%	60.00%	60.00%	BANKING	183	78	153
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.93%	50.00%	50.00%	FINANCE COMPANY	66	8	31
Banco S3 México, S.A., Institución de Banca Múltiple	Mexico	0.00%	100.00%	100.00%	100.00%	CREDIT INSTITUTION	49	7	72
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	BANKING	3,555	745	3,220
Banco Santander (Brasil) S.A.	Brazil	13.94%	75.92%	90.44%	90.24%	BANKING	12,858	2,738	10,112

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2018**	**Year 2017**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	75.13%	100.00%	100.00%	FINANCE COMPANY	38	14	39
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	76.48%	100.00%	100.00%	HOLDING COMPANY	13	1	8
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	77.83%	100.00%	100.00%	FINANCE COMPANY	5	1	5
Banco Santander (Panamá), S.A. (j)	Panama	0.00%	100.00%	100.00%	100.00%	BANKING	37	0	31
Banco Santander (Suisse) SA	Switzerland	0.00%	100.00%	100.00%	100.00%	BANKING	1,093	36	820
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	BANKING	166	24	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	95	2	101
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	BANKING	874	98	972
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	0.00%	75.13%	75.17%	99.99%	BANKING	4,727	853	4,193
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	BANKING	160	22	121
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	BANKING	787	50	836
Banco Santander Río S.A.	Argentina	0.00%	99.30%	99.25%	99.20%	BANKING	761	247	411
Banco Santander Totta, S.A.	Portugal	0.00%	99.86%	99.96%	99.96%	BANKING	2,922	467	3,415
Banco Santander, S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	BANKING	346	72	191
Banif International Bank, Ltd (j)	Bahamas	0.00%	99.86%	100.00%	100.00%	BANKING	0	0	0
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	22	3	25
BCLF 2013-1 B.V.	The Netherlands	-	(b)	-	-	SECURITISATION	0	0	0
BEN Benefícios e Serviços S.A.	Brazil	0.00%	89.85%	100.00%	-	PAYMENT SERVICES	10	0	9
Besaya ECA Designated Activity Company (i)	Ireland	0.00%	0.00%	0.00%	-	FINANCE COMPANY	-	-	-
Bilkreditt 3 Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 4 Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 5 Designated Activity Company(j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 6 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
BPE Financiaciones, S.A.	Spain	90.00%	10.00%	100.00%	100.00%	FINANCE COMPANY	1	0	1
BPE Representaçoes y Participaçoes, Ltda. (j)	Brazil	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
BPP Asesores S.A. (j)	Argentina	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
BPV Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	53.91%	100.00%	100.00%	FINANCE COMPANY	2	1	1
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	23	16	73
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	FINANCE COMPANY	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	30	(15)	38
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	306	3	267
Capital Street Delaware LP	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	14	0	14
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,151	21	1.172
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	0	0	0
Carfinco Financial Group Inc.	Canada	96.42%	0.00%	96.42%	96.42%	HOLDING COMPANY	57	0	75
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	FINANCE COMPANY	42	6	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	50	3	53
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	485	67	249
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%	69.71%	100.00%	100.00%	LEASING	14	(12)	1
Centro de Capacitación Santander, A.C.	Mexico	0.00%	75.13%	100.00%	100.00%	NON PROFIT INSTITUTE	1	0	1
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	AIRCRAFT RENTAL	(54)	(7)	0
Chrysler Capital Auto Funding I LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(21)	35	0
Chrysler Capital Auto Funding II LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(18)	24	0
Chrysler Capital Auto Receivables LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	0	0	0

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Company	**Location**	**Direct**	**Indirect**	**Year 2018**	**Year 2017**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Chrysler Capital Auto Receivables Trust 2016-A	United States	-	(b)	-	-	SECURITISATION	21	(13)	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	106	(171)	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	90	(3)	0
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	BANKING	363	141	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	FINANCE COMPANY	20	11	26
Comunidad Laboral Trabajando Argentina S.A.	Argentina	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Comunidad Laboral Trabajando Iberica, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Consulteam Consultores de Gestão, Lda.	Portugal	86.28%	13.72%	100.00%	100.00%	REAL ESTATE	132	(132)	2
Consumer Lending Receivables LLC	United States	0.00%	69.71%	100.00%	100.00%	SECURITISATION	0	0	0
Crawfall S.A. (g) (j)	Uruguay	100.00%	0.00%	100.00%	100.00%	SERVICES	0	0	0
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	REINSURANCES	9	0	7
Digital Procurement Holdings N.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	5	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	CARDS	10	2	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Dirgenfin, S.L., en liquidación (j)	Spain	0.00%	100.00%	100.00%	100.00%	REAL ESTATE DEVELOPMENT	(10)	0	0
Drive Auto Receivables Trust 2015-A	United States	-	(b)	-	-	SECURITISATION	(2)	8	0
Drive Auto Receivables Trust 2015-B	United States	-	(b)	-	-	SECURITISATION	14	15	0
Drive Auto Receivables Trust 2015-C	United States	-	(b)	-	-	SECURITISATION	(15)	9	0
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	SECURITISATION	(20)	15	0
Drive Auto Receivables Trust 2016-A	United States	-	(b)	-	-	SECURITISATION	(31)	15	0
Drive Auto Receivables Trust 2016-B	United States	-	(b)	-	-	SECURITISATION	(57)	34	0
Drive Auto Receivables Trust 2016-C	United States	-	(b)	-	-	SECURITISATION	(63)	48	0
Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	SECURITISATION	(83)	55	0
Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	SECURITISATION	(69)	50	0
Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	SECURITISATION	(130)	97	0
Drive Auto Receivables Trust 2017-A	United States	-	(b)	-	-	SECURITISATION	(68)	42	0
Drive Auto Receivables Trust 2017-B	United States	-	(b)	-	-	SECURITISATION	(66)	48	0
Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	SECURITISATION	0	(34)	0
Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	SECURITISATION	0	(81)	0
Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	SECURITISATION	0	(96)	0
Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	SECURITISATION	0	(116)	0
Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	SECURITISATION	0	24	0
Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	INACTIVE	0	0	0
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	75.13%	100.00%	100.00%	SERVICES	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	55.00%	0.00%	55.00%	55.00%	FINANCE COMPANY	20	3	13
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	REAL ESTATE	1	0	1
Esfera Fidelidade S.A.	Brazil	0.00%	89.85%	100.00%	-	SERVICES	2	0	2
Evidence Previdência S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	HOLDING COMPANY	64	(17)	42
Finance Professional Services, S.A.S.	France	0.00%	100.00%	100.00%	100.00%	SERVICES	2	1	2
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	FINANCE COMPANY	9	2	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	FINANCE COMPANY	214	66	140
Finsantusa, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,785	(9)	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	5	0	4
Fondo de Inversión Privado Renta Terrenos I (j)	Chile	0.00%	100.00%	100.00%	-	INVESTMENT FUND	27	1	0
Fondo de Titulización de Activos PYMES Santander 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Empresas 3	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización PYMES Santander 13	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización PYMES Santander 14	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Consumo 2	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(5)	(1)	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(2)	4	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
FTPYME Santander 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado (s)	Brazil	-	(b)	-	-	INVESTMENT FUND	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado (s)	Brazil	-	(b)	-	-	INVESTMENT FUND	18	3	0
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	SECURITISATION	7	0	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	SERVICES	1	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	SERVICES	4	0	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PAYMENTS AND COLLECTIONS SERVICES	1	0	0
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	1	0	0
Gestora de Procesos S.A. en liquidación (j)	Peru	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Gestora Patrimonial Calle Francisco Sancha 12, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	SECURITIES AND REAL ESTATE MANAGEMENT	5	12	16
Gestora Popular, S.A.	Spain	35.00%	65.00%	100.00%	100.00%	REAL ESTATE	3	1	5
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	79.52%	88.50%	88.50%	PAYMENT SERVICES	379	109	388
Global Galantis, S.A.	Spain	0.00%	100.00%	100.00%	-	INACTIVE	0	0	0
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2014-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Golden Bar Stand Alone 2018-1	Italy	-	(b)	-	-	SECURITISATION	0	0	0
Green Energy Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	HOLDING COMPANY	2,669	269	2,817
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	-	HOLDING COMPANY	3,902	335	4,001

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
GTS El Centro Equity Holdings, LLC (c)	United States	0.00%	56.88%	56.88%	81.90%	HOLDING COMPANY	32	(1)	29
GTS El Centro Project Holdings, LLC (c)	United States	0.00%	56.88%	100.00%	100.00%	HOLDING COMPANY	32	(1)	17
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	AUTOMOTIVE	2	0	2
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	SECURITISATION	(48)	2	0
Hipototta No. 4 plc	Ireland	-	(b)	-	-	SECURITISATION	1	(5)	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	SECURITISATION	(39)	(2)	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	SECURITISATION	(4)	(3)	0
Hipototta No.13	Portugal	-	(b)	-	-	SECURITISATION	0	0	0
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	RENTING	1	0	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	110	(9)	511
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	65	(6)	719
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(41)	3	0
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	3	(5)	0
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Holneth B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	401	4	316
HQ Mobile Limited (g)	United Kingdom	0.00%	100.00%	100.00%	-	INTERNET TECHNOLOGY	2	0	10
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-COMMERCE	7	(2)	6
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	3,710	66	3,775
Ingeniería de Software Bancario HUB Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	IT SERVICES	26	1	20
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	54	0	54
Inmobiliaria Viagracia, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	85	7	63
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Integry Tecnologia e Serviços A H U Ltda.	Brazil	0.00%	79.52%	100.00%	100.00%	TECHNOLOGY SERVICES	16	0	13
Interfinance Holanda B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Intermediacion y Servicios Tecnológicos, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	SERVICES	2	1	2
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	328	(10)	365
Inversiones Inmobiliarias Alprosa, S.L.	Spain	94.33%	5.67%	100.00%	100.00%	REAL ESTATE	415	(1)	393
Inversiones Inmobiliarias Cedaceros, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	REAL ESTATE	(29)	0	0
Inversiones Inmobiliarias Gercebio, S.A.	Spain	97.80%	2.20%	100.00%	100.00%	REAL ESTATE	(11)	0	0
Inversiones Inmobiliarias Inagua, S.A. (i)	Spain	0.00%	0.00%	0.00%	100.00%	REAL ESTATE	-	-	-
Inversiones Inverjota, SICAV, S.A., en liquidación (j) (i)	Spain	0.00%	0.00%	0.00%	-	INVESTMENT COMPANY	-	-	-
Inversiones Marítimas del Mediterráneo, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INACTIVE	15	(2)	4
Investigaciones Pedreña, A.I.E.	Spain	99.00%	1.00%	100.00%	-	RESEARCH AND DEVELOPMENT	0	0	0
Isban México, S.A. de C.V.	Mexico	0.00%	75.13%	100.00%	100.00%	IT SERVICES	36	4	30
Isla de los Buques, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	FINANCE COMPANY	1	0	1
La Unión Resinera Española, S.A., en liquidación (j)	Spain	76.79%	19.55%	96.35%	96.35%	CHEMISTRY	0	0	0
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	(20)	(43)	0
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton PECOH Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	1	0
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	1	0
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	AGRICULTURAL HOLDING	28	0	16
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FACTORING	1	0	0
Luri 1, S.A. (m)	Spain	36.00%	0.00%	36.00%	31.00%	REAL ESTATE	15	(3)	5
Luri 4, S.A. Unipersonal, en liquidación (j) (i)	Spain	0.00%	0.00%	0.00%	100.00%	REAL ESTATE	-	-	-
Luri 6, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE INVESTMENT	1,315	10	1,405
MAC No. 1 Limited	United Kingdom	-	(b)	-	-	MORTGAGE CREDIT COMPANY	0	0	0
Manberor, S.A.	Spain	97.80%	2.20%	100.00%	100.00%	REAL ESTATE	(90)	0	0
Master Red Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	CARDS	1	0	1

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	REAL ESTATE	0	0	0
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	FINANCIAL ADVISORY	1	0	1
Merlion Aviation One Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	33	3	0
Moneybit, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	0	0	0
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	0	(1)	0
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2015-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2016-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Motor 2016-1M Ltd (j)	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2017-1 Holdings Limited	United Kingdom	-	(b)	-	-	SECURITISATION	0	0	0
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	(2)	0
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	16	3	49
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	22	1	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	20	2	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	RENTING	3	0	3
Naviera Transcantábrica, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	4	0	4
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	LEASING	1	0	1
Newcomar, S.L., en liquidación (j)	Spain	40.00%	40.00%	80.00%	80.00%	REAL ESTATE	1	0	0
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	SECURITIES INVESTMENT	94	(1)	93
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	79.65%	79.76%	79.51%	INVESTMENT FUND	336	9	274
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-COMMERCE	4	0	2
Olé Tecnologia Ltda.	Brazil	0.00%	53.91%	100.00%	100.00%	IT SERVICES	0	1	0
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	206	5	210
Open Digital Market, S.L.	Spain	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Open Digital Services, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	SERVICES	38	(58)	0
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	7	0	22
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	24	(1)	23
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (I)	Ireland	0.00%	54.18%	51.25%	51.25%	FUND MANAGEMENT COMPANY	4	0	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (I)	Ireland	0.00%	44.08%	51.57%	51.62%	FUND MANAGEMENT COMPANY	5	0	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado) (I)	Bahamas	0.00%	55.86%	56.34%	56.10%	FUND MANAGEMENT COMPANY	45	1	0
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	1,097	(89)	904
Pastor Vida, S.A. de Seguros y Reaseguros (i)	Spain	0.00%	0.00%	0.00%	100.00%	INSURANCE	-	-	-
PBD Germany Auto 2018 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	109	1	110
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SECURITISATION	0	0	0
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	HOLDING COMPANY	51	(9)	4
Phoenix C1 Aviation Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	3	2	0
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Popular Bolsa S.V., S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES COMPANY	6	1	6
Popular Capital, S.A.	Spain	90.00%	10.00%	100.00%	100.00%	FINANCE COMPANY	(2)	0	0
Popular de Participaciones Financieras, S.A. (i)	Spain	0.00%	0.00%	0.00%	100.00%	VENTURE CAPITAL	-	-	-
Popular de Renting, S.A. (i)	Spain	0.00%	0.00%	0.00%	100.00%	RENTING	-	-	-
Popular Gestão de Activos, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	1	0	1
Popular Gestión Privada S.G.I.I.C., S.A.	Spain	0.00%	100.00%	100.00%	100.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	7	1	7
Popular Operaciones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Popular Seguros - Companhia de Seguros S.A.	Portugal	0.00%	99.90%	100.00%	84.07%	INSURANCE	9	0	7

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	INTERNET	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	INTERNET	0	(1)	0
Premier Credit S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCIAL ADVISORY	1	0	1
Prime 16 – Fundo de Investimentos Imobiliário	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	99	(8)	80
Primestar Servicing, S.A.	Portugal	20.00%	79.89%	100.00%	80.00%	REAL ESTATE	1	0	2
Produban Brasil Tecnologia Ltda.	Brazil	0.00%	100.00%	100.00%	-	TECHNOLOGY SERVICES	3	1	1
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	BANKING	428	44	219
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	BANKING	1,093	116	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.24%	100.00%	100.00%	FINANCE COMPANY	1	0	0
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	FINANCE COMPANY	100	17	42
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.24%	50.00%	50.00%	FINANCE COMPANY	30	4	11
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	100.00%	LEASING	34	7	15
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	FINANCE COMPANY	288	55	123
PSA Financial Services Nederland B.V.	The Netherlands	0.00%	50.00%	50.00%	50.00%	FINANCE COMPANY	60	13	20
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	FINANCE COMPANY	410	55	174
PSA Renting Italia S.p.A.	Italy	0.00%	50.00%	100.00%	-	RENTING	6	2	3
PSRT 2018-A	United States	-	(b)	-	-	SECURITISATION	0	57	0
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	19	(2)	17
Recovery Team, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	5	9	11
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	11	21	63
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0.00%	62.90%	70.00%	70.00%	COLLECTION SERVICES	0	1	1
Return Gestão de Recursos S.A.	Brazil	0.00%	62.90%	100.00%	100.00%	FUND MANAGEMENT COMPANY	0	0	0
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	BANKING	0	0	0
Roc Aviation One Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	RENTING	(2)	(1)	0
Roc Shipping One Designated Activity Company	Ireland	51.00%	0.00%	51.00%	51.00%	RENTING	(1)	(1)	0
Rojo Entretenimento S.A.	Brazil	0.00%	85.00%	94.60%	94.60%	SERVICES	28	1	25
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	16	161
SAM Brasil Participações S.A.	Brazil	1.00%	99.00%	100.00%	100.00%	HOLDING COMPANY	33	3	38
SAM Finance Lux S.à r.l.	Luxembourg	0.00%	100.00%	100.00%	100.00%	MANAGEMENT	4	0	2
SAM Investment Holdings Limited (u)	Jersey	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	982	105	1,551
SAM UK Investment Holdings Limited	United Kingdom	92.38%	7.62%	100.00%	100.00%	HOLDING COMPANY	1,093	511	1,665
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	HOLDING COMPANY	117	11	88
Saninv - Gestão e Investimentos, Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PORTFOLIO MANAGEMENT	0	0	0
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander (CF Trustee) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	ASSET MANAGEMENT	0	0	0
Santander Agente de Valores Limitada	Chile	0.00%	67.44%	100.00%	100.00%	SECURITIES COMPANY	51	13	43
Santander Ahorro Inmobiliario 1, S.A.	Spain	97.95%	0.58%	98.53%	98.54%	REAL ESTATE INVESTMENT	23	(1)	21
Santander Ahorro Inmobiliario 2, S.A.	Spain	99.13%	0.78%	99.91%	99.91%	REAL ESTATE INVESTMENT	23	0	23
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	54	9	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	216	19	162
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	27	1	27
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	4	1	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	27	10	132
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	278	14	186
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	37	25	201
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	MANAGEMENT	3	2	5

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	22	55	167
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	4	1	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	1	0	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	927	56	983
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	796	(5)	403
Santander Bank Polska S.A.	Poland	67.47%	0.00%	67.47%	69.34%	BANKING	5,043	504	4,312
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	BANKING	11,364	346	11,708
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.85%	100.00%	100.00%	SERVICES	39	32	64
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	33	2	35
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	REAL ESTATE INVESTMENT	465	66	576
Santander Brasil Tecnologia S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	IT SERVICES	32	(2)	27
Santander Brasil, EFC, S.A.	Spain	0.00%	89.85%	100.00%	100.00%	FINANCE COMPANY	763	9	714
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	VENTURE CAPITAL	11	(1)	8
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	TRADE	8	2	0
Santander Capitalização S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	INSURANCE	46	29	65
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	CARDS	(8)	0	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	CARDS	93	0	93
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	149	(1)	106
Santander Chile Holding S.A.	Chile	22.11%	77.72%	99.84%	99.84%	HOLDING COMPANY	1,390	265	1,393
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	ADVISORY	7	1	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	465	106	291
Santander Consumer ABS Funding 3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(63)	(42)	0
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(35)	69	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	16	(31)	0
Santander Consumer Auto Receivables Funding 2013-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	323	73	0
Santander Consumer Auto Receivables Funding 2014-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	61	0	0
Santander Consumer Auto Receivables Funding 2015-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	20	1	0
Santander Consumer Auto Receivables Funding 2015-L2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	24	(2)	0
Santander Consumer Auto Receivables Funding 2015-L3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	46	23	0
Santander Consumer Auto Receivables Funding 2015-L4 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	50	29	0
Santander Consumer Auto Receivables Funding 2016-B1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(14)	8	0
Santander Consumer Auto Receivables Funding 2016-B2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(18)	19	0
Santander Consumer Auto Receivables Funding 2016-B3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(29)	9	0
Santander Consumer Auto Receivables Funding 2016-B4 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	(17)	11	0
Santander Consumer Auto Receivables Funding 2016-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	30	31	0
Santander Consumer Auto Receivables Funding 2016-L2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	23	21	0
Santander Consumer Auto Receivables Funding 2016-L3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	8	10	0
Santander Consumer Auto Receivables Funding 2016-L4 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	9	10	0
Santander Consumer Auto Receivables Funding 2017-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	8	11	0
Santander Consumer Auto Receivables Funding 2017-L2 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	3	8	0
Santander Consumer Auto Receivables Funding 2017-L3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	2	12	0
Santander Consumer Auto Receivables Funding 2017-L4 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	54	11	0
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	0	71	0
Santander Consumer Auto Receivables Funding 2018-L2 LLC	United States	0.00%	69.71%	100.00%	-	FINANCE COMPANY	0	19	0
Santander Consumer Auto Receivables Funding 2018-L3 LLC	United States	0.00%	69.71%	100.00%	-	FINANCE COMPANY	0	28	0
Santander Consumer Auto Receivables Funding 2018-L4 LLC	United States	0.00%	69.71%	100.00%	-	FINANCE COMPANY	0	24	0
Santander Consumer Auto Receivables Funding 2018-L5 LLC	United States	0.00%	69.71%	100.00%	-	FINANCE COMPANY	0	19	0
Santander Consumer Bank	Belgium	0.00%	100.00%	100.00%	100.00%	BANKING	1,166	28	1,170
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	BANKING	3,063	463	4,820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	1,910	262	1,996
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	BANKING	334	43	363
Santander Consumer Bank S.A.	Poland	0.00%	80.48%	100.00%	100.00%	BANKING	637	130	506
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	BANKING	737	79	603

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	BANKING	491	26	490
Santander Consumer Chile S.A.	Chile	51.00%	0.00%	51.00%	51.00%	FINANCE COMPANY	59	14	15
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	(35)	0	0
Santander Consumer Finance Benelux B.V.	The Netherlands	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	126	24	190
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	TECHNOLOGY SERVICES	5	0	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	205	55	130
Santander Consumer Finance, S.A.	Spain	75.00%	25.00%	100.00%	100.00%	BANKING	10,154	560	7,327
Santander Consumer Finanse Sp. z o.o.	Poland	0.00%	80.48%	100.00%	100.00%	SERVICES	15	0	13
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	364	21	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	4,784	284	5,827
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	69.71%	100.00%	100.00%	SERVICES	6	2	5
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	LEASING	20	40	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	INSURANCE INTERMEDIARY	1	0	0
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	80.48%	100.00%	100.00%	LEASING	23	2	5
Santander Consumer Operations Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	SERVICES	9	0	18
Santander Consumer Receivables 10 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	712	27	0
Santander Consumer Receivables 11 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	233	(2)	0
Santander Consumer Receivables 3 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	213	60	0
Santander Consumer Receivables 7 LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	301	68	0
Santander Consumer Receivables Funding LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	LEASING	36	1	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	6	2	5
Santander Consumer Technology Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT SERVICES	12	2	24
Santander Consumer USA Holdings Inc.	United States	0.00%	69.71%	69.71%	68.12%	HOLDING COMPANY	5,330	800	4,805
Santander Consumer USA Inc.	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	4,860	(85)	3,329
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	488	90	505
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	75.13%	100.00%	100.00%	CARDS	597	155	566
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	INSURANCE BROKERAGE	84	2	58
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	SECURITIES COMPANY	54	2	46
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	SECURITIES COMPANY	127	15	120
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	HOLDING COMPANY	497	82	518
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	2	2
Santander Drive Auto Receivables LLC	United States	0.00%	69.71%	100.00%	100.00%	FINANCE COMPANY	1	0	0
Santander Drive Auto Receivables Trust 2014-4	United States	-	(b)	-	-	SECURITISATION	71	20	0
Santander Drive Auto Receivables Trust 2014-5	United States	-	(b)	-	-	SECURITISATION	50	16	0
Santander Drive Auto Receivables Trust 2015-1	United States	-	(b)	-	-	SECURITISATION	66	25	0
Santander Drive Auto Receivables Trust 2015-2	United States	-	(b)	-	-	SECURITISATION	53	24	0
Santander Drive Auto Receivables Trust 2015-3	United States	-	(b)	-	-	SECURITISATION	35	22	0
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	SECURITISATION	24	28	0
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	SECURITISATION	26	25	0
Santander Drive Auto Receivables Trust 2016-1	United States	-	(b)	-	-	SECURITISATION	(2)	30	0
Santander Drive Auto Receivables Trust 2016-2	United States	-	(b)	-	-	SECURITISATION	(9)	43	0
Santander Drive Auto Receivables Trust 2016-3	United States	-	(b)	-	-	SECURITISATION	(29)	59	0
Santander Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	SECURITISATION	(52)	55	0
Santander Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	SECURITISATION	(74)	69	0
Santander Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	SECURITISATION	(86)	71	0
Santander Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	SECURITISATION	0	(41)	0
Santander Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	SECURITISATION	0	(58)	0
Santander Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	SECURITISATION	0	(69)	0
Santander Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	SECURITISATION	0	(66)	0
Santander Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	SECURITISATION	0	(88)	0
Santander Energías Renovables I, S.C.R., S.A.	Spain	59.66%	0.00%	59.66%	59.66%	VENTURE CAPITAL	11	0	6

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2018**	**Year 2017**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	43	6	45
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	PAYMENT SERVICES	204	4	180
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	4	0	0
Santander F24 S.A.	Poland	0.00%	67.47%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	FACTORING	42	1	43
Santander Factoring Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	FINANCIAL SERVICES	14	4	1
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	FACTORING	220	96	126
Santander FI Hedge Strategies	Ireland	0.00%	89.85%	100.00%	100.00%	INVESTMENT COMPANY	473	(197)	247
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	2	0	2
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	0	0	0
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	166	(4)	162
Santander Finanse Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	FINANCIAL SERVICES	49	8	20
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	84	68	87
Santander Fund Administration, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	5	(2)	3
Santander Fundo de Investimento Amazonas Multimercado Crédito Privado Investimento no Exterior (o)	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	123	17	141
Santander Fundo de Investimento Diamantina Multimercado Crédito Privado Investimento no Exterior (g)	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	406	23	392
Santander Fundo de Investimento Financial Curto Prazo (e)	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	1,124	155	0
Santander Fundo de Investimento Guarujá Multimercado Crédito Privado Investimento no Exterior (d)	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	69	18	104
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	85.75%	100.00%	100.00%	INVESTMENT FUND	712	33	694
Santander Fundo de Investimento Unix Multimercado Crédito Privado (o)	Brazil	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	77	7	79
Santander GBM Secured Financing Designated Activity Company (i)	Ireland	0.00%	0.00%	0.00%	-	SECURITISATION	-	-	-
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	FINANCIAL SERVICES	5	1	5
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	6	1	6
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	REAL ESTATE MANAGEMENT	95	2	96
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	268	(25)	250
Santander Global Operations, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	34	29	24
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	SECURITIES INVESTMENT	258	(5)	255
Santander Global Services, S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SPORTS ACTIVITY	24	(6)	19
Santander Global Technology, S.L.	Spain	100.00%	0.00%	100.00%	-	IT SERVICES	391	83	346
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	LEASING	4	0	3
Santander Hermes Multimercado Crédito Privado Infraestructura Fundo de Investimento (t)	Brazil	0.00%	89.85%	100.00%	-	INVESTMENT FUND	-	-	-
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	SECURITISATION	0	0	0
Santander Holding Imobiliária S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	REAL ESTATE	5	(1)	4
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	HOLDING COMPANY	3,651	1	2,463
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	17,842	618	12,392
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	75.13%	100.00%	100.00%	FINANCE COMPANY	12	(5)	5
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	INSURANCE BROKERAGE	7	1	8
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	INSURANCE	1	0	1
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	ASSET MANAGEMENT	39	1	40
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANCE BROKERAGE	19	1	18
Santander International Limited	Jersey	0.00%	100.00%	100.00%	-	FINANCE COMPANY	0	0	0
Santander International Products, Plc. (u)	Ireland	99.99%	0.01%	100.00%	100.00%	FINANCE COMPANY	1	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	1,448	204	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	BANKING	954	(8)	899

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	543	16	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	219	0	27
Santander Investment Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	402	14	416
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	BANKING	191	0	186
Santander Inwestycje Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	SECURITIES COMPANY	9	0	7
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MANAGEMENT OF FUNDS AND PORTFOLIOS	14	8	6
Santander Lease, S.A., E.F.C.	Spain	70.00%	30.00%	100.00%	100.00%	LEASING	90	14	35
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Santander Leasing S.A.	Poland	0.00%	67.47%	100.00%	100.00%	LEASING	130	4	30
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.85%	99.99%	99.99%	LEASING	1,305	73	1,163
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	LEASING	13	(7)	7
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	MORTGAGE CREDIT COMPANY	221	5	225
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	96.70%	3.30%	100.00%	100.00%	INSURANCE INTERMEDIARY	5	5	2
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	0	0	2
Santander Mortgage Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	-	FINANCIAL SERVICES	0	0	0
Santander Operaciones España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	SERVICES	18	0	18
Santander Paraty Qif PLC	Ireland	0.00%	89.85%	100.00%	100.00%	INVESTMENT FUND	473	(197)	248
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	14	19	118
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	PENSION FUND MANAGEMENT COMPANY	4	0	4
Santander Prime Auto Issuance Notes 2018-A Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	29	0
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	17	0
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	4	0
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	7	0
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	2	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	52	9	35
Santander Private Banking s.p.a. in Liquidazione (j)	Italy	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	39	(6)	33
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	285	1	389
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	REAL ESTATE	5	0	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	REAL ESTATE	11	1	12
Santander Real Estate, S.G.I.I.C., S.A.	Spain	100.00%	0.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	118	0	118
Santander Retail Auto Lease Funding LLC	United States	0.00%	69.71%	100.00%	100.00%	SECURITISATION	0	0	0
Santander Retail Auto Lease Trust 2017-A	United States	-	(b)	-	-	SECURITISATION	55	16	0
Santander Retail Auto Lease Trust 2018-A	United States	-	(b)	-	-	SECURITISATION	0	59	0
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	3	3
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	SERVICES	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	SECURITIES COMPANY	3	1	4
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.24%	100.00%	100.00%	FUND MANAGEMENT COMPANY	1	0	1
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Santander Securities LLC	United States	0.00%	100.00%	100.00%	100.00%	SECURITIES COMPANY	136	(110)	26
Santander Securities S.A.	Poland	0.00%	67.47%	100.00%	-	SECURITIES COMPANY	10	0	3
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	207	19	213
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	223	21	272
Santander Securities Services Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	100.00%	100.00%	100.00%	FINANCE COMPANY	10	(1)	11
Santander Securities Services, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	BANKING	512	52	372

Santander

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2018**	**Year 2017**	**Activity**	**Capital + reserves**	**Net results**	**Carrying amount**
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	INSURANCE	1,169	132	1,188
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	75.14%	100.00%	100.00%	SERVICES	5	1	5
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	75.13%	100.00%	100.00%	FINANCIAL SERVICES	2	0	1
Santander Speedboats Holding Company, S.L.	Spain	99.97%	0.03%	100.00%	-	HOLDING COMPANY	0	0	0
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	IT SERVICES	138	(29)	109
Santander Tecnología Argentina S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	IT SERVICES	2	1	3
Santander Tecnología España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT SERVICES	35	5	35
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.90%	100.00%	100.00%	INSURANCE	93	18	47
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.90%	99.90%	99.90%	HOLDING COMPANY	3,357	630	3,923
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	33.74%	100.00%	100.00%	FUND MANAGEMENT COMPANY	4	44	39
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	INACTIVE	17	0	16
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	CHARITABLE SERVICES	0	0	0
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	FINANCE COMPANY	13,492	1,400	20,327
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	49	0	45
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	17	3	17
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	BANKING	14,361	2,291	14,559
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT SERVICES	6	10	6
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	75.13%	100.00%	100.00%	FINANCE COMPANY	330	22	260
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	SECURITISATION	5	0	0
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	HOLDING COMPANY	6,903	718	6,460
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2013-2 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Auto 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2013-1 UG (haftungsbeschränkt) (j)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	(16)	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto I Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto II Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Ajoneuvohallinto VII Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE MANAGEMENT	0	0	0
SCF Rahoituspalvelut I Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	(1)	0	0
SCFI Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
SCFI Rahoituspalvelut Designated Activity Company (j)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Secucor Finance 2013-I Designated Activity Company (q)	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	59	3	62

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	50	3	53
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	SECURITY	1	0	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	85.30%	100.00%	100.00%	SERVICES	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	FINANCE COMPANY	30	1	7
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	ADVISORY SERVICES	0	0	0
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	ELECTRICITY PRODUCTION	298	8	307
SI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	LEASING	88	(7)	73
Silk Finance No. 4	Portugal	-	(b)	-	-	SECURITISATION	(6)	0	0
Sobrinos de José Pastor Inversiones, S.A. (i)	Spain	0.00%	0.00%	0.00%	100.00%	HOLDING COMPANY	-	-	-
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	APPRAISALS	1	2	1
Socur, S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	FINANCE COMPANY	36	27	59
Sol Orchard Imperial 1 LLC (c)	United States	0.00%	56.88%	100.00%	100.00%	ELECTRICITY PRODUCTION	32	(1)	17
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	36	1	37
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	125	3	128
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	FINANCIAL SERVICES	127	4	130
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	7,006	154	7,160
Sovereign Securities Corporation, LLC	United States	0.00%	100.00%	100.00%	100.00%	INACTIVE	49	0	49
Sovereign Spirit Limited (n)	Bermudas	0.00%	100.00%	100.00%	100.00%	LEASING	0	0	0
Sterrebeeck B.V.	The Netherlands	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	4,481	643	11,093
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	SECURITIES INVESTMENT	31	4	10
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	89.85%	100.00%	100.00%	PAYMENT SERVICES	8	0	10
Superdigital Holding Company, S.L.	Spain	99.97%	0.03%	100.00%	-	HOLDING COMPANY	0	0	0
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	INTERMEDIATION	5	1	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	2	0
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	HOLDING COMPANY	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	HOLDING COMPANY	3,090	273	2,524
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	REAL ESTATE	13	0	13
The Best Specialty Coffee, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	RESTAURANTS	1	0	0
Tikgi Aviation One Designated Activity Company	Ireland	100.00%	0.00%	100.00%	-	RENTING	0	(1)	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	SERVICES	0	0	0
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	32	(22)	10
TOPSAM, S.A de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	FUND MANAGEMENT COMPANY	2	1	1
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	79.52%	100.00%	100.00%	TELEMARKETING	1	0	1
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	ADVISORY SERVICES	0	0	0
Totta (Ireland), PLC (h)	Ireland	0.00%	99.86%	100.00%	100.00%	FINANCE COMPANY	450	7	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	REAL ESTATE	30	(4)	0
Trabajando.com Colombia Consultoría S.A.S.	Colombia	0.00%	100.00%	100.00%	-	SERVICES	1	0	0
Trabajando.com México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Trabajando.com Perú S.A.C.	Peru	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Trabalhando.com Brasil Consultoria Ltda.	Brazil	0.00%	100.00%	100.00%	-	SERVICES	3	0	0
Trabalhandopontocom Portugal - Sociedade Unipessoal, Lda. (c) (j)	Portugal	0.00%	100.00%	100.00%	-	SERVICES	0	0	0
Trade Maps 3 Hong Kong Limited	Hong-Kong	-	(b)	-	-	SECURITISATION	0	0	0
Trade Maps 3 Ireland Limited	Ireland	-	(b)	-	-	SECURITISATION	0	0	0
Trans Rotor Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	RENTING	16	2	15
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	LEASING	45	7	17
Tuttle and Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	PAYMENTS AND COLLECTIONS SERVICES	0	0	0
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
Universia Chile S.A.	Chile	0.00%	86.84%	86.84%	86.72%	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	1	0	2

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2018	Year 2017	Activity	Capital + reserves	Net results	Carrying amount
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	HOLDING COMPANY	22	(7)	21
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%	96.51%	96.51%	96.51%	INTERNET	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	INTERNET	0	0	0
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	PORTFOLIO MANAGEMENT	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	SECURITIES INVESTMENT	(942)	0	0
Wave Holdco, S.L.	Spain	100.00%	0.00%	100.00%	-	HOLDING COMPANY	41	0	33
Wave SME Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	0	0	0
Wave SME Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	TECHNOLOGY SERVICES	0	0	0
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	HOLDING COMPANY	9	0	9
Whitewick Limited	Jersey	0.00%	100.00%	100.00%	100.00%	INACTIVE	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	ADVISORY	0	0	0
WTW Shipping Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	LEASING	11	1	9

(a) Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2018 without considering, where appropriate, the interest dividends that has been made in the year. In the carrying amount (net cost of provision), the Group´s ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The Data from foreign companies are converted in to euros at the exchange rate at the end of the period.
(b) Companies over which effective control is exercised.
(c) Data from the latest approved financial statement as at 31 December 2017.
(d) Data from the latest approved financial statement as at 31 March 2018.
(e) Data from the latest approved financial statement as at 30 June 2018.
(f) Data from the latest approved financial statement as at 30 September 2018.
(g) Data from the latest approved financial statement as at 31 July 2018.
(h) Data from the latest approved financial statement as at 30 November 2018.
(i) Company in process of merger or liquidation. Pending of being registered.
(j) Company in liquidation at 31 December 2018.
(k) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(l) Data from the latest financial statement as at 31 December 2016.
(m) See note 2.b.i
(n) Company resident in the UK for tax purposes.
(o) Data from the latest approved financial statement as at 28 February 2018.
(p) Data from the latest approved financial statement as at 31 May 2018.
(q) Data from the latest approved financial statement as at 31 January 2018.
(r) Data from the latest available approved financial statement as at 31 December 2004.
(s) Data from the latest approved financial statement as at 31 October 2018.
(t) Newly incorporated society, without approval of the financial statements.
(u) Company resident in Spain for tax purposes.

(1) Companies issuing shares and preference shares are listed in annex III, together with other relevant information.

Appendix II

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Type of company	Million euros (a)		
		Direct	Indirect	Year 2018	Year 2017			Assets	Capital + reserves	Net results
3E1 Sp. z o.o (b)	Poland	0.00%	12.89%	21.60%	21.60%	ELECTRICITY PRODUCTION	-	0	(2)	2
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	PAYMENTS AND COLLECTIONS SERVICES	Associated	70	19	4
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled	33	14	3
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	INSURANCE	Jointly controlled	99	19	12
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	20.00%	INACTIVE	-	0	0	0
Aguas de Fuensanta, S.A. (e)	Spain	36.78%	0.00%	36.78%	36.78%	FOOD	Associated	24	(40)	0
Alawwal Bank (consolidado) (b)	Saudi Arabia	0.00%	11.16%	11.16%	11.16%	BANKING	-	23,746	2,916	318
Alcuter 2, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	TECHNICAL SERVICES	-	-	-	-
Allianz Popular, S.L. (Consolidado)	Spain	40.00%	0.00%	40.00%	40.00%	INSURANCE	Associated	3,238	98	113
Anekis, S.A.	Spain	24.75%	24.75%	49.50%	49.50%	ADVERTISING	Associated	2	2	(1)
Arena Communications Network, S.L. (b)	Spain	20.00%	0.00%	20.00%	20.00%	ADVERTISING	Associated	10	4	10
Attijariwafa Bank Société Anonyme (consolidado) (b)	Morocco	0.00%	5.11%	5.11%	5.26%	BANKING	-	43,401	4,035	601
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	MOTORWAY CONCESSION	-	28	2	5
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	PENSION FUND MANAGEMENT COMPANY	-	120	114	24
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	INSURANCE	-	3,716	350	132
Banco Hyundai Capital Brasil S.A.	Brazil	0.00%	44.93%	50.00%	-	FINANCE COMPANY	Jointly controlled	48	22	0
Banco RCI Brasil S.A.	Brazil	0.00%	35.84%	39.89%	39.89%	LEASING	Jointly controlled	2,572	234	50
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	FINANCE COMPANY	Associated	584	94	7
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.50%	0.00%	6.50%	6.48%	BANKING	-	229,555	16,775	1,948
Benim - Sociedade Imobiliária, S.A. (b)	Portugal	0.00%	25.77%	25.81%	25.81%	REAL ESTATE	Associated	11	7	0
Câmara Interbancária de Pagamentos - CIP	Brazil	0.00%	15.82%	17.61%	-	PAYMENTS AND COLLECTIONS SERVICES	-	122	54	23
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	MANAGEMENT OF VENTURE CAPITAL	Associated	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	REAL ESTATE SERVICES	Jointly controlled	1	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	PAYMENTS AND COLLECTIONS SERVICES	Associated	9	6	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	TECHNOLOGY	Associated	3	2	0
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	886	96	31
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	INSURANCE BROKERAGE	Associated	1,426	203	45
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	SERVICES	Associated	8	2	1
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	33.78%	39.74%	39.74%	COLLECTION SERVICES	Jointly controlled	7	0	0
Comder Contraparte Central S.A	Chile	0.00%	7.54%	11.23%	11.23%	FINANCIAL SERVICES	Associated	28	14	1
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	FINANCIAL SERVICES	Jointly controlled	1	(1)	0
Compañia Española de Financiación de Desarrollo, Cofides, S.A., SME (b)	Spain	20.18%	0.00%	20.18%	-	FINANCE COMPANY	-	129	116	9
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	23.33%	0.55%	23.88%	21.08%	CREDIT INSURANCE	-	803	361	23
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	REAL ESTATE	Associated	466	271	33
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (l) (e)	Spain	21.98%	0.00%	21.98%	21.98%	REAL ESTATE DEVELOPMENT	-	38	(238)	(86)
Condesa Tubos, S.L. (b)	Spain	36.21%	0.00%	36.21%	30.61%	SERVICES	-	162	32	(6)
Corkfoc Cortiças, S.A. (b)	Portugal	0.00%	27.54%	27.58%	-	CORK INDUSTRY	-	3	20	0
Corridor Texas Holdings LLC (consolidado) (b)	United States	0.00%	29.47%	29.47%	32.61%	HOLDING COMPANY	-	205	197	(3)
Eko Energy Sp. z o.o (b)	Poland	0.00%	13.13%	22.00%	22.00%	ELECTRICITY PRODUCTION	-	0	4	(4)
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	PAYMENT SERVICES	Associated	99	74	(18)
FAFER- Empreendimentos Urbanísticos e de Construção, S.A. (b) (e)	Portugal	0.00%	36.57%	36.62%	36.62%	REAL ESTATE	-	0	1	0
FC2Egestión, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	ENVIRONMENTAL MANAGEMENT	Jointly controlled	0	0	0
Federal Home Loan Bank of Pittsburgh (b)	United States	0.00%	6.33%	6.33%	6.33%	BANKING	-	87,042	4,007	297
Federal Reserve Bank of Boston (b)	United States	0.00%	30.09%	30.09%	30.44%	BANKING	-	87,860	1,516	22
FIDC RCI Brasil I – Financiamento de Veículos (c)	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	142	38	9
FIDC RN Brasil – Financiamento de Veículos	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	166	71	11

Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	180	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	487	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	576	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	800	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	676	0	0
Fondo de Titulización de Activos, RMBS Prado I	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	366	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	105	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	255	0	0
Fondo de Titulización, RMBS Prado II	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	454	0	0
Fondo de Titulización, RMBS Prado III	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	375	0	0
Fondo de Titulización, RMBS Prado IV	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	369	0	0
Fondo de Titulización, RMBS Prado V	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	398	0	0
Fondo de Titulización, RMBS Prado VI	Spain	-	(h)	-	-	SECURITISATION	Jointly controlled	427	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	FINANCE COMPANY	Jointly controlled	2,083	219	49
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	REAL ESTATE	Associated	0	0	0
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	17.97%	20.00%	20.00%	COLLECTION SERVICES	Jointly controlled	76	73	(6)
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	PAYMENTS AND COLLECTIONS SERVICES	Associated	118	14	17
Grupo Financiero Ve Por Más, S.A. de C.V. (consolidado)	Mexico	24.99%	0.00%	24.99%	24.99%	FINANCIAL SERVICES	Associated	2,589	211	2
HCUK Auto Funding 2016-1 Ltd (e)	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	0	0	0
HCUK Auto Funding 2017-1 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	168	0	0
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(h)	-	-	SECURITISATION	Jointly controlled	615	0	0
Healthy Neighborhoods Equity Fund I LP (b)	United States	0.00%	22.37%	22.37%	-	REAL ESTATE	-	15	15	0
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	FINANCE COMPANY	Jointly controlled	3,206	155	36
Imperial Holding S.C.A. (e) (i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	SECURITIES INVESTMENT	-	0	(113)	0
Imperial Management S.à r.l. (m) (e)	Luxembourg	0.00%	40.20%	40.20%	40.20%	HOLDING COMPANY	-	0	0	0
Inbond Inversiones 2014, S.L. (b)	Spain	40.00%	0.00%	40.00%	40.00%	FINANCIAL STUDIES	Jointly controlled	225	225	1
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	INFORMATION SYSTEM	Jointly controlled	2	(3)	(1)
Inmo Alemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	HOLDING COMPANY	-	40	19	3
Inverlur Aguilas I, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	REAL ESTATE	Jointly controlled	0	0	0
Inverlur Aguilas II, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	REAL ESTATE	Jointly controlled	1	1	0
Inversiones en Resorts Mediterráneos, S.L. (e)	Spain	0.00%	43.28%	43.28%	43.28%	REAL ESTATE	Associated	0	(2)	(1)
Inversiones Ibersuizas, S.A. (b)	Spain	25.42%	0.00%	25.42%	25.42%	VENTURE CAPITAL	-	26	22	4
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	326	326	62
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	SECURITIES AND REAL ESTATE INVESTMENT	Associated	429	319	65
Invico S.A. (b)	Poland	0.00%	14.23%	21.09%	21.09%	TRADE	-	2	(4)	0
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	4.99%	4.99%	HOLDING COMPANY	-	2	2	(1)
J.C. Flowers II-A L.P. (consolidado) (b)	Canada	0.00%	69.40%	4.43%	4.43%	HOLDING COMPANY	-	82	74	8
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	HOLDING COMPANY	-	68	60	9
JCF BIN II-A (d)	Mauritania	0.00%	69.52%	4.43%	4.43%	HOLDING COMPANY	-	1	2	(1)
Jupiter III L.P. (b)	Canada	0.00%	96.45%	4.99%	4.99%	HOLDING COMPANY	-	129	133	(4)
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.08%	35.70%	-	BUSINESS SERVICES	Jointly controlled	8	7	(1)
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	REAL ESTATE	Jointly controlled	1	0	0
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	INVESTMENT FUND	Associated	106	98	2
Massachusetts Business Development Corp. (consolidado) (b)	United States	0.00%	21.60%	21.60%	21.60%	FINANCE COMPANY	-	66	9	(1)
MB Capital Fund IV, LLC (b)	United States	0.00%	23.94%	23.94%	23.94%	FINANCE COMPANY	-	15	9	1
Merlin Properties, SOCIMI, S.A. (consolidado) (b)	Spain	16.88%	5.60%	22.48%	22.57%	REAL ESTATE	Associated	12,005	4,623	1,100
Metrovacesa, S.A. (consolidado) (b)	Spain	31.94%	17.46%	49.40%	71.45%	REAL ESTATE DEVELOPMENT	Associated	2,547	2,397	(39)
New PEL S.à r.l. (b)	Luxembourg	0.00%	7.67%	0.00%	0.00%	HOLDING COMPANY	-	69	68	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.55%	4.99%	4.99%	HOLDING COMPANY	-	49	42	7
NIB Special Investors IV-B LP (b)	Canada	0.00%	93.42%	4.99%	4.99%	HOLDING COMPANY	-	15	13	2
Niuco 15, S.L. (k)	Spain	37.23%	0.00%	37.23%	-	TECHNICAL SERVICES	-	-	-	-
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.54%	29.00%	29.00%	HOLDING COMPANY	Associated	28	21	1
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.93%	50.00%	50.00%	SECURITIES COMPANY	Jointly controlled	18	11	0
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.96%	21.73%	21.60%	ELECTRICITY PRODUCTION	-	98	11	0
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A.	Brazil	0.00%	18.14%	20.19%	20.19%	TECHNOLOGY	-	4	4	0
Olivant Limited (consolidado) (m)	Guernsey	0.00%	10.39%	10.39%	10.39%	HOLDING COMPANY	-	18	14	0

Operadora de Activos Alfa, S.A. De C.V. (e)	Mexico	0.00%	49.98%	49.98%	49.98%	FINANCE COMPANY	Associated	0	0	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	FINANCE COMPANY	Associated	0	0	0
Operadora de Tarjetas de Crédito Nexus S.A.	Chile	0.00%	8.66%	12.90%	12.90%	CARDS	Associated	44	19	4
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	ELECTRICITY PRODUCTION	Jointly controlled	30	0	0
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	SOFTWARE	Associated	2	1	1
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.74%	50.00%	50.00%	MANAGEMENT	Associated	25	20	1
Prisma Medios de Pago S.A.	Argentina	0.00%	18.39%	18.52%	17.47%	BUSINESS SERVICES	Associated	440	60	24
Procapital - Investimentos Imobiliários, S.A. (b) (e)	Portugal	0.00%	39.96%	40.00%	40.00%	REAL ESTATE	-	4	13	0
Project Quasar Investments 2017, S.L.	Spain	49.00%	0.00%	49.00%	-	FINANCE COMPANY	Associated	11,571	2,926	1,023
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.93%	50.00%	50.00%	INSURANCE	Jointly controlled	1	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Jointly controlled	158	51	12
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	INSURANCE	Jointly controlled	72	9	8
PSA UK Number 1 plc	United Kingdom	0.00%	50.00%	50.00%	50.00%	LEASING	Associated	5	5	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	SERVICES	Associated	26	10	1
Redsys Servicios de Procesamiento, S.L.(b)	Spain	20.00%	0.08%	20.08%	20.00%	CARDS	Associated	137	41	9
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	SERVICES	Jointly controlled	45	(40)	(2)
Rías Redbanc, S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	SERVICES	-	3	1	0
Saite, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	REAL ESTATE	Jointly controlled	29	18	2
Santander Auto S.A.	Brazil	0.00%	44.93%	50.00%	-	INSURANCE	Associated	3	3	0
Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.06%	49.00%	49.00%	INSURANCE	Associated	239	12	13
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.06%	49.00%	49.00%	INSURANCE	Associated	142	37	16
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled	355	74	8
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	INSURANCE	Jointly controlled	322	89	29
Saturn Japan II Sub C.V. (b)	The Netherlands	0.00%	69.30%	0.00%	0.00%	HOLDING COMPANY	-	36	35	1
Saturn Japan III Sub C.V. (b)	The Netherlands	0.00%	72.72%	0.00%	0.00%	HOLDING COMPANY	-	171	171	0
Sepacon 31, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	TECHNICAL SERVICES	-	-	-	-
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	7.55%	11.25%	11.25%	SERVICES	Associated	32	14	1
SIBS SGPS, S.A. (b)	Portugal	0.00%	16.54%	16.56%	16.56%	PORTFOLIO MANAGEMENT	-	176	95	25
Sistema de Tarjetas y Medios de Pago, S.A.	Spain	18.11%	0.00%	18.11%	-	PAYMENT SERVICES	Associated	377	4	0
Sistemas Técnicos de Encofrados, S.A. (consolidado) (b)	Spain	27.15%	0.00%	27.15%	25.15%	BUILDING MATERIALS	-	66	2	(16)
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	42.50%	0.00%	42.50%	42.50%	PAYMENT SERVICES	Jointly controlled	105	29	1
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.50%	0.23%	25.73%	25.50%	FINANCIAL SERVICES	-	16	11	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	22.21%	0.00%	22.21%	22.22%	FINANCIAL SERVICES	-	40,145	2,620	(565)
Sociedad Española de Sistemas de Pago, S.L. (b)	Spain	22.24%	0.00%	22.24%	22.24%	PAYMENT SERVICES	-	10	6	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	CUSTODY	Associated	6	5	1
Solar Energy Capital Europe S.à r.l. (consolidado) (b)	Luxembourg	0.00%	33.33%	33.33%	33.33%	HOLDING COMPANY	Jointly controlled	11	1	0
Stephens Ranch Wind Energy Holdco LLC (consolidado) (b)	United States	0.00%	28.80%	28.80%	28.80%	ELECTRICITY PRODUCTION	-	248	246	(5)
Syntheo Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	PAYMENT SERVICES	Jointly controlled	3	4	(1)
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.80%	19.81%	19.81%	SECURITY	Associated	87	84	(16)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.80%	19.81%	19.81%	TELECOMMUNICATIONS	Associated	71	86	(16)
Tecnologia Bancária S.A.	Brazil	0.00%	17.80%	19.81%	19.81%	ATM	Associated	433	106	(13)
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	HOUSEHOLD APPLIANCES	-	571	154	(5)
Testa Residencial, SOCIMI, S.A. (consolidado) (b)	Spain	0.79%	17.64%	18.43%	38.74%	REAL ESTATE	Associated	2,356	1,324	70
The OneLife Holding S.à r.l. (consolidado) (b)	Luxembourg	0.00%	5.90%	0.00%	0.00%	HOLDING COMPANY	-	5,398	44	6
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	HOLDING COMPANY	Jointly controlled	547	190	(49)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	SERVICES	Associated	2	(1)	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	CARDS	Associated	1,138	73	16
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled	291	72	(2)
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Grecia	0.00%	50.00%	50.00%	50.00%	FINANCIAL SERVICES	Jointly controlled	1	0	0
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	HOLDING COMPANY	Jointly controlled	2	0	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	INSURANCE BROKERAGE	Jointly controlled	0	0	0
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	REAL ESTATE SERVICES	Jointly controlled	2	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	FINANCE COMPANY	Associated	347	87	20
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	MORTGAGE CREDIT COMPANY	Jointly controlled	12,343	386	11
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.95%	0.00%	14.95%	14.95%	REAL ESTATE	-	1,636	201	23
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	MARKETING	Jointly controlled	0	0	0
Venda de Veículos Fundo de Investimento em Direitos Creditórios (c)	Brazil	-	(h)	-	-	SECURITISATION	Jointly controlled	136	62	5
Webmotors S.A.	Brazil	0.00%	62.90%	70.00%	70.00%	SERVICES	Jointly controlled	44	24	10

Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	12,455	605	232
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	INSURANCE	Associated	176	(2)	42
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	1,096	936	159
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	HOLDING COMPANY	Associated	547	384	163
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	HOLDING COMPANY	Associated	1,874	1,510	361
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	36	7	9
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	249	33	46
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	184	37	13
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	498	38	92
Zurich Santander Seguros Uruguay, S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	INSURANCE	Associated	18	9	2

(a) Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2018, unless stated otherwise because the Financial statements are pending to be formulated. The data from foreign companies are converted into euros at the exchange rate at the end of the period.
(b) Data from the latest approved financial statements as at 31 December 2017.
(c) Data from the latest approved financial statements as at 31 May 2018.
(d) Data from the latest available approved financial statements as at 30 September 2017.
(e) Company in liquidation to 31 December 2018.
(f) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent, For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(g) Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).
(h) Companies over which the non-subsidiary investee of the Group exercises effective control
(i) Data from the latest available approved financial statements as at 31 October 2016.
(j) Data from the latest available approved financial statements as at 30 June 2018.
(k) Recent create company without approved financial statements available.
(l) Data from the latest approved financial statements as at 30 November 2016.
(m) Data from the latest approved financial statements as at 31 December 2016.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by the Bank			Million of euros (a)			
Company	Location	Direct	Indirect	Activity	Capital	Reservations	Cost of preferred	Net results
Emisora Santander Spain, S.A. Unipersonal	Spain	100.00%	0.00%	FINANCE COMPANY	2	0	0	0
Santander UK (Structured Solutions) Limited	United Kingdom	0.00%	100.00%	FINANCE COMPANY	0	0	0	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	FINANCE COMPANY	5,005	(3,115)	75	40

(a) Amounts per provisional books of each company as at 31 December 2018, converted into euros (in the case of foreign companies) at the year-end exchange rates.

Appendix IV

Notifications of acquisitions and disposals of investments in 2018

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law).

COMMUNICATION OF SIGNIFICANT SHARES MADE TO CNMV DURING 2018:

On the 29-01-2018, the communication made by Banco Santander, S.A. was registered in the CNMV. They informed that the Group´s shares in NYESA VALORES CORPORACIÓN had decreased to 6.407% (<10%) on the 18.01.2018.

NOTE: After the increase in share capital executed by NYESA, the percentage of Banco Santander, S.A. (given Banco Popular Español, S.A.U) in this company has fallen from 13.223% to 6.407%, exceeding the 10% threshold.

On the 12-02-2018, the communication made by Banco Santander, S.A., was registered in the CNMV, where they informed that the Group's shares in METROVACESA, S.A. had increase to 53.311% (51.497% of the voting rights attributed to shares and 1.814% of the voting rights through financial instruments) (>50%) on the 06.02.2018 as a result of the company's admission to the Stock Exchange.

On the 23-03-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, where they informed that the Group's shares in METROVACESA, S.A. dropped to 49.362% (<50%) on the 22.03.2018.

On the 28-03-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, where they informed that the Group's shares in NYESA VALORES CORPORACIÓN had decreased to 4.468% (<5%) on the 21.03.2018.

On the 02-04-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, where they informed that the Group's shares in NYESA VALORES CORPORACIÓN had decreased to 2.939% (<3%) on the 28.03.2018.

On the 04-10-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, in which it was reported that the purpose of this communication was to update the information referring to the Banco Santander's, S.A stock options in ABENGOA, S.A., after the merger by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A. As a result of the merger, the shares held by Banco Popular Español, S.A.U. became direct shares of Banco Santander, S.A. Therefore, Banco Santander's shares in ABENGOA, S.A. amounted to 4.975% on the 28.09.2018.

On the 04-10-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, informing that the purpose of this communication was to update the information referring to the Banco Santander's, S.A stock options in METROVACESA, S.A., after the merger by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A. As a result of the merger, the shares held by Banco Popular Español, S.A.U. became direct shares of Banco Santander, S.A. Therefore, Banco Santander's shares in METROVACESA, S.A. amounted to 49.362% on the 28.09.2018.

On the 04-10-2018, the communication made by Banco Santander, S.A. was registered in the CNMV, informing that the purpose of this communication was to update the information referring to the Banco Santander's, S.A stock options in COMPAÑIA ESPAÑOLA DE VIVIENDAS EN ALQUILER, S.A. (CEVASA), after the merger by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A. As a result of the merger, the shares held by Banco Popular Español, S.A.U. became direct shares of Banco Santander, S.A. Therefore, Banco Santander's shares in CEVASA, S.A. amounted to 24.068% on the 28.09.2018.

On the 30-10-2018, the communication made by Banco Santander, S.A., BANCO BILBAO VIZCAYA ARGENTARIA, S.A., BANKIA, S.A., CAIXABANK, S.A., KUTXABANK, S.A., LIBERBANK, S.A., and BANCO DE SABADELL, S.A., (concerted action) in which it was reported that Group Santander's S.A stake in GENERAL DE ALQUILER DE MAQUINARIA, S.A., was 63.045% on the 28.09.2018.

NOTE: Update of the information on a concerted action of the Entities included in this Parasocial Agreement, with the sole purpose of updating the information existing in the CNMV on the participation of the Entities members of the Concerted Action in GAM as a result of the merger by absorption of BANCO POPULAR ESPAÑOL, S.A.U by Banco Santander, S.A.

Appendix V

Deduction for reinvestment of extraordinary income corresponding to the companies of the Fiscal Consolidation Group, whose dominant was Banco Popular Español, S.A.U.

Transitional Provision 24 of Law 27/2014, specifically article 42 of the Consolidated Text of the Income Tax Law on deduction for reinvestment of extraordinary income, establishes that such income shall be regulated by the said article 42 and in its section 10, establishing the duty to detail the amount of the income belonging to the companies of the Consolidated Tax Group 17/89, which dominant is Banco Santander, SA, to which the deduction applies, as well as the obligation to detail the year in which the reinvestment occurred, For all of this, the period of maintenance of the investment indicated in section 8 of the aforementioned precept should not have been finished, In relation to all of this, the following information regarding 2014 is presented, with a reinvestment period from 2014 to 2017.

The detailed information refers to both Banco Popular as well as to other companies belonging to the Consolidated until 2017, inclusive, and which have applied the reinvestment deduction to their income and / or to those that have made investments in assets identified in section 3 of article 42,

- Amount of income to which apply the deduction of 12% in 2015: EUR 65.620.572,46
- Amount of income to which apply the deduction of 12% in 2016: EUR 51.858.693,47
- Amount of income to which apply the deduction of 12% in 2017: EUR 21.333.543,67

- Reinvestments carried out in 2015: EUR 146.250.000,00
- Reinvestments carried out in 2016: EUR 127.917.350,35
- Reinvestments carried out in 2017: EUR 47.546.533,73 Euros

Appendix VI

List of Transactions subject to the Tax Regime of Mergers, Spin-offs, Assets Transmissions and Exchange of Securities in which the company acted as Acquiring Entity or Partner.

In compliance with the obligations on the communication of information established in article 86 of Law 27/2014 of Tax Income of November 27, the following information is provided for transactions under the tax regime of mergers, spin-offs, assets transmissions and exchange of securities, provided in Section VII of Title VII of Law 27/2014 of November 27, in which BANCO SANTANDER, S.A, has intervened during 2018:

I. In compliance with the provisions of article 86, section 1, it is reported that the company BANCO SANTANDER, S,A, has intervened as acquirer in the following operations:

- Merger by absorption of BANCO POPULAR, S.A, by the company BANCO SANTANDER, S.A, which held all the shares of the absorbed entity, This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of SANTANDER INVESTMENT BOLSA, SOCIEDAD DE VALORES, S.A.U., by the company BANCO SANTANDER, S.A., which held all the shares of the absorbed entity, This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of POPULAR DE RENTING S.A.U., by the company BANCO SANTANDER, S.A, which held all the shares of the absorbed entity, This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of BANCO PASTOR, S.A.U., and POPULAR BANCA PRIVADA S.A.U., by BANCO POPULAR, S.A, an entity succeeded by BANCO SANTANDER, S.A., which held all the shares of the absorbed entities, This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

II. In compliance with the provisions of article 86,section 2, it is reported that the company BANCO SANTANDER, S.A has intervened as a partner in the following operations:

- Merger by absorption of PRODUBAN SERVICIOS INFORMÁTICOS GENERALES, S,L,U, by INGENIERIA DE SOFTWARE BANCARIO, S,L,U, which becomes SANTANDER GLOBAL TECHNOLOGY, S,L,U, This operation constitutes a merger regulated under article 76,1,a) of Law 27/2014 of 27 November, BANCO SANTANDER, S,A, had a full stake in the capital of both the absorbed company and the absorbing company, The book and tax value of the securities delivered by PRODUBAN SERVICIOS INFORMÁCOS GENERALES, S,L,U, was € 202,309,627,40, The value at which BANCO SANTANDER, S,A, accounted for the securities received by SANTANDER GLOBAL TECHNOLOGY, S.L.U. was €202,309,627,40.

- Merger by absorption of POPULAR DE PARTICIPACIONES FINANCIERAS, S.A.U. and SOBRINOS DE JOSÉ PASTOR INVERSIONES, S,A,U, by INVERSIONES CAPITAL GLOBAL, S,A,U, This transaction constitutes a merger regulated under article 76,1,a) of Law 27/2014 of November 27, BANCO SANTANDER, S,A, had a full stake in the capital of both the absorbed company and the absorbing company, The book and tax value of the securities delivered by POPULAR DE PARTICIPACIONES FINANCIERAS, S,A,U, was 36,215,453,20€ and the book value of the securities delivered by SOBRINOS DE JOSÉ PASTOR INVERSIONES, S,A,U, was 0€, while their tax value was 22,845,823,00€, The value for which BANCO SANTANDER, S,A, has recorded the securities received in the entity INVERSIONES CAPITAL GLOBAL, S,A,U, is 36,215,453,20€.

- Merger by absorption of POPULAR DE MEDIACIÓN, S,A,U, by SANTANDER MEDIACIÓN OPERADOR DE BANCA- SEGUROS VINCULADO, S,A, This operation constitutes a merger regulated under article 76,1,a) of Law 27/2014 of 27 November, The book value of the securities delivered by POPULAR DE MEDIACIÓN, S,A,U, was €598,121,00 while their tax value was €2,262,488,13, The value for which BANCO SANTANDER, S,A,, as successor to BANCO POPULAR, S,A, has recorded the securities received from SANTANDER MEDIACIÓN OPERADOR DE BANCA-SEGUROS VINCULADO, S,A, is €598,121,00.

- Merger by absorption of GRUPO FINANCIERO SANTANDER MÉXICO, SOCIEDAD ANÓNIMA BURSATIL de CAPITAL VARIABLE, a company resident in Mexico, by BANCO SANTANDER, SOCIEDAD ANÓNIMA, INSTITUCIÓN DE BANCA MÚLTIPLE, also resident in Mexico, This operation constitutes a merger regulated under article 76,1, Law 27/2014 of November 27, The book value of the securities delivered by GRUPO FINANCIERO SANTANDER MÉXICO, SOCIEDAD ANÓNIMA BURSATIL de CAPITAL VARIABLE was €4,352,472,030,29, while their tax value was €4,495,062,830,29, The value for which BANCO SANTANDER, S,A, has accounted for the securities received in the entity BANCO SANTANDER, SOCIEDAD ANÓNIMA, INSTITUCIÓN DE BANCA MÚLTIPLE is € 4,352,472,030,29.

III. In compliance with the provisions of article 86,3, it is hereby stated that the mentions required by paragraphs 1 and 2 of article 86, relating to transactions subject to the tax regime for mergers, spin-offs, contributions of assets and exchange of securities, provided for in Chapter VII of Title VII of Law 27/2014 of 27 November, in which BANCO SANTANDER, S,A, has intervened as acquirer or partner during previous financial years, appear in the first annual report approved after each of the aforementioned transactions.

Appendix VII

Information to be included in compliance with the provisions of article 12,3 of TRLIS

The information requested in article 12,3 of the Consolidated Text, which approves the Tax Income Law based on the wording established by Law 4/2008 of December 23 of applicable to the tax periods that started from the 1st of January 2008 until its repeal by Law 16/2013 of October 29:

Participants entities	Millions of euros				
	2018				
	Amounts deducted in past years	Changes in Equity of attributable years	Deduction or integration of the year	Integration RDL 3/2016	Deduction pending integration
Alcanza, S.A. de C.V.	-4	11	4	0	0
Santander Ahorro Inmobiliario 2, S,I,I,, S.A.	-2	-5	0	1	-1
Santander Global Facilities México, S.A. de C.V.	-2	8	2	0	0
Santander Private Banking s.p.a.	-27	-8	0	9	-18
TOTAL	-35	6	6	10	-19

Appendix VIII

Information regarding the merger of Popular de Renting, S.A, according to Article 86,1 of Law 27/2014 on Income Tax.

a) Year in which the transferring entity acquired the transmitted assets which are susceptible of redemption,

There are no assets subject to amortization in the transferring entity.

b) Last balance sheet closed by the transferring entity.

The latest closed balance sheet of Popular de Renting, S.A is in Note 1,i,

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting of both entities.

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfilment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S,A, must assume certain requirements.

Information regarding the merger of Santander Investment Bolsa, Sociedad de Valores, S.A., according to Article 86,1 of Law 27/2014 of the Tax Income.

a) Exercise in which the transferring entity acquired the transmitted assets that are susceptible of amortization.

	Million euros		
	Santander Investment Bolsa, S.A.		
Year acquisition	Cost	Accumulated amortization	Net book value
1989	8	0	8
1991	15	0	15
2013	23	7	16
2014	1	1	0
2015	3	2	1
2016	1	0	1
TOTAL	**51**	**11**	**40**

b) Last balance sheet closed by the transferring entity

The last closed balance sheet of Santander Investment Bolsa, Sociedad de Valores, S.A. is found in Note 1,i.

c) List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting of both entities.

There are no assets of this type.

d) List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfilment of certain requirements.

There are no tax benefits in the transferring entity on which Banco Santander, S,A, must assume certain requirements.

Information regarding the merger of Banco Popular Español, S.A. and of the previous merger of Banco Pastor, S.A. and Popular Banca Privada, S.A., according to Article 86,1 of Law 27/2014 of the Tax Income.

a) Exercise in which the transferring entity acquired the transmitted assets that are susceptible of amortization.

	Million euros								
	Banco Popular Español			Popular Banca Privada			Banco Pastor		
Year acquisition	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prior to 1991	50,496	47,096	3,400	22,859	22,755	104	79	79	0
1991	7,588	7,465	123	1,408	1,272	136	17	17	0
1992	8,016	7,736	280	2,032	2,032	0	49	49	0
1993	11,053	10,378	675	6,409	6,353	56	38	38	0
1994	10,834	10,767	67	3,321	3,224	97	124	124	0
1995	17,116	16,345	771	2,085	2,085	0	370	370	0
1996	23,145	22,887	258	2,675	2,615	60	22	22	0
1997	35,903	35,627	276	3,141	3,126	15	113	113	0
1998	34,620	34,477	143	3,042	3,011	31	142	141	1
1999	32,981	31,679	1,302	2,613	2,606	7	113	113	0
2000	30,258	29,571	687	4,282	4,266	16	228	228	0
2001	31,493	27,867	3,626	4,075	4,063	12	192	192	0
2002	24,329	20,724	3,605	3,517	3,466	51	935	935	0
2003	34,352	27,584	6,768	4,426	4,353	73	1,046	1,046	0
2004	49,751	40,254	9,497	7,681	7,442	239	442	442	0
2005	94,031	48,233	45,798	15,927	7,728	8,199	459	459	0
2006	31,608	25,067	6,540	4,275	4,099	176	411	411	0
2007	56,694	33,842	22,851	11,201	10,200	1,001	722	722	0
2008	40,124	26,232	13,892	3,862	3,706	156	463	447	16
2009	17,762	13,015	4,746	3,352	2,736	616	56	48	8
2010	21,504	15,866	5,639	1,868	1,495	373	116	69	47
2011	60,938	20,376	40,561	4,190	1,681	2,509	84	77	7
2012	48,609	15,901	32,708	1,608	894	714	307	203	104
2013	16,200	6,500	9,699	590	280	310	133	54	79
2014	39,727	15,447	24,280	1,299	324	974	155	39	116
2015	37,536	10,859	26,677	3,205	955	2,250	150	58	92
2016	24,980	4,571	20,409	2,873	532	2,341	717	85	633
2017	79,935	2,555	77,381	4,418	392	4,025	385	29	357
TOTAL	971,583	608,921	362,662	132,234	107,691	24,543	8,068	6,610	1,458

Due to the high number of heritage elements transmitted by the entities listed in this section, the information grouped by exercises is provided instead of being collected individually. Notwithstanding the above, the Bank has the individualized information that is available to the Tax Administration.

b) **Last balance sheet closed by the transferring entity**

The last closed balance sheet of Banco Popular Español, S.A., Popular Banca Privada, S.A. y Banco Pastor, S.A. is found in Note 1,i.

c) **List of acquired assets that have been included in the accounting and which have been valued differently from how they were in the transferring entity prior to the execution of the transaction, expressing both values as well as the value adjustments in the accounting of both entities.**

Assets incorporated into Banco Popular Español, S.A. from the previous operation of merger by absorption of banks Pastor, S.A. and Popular Banco Privada, S.A., have registered for the same book value they had in the transferring entities.

With respect to the assets incorporated to Banco Santander, SA, from Banco Popular Español, SA, in accordance with the results of the operation referred to in the preceding paragraph, the following is a detail of those entries of the Assets of the balance sheet of the Transmitting entity that have been registered for a different accounting value in the acquiring entity:

(Amounts in million euros)

Epigraph	Book Value Banco Popular, S.A.	Adjustment by merger	Book Value Banco Santander, S.A.
Financial assets at fair value with changes in other comprehensive income	15,632	(53)	15,579
Financial assets at amortized cost	73,036	38	73,074
Investments in dependents, joint ventures and associates	1,443	1,201	2,644
Intangible assets and other assets	14,541	254	14,795
TOTAL ACTIVE VARIATION	**104,652**	**1,440**	**106,092**

Due to the high number of acquired assets incorporated into the accounting books for a different value than the one in which they were included in those of the transferring entity, the information is provided by epigraphs instead of being collected individually. Notwithstanding the above, the Bank has the individualized information that is available to the Tax Administration.

d) **List of tax benefits enjoyed by the transferring entity in respect of which the acquiring entity must assume the fulfilment of certain requirements.**

The tax benefits in the transferring entity are limited to the deduction made as reinvestment. The information required in Annex VIII regarding Deduction for Reinvestment of Extraordinary Benefits is incorporated

Santander

Appendix IX

Agent network - Collaborating agents, Agents empowered as at 31 December 2018

APRIL GOICOECHEA, ANDONI

ACTIFISUR SRL

ADAN CABEZON, OSCAR

AGUADO Y ORTEGA ASESORES S L

AGUDO FRANCIA, AGUSTINA

AGUERRI MARTINEZ, FELIX

AICUA RODRIGUEZ, OIHANE

ALBARRAN FIGAL S,L,

ALBARRAN PELAYO, FRANCISCO

ALBERO FERRIZ, MIGUEL ANGEL

ALBERO TORRES, JOSEFA

ALCAIDE NAVARRO, JUAN ANTONIO

ALCALDE PITARCH, MIGUEL

ALFAGEME MARTIN, OSCAR MANUEL

ALFARO GONZALEZ, JUAN MIGUEL

ALFONSOCRIADO SL

ALLER ALONSO, JOSE ALBERTO

ALMA 812 S,L

ALMENA AMARO BRAULIO

ALONSO ARRIBAS, JORGE

ALVARADO CAMARA JESUS

ALVARADO GARCIA, CECILIO

ALVAREZ ALVAREZ, MONICA

ALVAREZ GONZALEZ, LUCIA

ALVAREZ LARA, FRANCISCO

ALVAREZ LORENZO, MARIA DEL ROSARIO

ALVAREZ RODRIGUEZ, MARIA DEL PILAR

ALVAREZ RODRIGUEZ, YOLANDA

ALVAREZ RUANO, MARIO

AMADOR ROJO CAROLINA

AMEAL MAS, JOSE MANUEL

ANDION ACEBOS, ALBERTO

ANDRES VILLALBA, LUIS FERNANDO

ANTOLIN FERNANDEZ, IGNACIO MARIA

ANTON GARCIA, JOSE MARIA

APARICIO GONZALEZ, JORGE

APARISI GRAU, JOSE JOAQUIN

ARCAS CHECA, CARLOS

ARCE LANDETE, ROSA

AREVALO GOMEZ, FERNANDO

ARMENTEROS CUESTA, ANGEL

ARREAZA SERVICIOS FINANCIEROS, S,L,

ARRIBAS CRISTOBAL, JUAN ANTONIO

ARRIBAS DIAZ, ROSA ELENA

ARROYO RODRIGUEZ, IGNACIO

ARRUFAT RAFALES, GEMMA

ARTEAGA LOPEZ, FRANCISCO JAVIER

ASENJO HERNANDO, MARCOS

ASESORES FINANCIEROS VIANA SL

ASESORIA GESTION GLOBAL S,L,

ASEVAL ASESORES S,L

ASIS DE FEREZ S,L,

ASSESSORIA COFISCO, S,L,

ATIENZA CALDERON, SANTIAGO

AURENSANZ MARCEN, FRANCISCO JAVIER

AUSEJO MARTINEZ, MARIA JOSE

AYALA ARNALDOS, JOSE MANUEL

AYMERICH GAZQUEZ, GLORIA

AYZA ASESORES S,L,

BALAGUER BALAGUER, ARACELI

BAÑOS ALONSO, ALFONSO

BARBA ARRANZ ,RAQUEL

BARREIRA VIA, LORENZO

BARRERA PEREZ, JOSE

BARRERO GORDILLO, RAQUEL

BARRIGA DORADO, MANUEL

BATALLA FARRE, ANNA

BAUTISTA CALEYA, MARIA LUISA

BEATRIZ GARRIDO SANTANDER S,L,

BECARES MARTÍNEZ, MARIA VISITACION

BEJAR ESCALANTE, FRANCISCO

BELLAUBI MIRO, ANTONI

BELLET SANJUAN, ROGER

BELLMUNT BELLMUNT, RAFAEL

BENAVIDES SANCHEZ, MARIA DEL SOCORRO

BENEITEZ SALINERO, ROSA ISABEL

BENEYTO MICO, BLAS

BENITO GOMEZ, MARIA DEL ROSARIO

BENLLOCH GRIMALT, JAIME

BERCAMLU, S,L,

BERLANA DEL POZO, JULIANA

BERMUDEZ GALINDO, LORENA

BERNAL CAMPOS, LUIS MIGUEL

BERNAL MERINO, ANTONIO

BERNALDO DE QUIROS DE DOMPABLO, RUBEN

BERPISTE S,R,L,

BERTRAN CASALS, MARIA ROSA

BES LAGA DIGNA

BIERFINANTEC, S,L,

BLANCO DEL RIO, JAVIER

BLANCO GARCIA, ROBERTO

BLANCO GONZALEZ, PALOMA

BLAY PASCUAL ,ROSA MARIA

BLAZQUEZ FERNANDEZ, JOSE LUIS

BLAZQUEZ FERNANDEZ, LUCIA

BLAZQUEZ FRAILE, MARIA ROSA AMPARO

BOL GARCIA, SANTOS

BOLINCHES IBAÑEZ,MARGARITA LUZ

BOLUFER DEVESA, MARIA DOLORES

BONILLA MARTINEZ, ENCARNACION

BORDALLO MEDINA, JOSE IGNACIO

BORRALLO SANCHEZ, ELVIRA

BORREL MICOLA, MARIA TERESA

BORRELL-ALUJA S,L,

BOZAL HUGUE,T MARIA EUGENIA

BRAVO SAN INOCENTE, MARIA ELENA

BRIEVA DOMINGUEZ MARIA TRINIDAD

BROCH RUBERT, MARIA TERESA

BRUNA CEREZO JOSE MANUEL

BUENAGA PEÑA, MARIA CAMINO

BUERA GILABERT, MANUELA

BUIL GARCIA, SERGIO

CABALLERO DURAN, MARIA DE LOS ANGELES

CABALLERO MARTIN, ROBERTO

CABERO MATA, JOSE MARIA

CABRERA COLONQUES, PAULA GRACIA

CABRERA COSANO, JOSE

CAES ASSESSORS SL

CALBO PELLICER, ISIDRE

CALDERON IZQUIERDO, MARIA NIEVES

CALLEJAS CEBALLOS, JOSE MIGUEL

CAMBEIRO CAAMAñO, MARIA ELISA

CAMINO PEREZ OSCAR

CAMUS SAN EMETERIO, MARIA DEL CARMEN

CANIEGO SANS, MONICA

CANOVAS MARTINEZ, ROSA

CANTERO SANCHEZ, JUAN ANTONIO

CANTO PEREZ, JOSE IGNACIO

CAPON FERNANDEZ, JOSE MANUEL

CARAVANTES CASTILLO, ARACELI

CARCAS SANCHEZ, DIEGO

CARDIEL COLL, MARIA AFRICA

CARMONA HIDALGO, ROSA MARIA

CARMONA REQUENA, NOELIA

CARO CANO, PEDRO

CARPINTERO DELEITO FELIX

CARRO HERNANDO, MIRIAM

CASADO FERNANDEZ, RAUL

CASADO FERRERO, SUSANA

CASAHUGA FUSET, EVA

CASASOLA CASASOLA, MIGUEL ANGEL

CASTAÑEDA PUENTE, MARIA JOSE

CASTELLO APARISI, ANTONIO

CASTILLO CONTRERAS, FRANCISCO

CASTILLO VILA, YOLANDA

CEA PEREZ, SALVADOR

CEBALLOS SORIA, DAMIAN

CELAVEDRA S,L

CEREIJO VARGAS, MARIA CARMEN

CHACON FERNANDEZ ENRIQUE

CHARNECO HERRERO, MARIA JOSE

CHAVARRIA CASTELLANOS, MIGUEL ANGEL

CHILLARON CASTILLO, FELIPE

COBO CASADO, MARIA CASIMIRA

COFIGAL ASESORES SAL

COMAS ENCINAS GESTIO, SL

CONDE DIEZ, PEDRO

CONDE GARCIA BLANCO, PATRICIA

CORREA FOLGAR RICARDO

COUCEIRO DORELLE, JOSE LUIS

CRUZ SANCHEZ, CRISTINA

CULEBRAS RAMOS, MARIA PAZ

DE ANDRES LOPEZ, IGNACIO

DE CASTRO FERNANDEZ, ELVIRA

DE LA CRUZ DE LA ROSA, MARIA EUGENIA

DE LA ROSA DIEZ, MARIA SALOME

DE PABLO DEL OLMO, RAUL

DEL BARRIO SAENZ, SEHILA

DELGADO CASEIRO ALEXANDRE

DELGADO EGIDO, JOSE JOAQUIN

DIAZ FERNANDEZ ELENA

DIAZ SANTANA, ANA MARIA

DIEZ FERNANDEZ, JOSE ANTONIO

DIOS OUTEDA, NATALIA

DOLZ GARAGALLO, Mª ISABEL

DOMINGO PEñA PASCUAL, HIGINIO

DOMINGUEZ ZANON, ISABEL CARMEN

DOMONTE RODRIGUEZ, JOSE RAMON

DONET ALBEROLA, FERNANDO

DOVALE VAZQUEZ, MANUEL ARTURO

DUARTE FIGUEIRAS, ANA BELEN

DURAN AGUNDEZ, JUAN JOSE

DURAN ALVEZ, MARIA VICTORIA

EDO ALEGRE, HECTOR

EMPRESA GESTORA JUAN JOSE MUÑOZ S,L,

ENRIQUE Y SINDE ASOCIADOS SL

EQUITY CONSULTING FINANCIERO, S,L,

ESCUDERO ORTEGA, JOSE ANTONIO

ESPACIO VENTE, S,L,

ESPINAR SANCHEZ, MARTA

ESTEBAN GARRIDO, ALICIA

FABREGAT PITARCH, JOSE MANUEL

FADRIQUE PICO, ALICIA

FARIÑA FERNANDEZ, SUSANA

FARIÑA REBOREDO, BARBARA

FARIÑAS PEREZ, JOSE LUIS

FATAS LAPLANA, ROSA ANA

FAUS BLANES, MARTA

FEIJOO ARIAS, MARTA

FERNANDES DIAS, BARBARA

FERNANDEZ AMURRIO, LYDIA

FERNANDEZ CARRASCO, MARIA PILAR

FERNANDEZ CORRAL, CONCEPCION

FERNANDEZ DE JUBERA SIERRA, PABLO

FERNANDEZ FERNANDEZ, LAURA

FERNANDEZ MENDEZ, MIGUEL ANGEL

FERNANDEZ MURAS, BLANCA

FERNANDEZ ORTIGOSA, ELENA

FERNANDEZ RODRIGUEZ SANTIAGO

FERNANDEZ RUFO, MARIA

FERRANDEZ PARDOS, MARIA ESTHER

FERRE BERTOMEU, ANA CRISTINA

FERRUS AZNAR, INMACULADA

FLORES ROMERO, FRANCISCO

FOLLA-CISNEROS GARCIA, MARIA DOLORES

FONT RONES, PAU

FONT VILASECA, JOSE MARIA

FORNE TENA, GUADALUPE

FORNOS ISERN, ANTONIO

FRIERO BRAGADO, PATRICIA

FRUTOS BERNAL, MARIA TERESA

FUENTE PARGA, JOSE ALFONSO

FUENTE REGO, MIGUEL ANGEL

GABARRI LLOP, JOAN ANDREU

GAGO MORENO ANTONIO LUIS

GAGO Y SOUTO FINANCIAL SERVICES S,L,

GALAN FREJO, SOLEDAD

GALIMANY&MORILLO S,L,

GALLEGO MARTIN, BEATRIZ

GAMERO MUÑIZ, JOSE

GARCES VIRGOS, JOSE DANIEL

GARCIA ABAD, MIGUEL

GARCIA BARATAS, FERNANDO

GARCIA BLANCO, MARIA BELEN

GARCIA DELGADO, RAFAEL

GARCIA DURAN, MERCEDES

GARCIA ESTELLER TORRES, BEATRIZ

GARCIA FERNANDEZ, MANUEL MARIA

GARCIA GONZALEZ, MARIA ISABEL

GARCIA GUERRERO, ALEJANDRO

GARCIA LOPEZ, JESUS

GARCIA MEDIALDEA MARIA JOSEP

GARCIA MOLINA, FANDILA

GARCIA MORA, FRANCISCO JOSE

GARCIA MORENO, JORGE IVAN

GARCIA PEÑA, ANA ESTHER

GARCIA RODRIGUEZ, CARLOS

GARCIA RODRIGUEZ, MIGUEL ANGEL

GARCIA SANTANA, MARIA MERCEDES

GARCIA SOLIS, FRANCISCO

GARCIA TAPIA, MIGUEL

GARCINUÑO CASELLES, MARTA MARIA

GARRIDO FERNANDEZ, MARTA

GARRIDO GALINDO, SEILA

GAVELA SANCHEZ, RAQUEL

GAVIN LORIENTE, CARLOS

GAZQUEZ MARTINEZ, ISABEL MARIA

GELPI ESCANDIL, TANIA

GESESBAN SL

GESFINPRO, S,L

GESTION FINANCIERA PALOMARES S,L,

GESTION INMOBILIARIA RUBAFER, S,L,

GESTION INTEGRAL SANTANDER, S,L,

GESTION MCFR BARBERA SOCIEDAD LIMITADA

GESTION SANTANDER CARBAJOSA, S,L,U,

GESTIONES MORENO E HIJOS S,L,

GIMENO TIRADO, LOURDES

GIRAPROL SL

GISBERT FERRERES, JUAN JOSE

GODINEZ GUERRERO, IVAN

GOMEZ BANGA MARTA

GOMEZ COLADO, JESUS

GOMEZ GARCIA, JUAN CARLOS

GOMEZ LOPEZ, JUAN MIGUEL

GOMEZ LOZANO, AROA

GOMEZ MARTINEZ, MARTINA

GOMEZ TOSTON LOPEZ, MARIA

GOMIS MARSAL, ELENA

GONZALEZ ANDRADE, MARIA MARTINA

GONZALEZ BARRAL, MARIA DEL CARMEN

GONZALEZ BECEIRO, DAVID

GONZALEZ BERMEJO, BELEN

GONZALEZ CABO, VICTOR

GONZALEZ CUESTA, MARIA MANUELA

GONZALEZ GONZALEZ, ARACELI

GONZALEZ MARTIN, EDUARDO

GONZALEZ MARTINEZ, IVAN

GONZALEZ MEJIAS, ARACELI

GONZALEZ PALACIO, SERGIO

GONZALEZ RAMIREZ, BELEN

GONZALEZ SANCHEZ, MARIA EUGENIA

GONZALEZ VILA, VANESA

GONZALVEZ BOTELLA, JAVIER

GRUPO ALMARES 2015 S,L,

GUERRERO RODRIGUEZ, MIGUEL

GUEVARA GONZALEZ, JOSE MANUEL

GUIJO LOZANO, PATRICIA

GUILLAUMES MASSO, DAMIA

GUILLEN RAMIREZ, ANTONIO

GUIU FARRE, IVAN

GURIDI EZQUERRO, JAVIER

GUTIERREZ BERNAL, BENEDICTO

GUTIERREZ GUTIERREZ, JOSE IGNACIO

GUTIERREZ SANZ, MARIA LETICIA

GUZON LIEBANA, MERCEDES

HERNANDEZ ALONSO, MARIA

HERNANDEZ ATIENZA, LORENA

HERNANDEZ NOVOA, CLARA

HERNANDEZ PEREZ, MARTA

HERNANDEZ RANZ, JULIAN

HERNANDEZ-SONSECA MIRANDA, JOSE LUIS

HERRERO ALONSO, PABLO

HERRERO HIDALGO, RAUL IGNACIO

HORNERO HORNERO JOSE MANUEL

IBARRA RECHE, MARIA PAZ

IGLESIAS ALONSO, LOURDES

IGLESIAS GONTAN, CARLOS

IGLESIAS MATEOS, MARIA VICTORIA

IMIA RIVERA, MARIA LUZ

INCHAUSPE PEÑA, DAVID

INTERMEDIACION NASARRE S,L,

ISERN ROIG, ABEL

JAIME GARCES, SILVANA

JIMENEZ AGUAYO, ANNA

JIMENEZ CHICO, ANTONIO JOSE

JIMENEZ OVEJAS, JOSE

JIMENEZ PERALVAREZ, FRANCISCO

JIMENEZ SAUCEDO MARIA CONCEPCION

JIMENEZ VERANO, VICTOR

JOVANI BELTRAN, SUSANA MARIA

JUAREZ GARCIA, JUAN MARINO

JUNCAL RUA, CANDIDO

KÜHNEL AZNAR, LUIS

LAMBERTO GARCIA, SOLEDAD

LAZARO BERDEJO, JUAN CARLOS

LEAL MORALEDA, GREGORIO

LERONES AGUADO, EDUARDO

LLORENTE DA COSTA, OLGA

LOMBARDIA PALOMARES, MANUEL

LOPEZ CACHAZA, ALBERTO

LOPEZ DURA, IVAN

LOPEZ GARCIA, JESUS

LOPEZ GOMEZ, ROSA MARIA

LOPEZ GONZALEZ, ESTHER

LOPEZ LOPEZ, JOSE ANTONIO

LOPEZ LOPEZ, NATALIA

LOPEZ MARTINEZ, ANA MARIA

LOPEZ MONTEJO, BEATRIZ

LOPEZ RUIZ FRANCISCO JOAQUIN

LOPEZ TABOADA, MARIA ROCIO

LOZANO CANO, JOSE CARLOS

LUJAN FERNANDEZ, MARTA

MACIA GONZALEZ, LAURA

MADRIGAL FINANCIERO SL

MAILLO NIETO, JESUS

MALAVE FERNANDEZ, MIGUEL JOSE

MANCHADO CORDON, MARINA MILAGROS

MANSANET RIPOLL SL

MANUEL CERVERA, NURIA

MAQUEDA RUIZ, SAGRARIO

MARI PUERTA, LORENA

MARIN PEREZ, JOSE

MARINA MEDRANO, PEDRO MARIA

MARQUES ASENSIO, ERNESTO DAIMAN

MARQUEZ CONTRERAS, FRANCISCA

MARTI SEGARRA, VICENTE MANUEL

MARTIN DURAN, JUAN MANUEL

MARTIN ESCOBAR, CARLOS

MARTIN FUENTES, EUGENIO

MARTIN GORDILLO, MARIA JOSE

MARTIN ISERTE, MIGUEL ANGEL

MARTIN LANCHAS EMILIO

MARTIN LOBO, ANA MARIA

MARTIN MORENO, REYES

MARTIN MUNIESA, MARIA TERESA

MARTIN MUÑOZ, MARIA MILAGROS

MARTIN RIVERO, ROBERTO

MARTIN RODRIGUEZ, MARIA JESUS

MARTIN SANCHEZ, MARIA

MARTINEZ BOHORQUEZ, CARMEN MARIA

MARTINEZ ESCOBAR MARTA ISABEL

MARTINEZ FERNANDEZ ERNESTO

MARTINEZ FERNANDEZ FRANCISCO JAVIER

MARTINEZ JIMENEZ LUIS ALFONSO

MARTINEZ MARTINEZ, JUANA

MARTINEZ OTERO, CELIA MONICA

MARTINEZ PEREZ, MARIA BELEN

MAS POMES, EDUARD

MASCITTI, QUIRINO

MATA VIDAL, OSCAR MANUEL

MATEOS GARCIA, MARIA VICTORIA

MATEOS PASCUAL ASUNCION

MATEOS SANCHEZ, ANNA LOURDES

MATO CORBACHO, CARMEN

MAYRAL SERRET, MARC

MAZUELA CREGO, JOSE JAVIER

MENDEZ GONZALEZ, MARIA

MERINO LOBATO S,L,

MESA DIEZ, CARLOS

MIRANDA GARCIA CARO, LORENZO

MISTERA BUSINESS SOLUTIONS S,L,

MOLINER ABADIA, ALVARO

MOLLEDA VELEZ, ANGEL

MONGE LOPEZ, JAVIER

MONROY CARNERO, MARIA JESUS

MONSO BONET, ANTONI

MONTANE DELCOR, AGUSTI

MONTEAGUDO MARTINEZ, JUAN JOSE

MONTERO DURAN, PATRICIA

MONTERO GONZALEZ, NURIA

MONTERO RODENAS, JUAN

MONTILLA GONZALEZ, LIDIA

MONTULL CACHO, ANA ISABEL

MORALES NUÑEZ, ANA MARIA

MORAN PEREZ ALBERTO

MORENO ALONSO, MIGUEL

MORENO LOPEZ SOLORZANO, CARLOS

MORENO MENDEZ, ANTONIO

MORERA JORDAN, MARIA ANGELES

MORERA SOLA, MARIA DOLORES

MORIANA RODRIGUEZ, MARIA DOLORES

MOROS CORTES, BEGOÑA

MOSCARDO TORRES, VICENTE

MOTOS RECUENCO, ANTONIO

MULTIALGAIDA, S,L,

MUNUERA SANZ, RAMON DANIEL

MUÑIZ ARROJO, MARIA ANGELA

MUÑOZ GARCIA, FRANCISCO

MUÑOZ RAMIREZ, SERGIO

MUSITU CRUZ, PATRICIA

NADALES MARQUEZ, CARLOS

NAVARRETE GESTION 2018, S,L,

NAVARRO SIMON, LUIS JAVIER

NAVAS ALONSO, DANIEL

NEOBAN SL

NOGUERON MARTINEZ, RUBEN

NOVIO MIDON, JAVIER

NUÑEZ PUGA NIEVES

OFICINA LA POBLA DE SEGUR, S,L,

OLIVA MANDAÑA, MONTSERRAT

OLIVAS GONZALVO, FRANCISCO MIGUEL

OLIVER LABARTA, S,L,

ORDAS CASADO S,L,

PACHECO GALLEGO, MARIA JOSE

PADROS ANGUITA, ROSA MARIA

PALACIO TORRES, BELEN

PALACIOS MARTIN, CARLOS ALBERTO

PALMERO MORENO CID, MARIA DEL CARMEN

PALOMARES RUIZ, MARIA ASUNCION

PALOMERO PALOMERO, JACINTO

PAMPLONA CALAHORRA, ANA BELEN

PARDAL ANIDO, OSCAR

PARRA CARRERA, FELIPE

PARRA TELLEZ, MARIA JESUS

PARRADO PARRADO GEMA

PARRO CORTES, CECILIO

PASTOR MANZANO, JOSE GABRIEL

PASTRANA CASADO, EUSEBIO

PAYA GUILL, CESAR

PEIRO ORTEGA, ESTHER

PERAL DIAZ, MARIA ANTONIA

PEREZ CABEZAS, JESUS

PEREZ CUELLAR, LUCIA

PEREZ FERNANDEZ, EVA

PEREZ FERNANDEZ, JOSE MARIO

PEREZ GARCIA, BEATRIZ

PEREZ GUILLEN, MARIA LUISA

PEREZ IÑIGO, CARLOS

PEREZ MORALES, MARIA PAZ

PEREZ RAMOS Mª DE LA LUZ

PEREZ VAZQUEZ, JESUS

PINTO DIAZ, CARMEN

PIÑOL PASCUAL, MIGUEL ANGEL

PIÑOL PEREZ, ALEJANDRO

PLA PARES, MARIA CARME

PLANES GIMENEZ, FERNANDO

PLANES NOVAU, OSCAR

PLAZA MUÑOZ, MARIA DEL PILAR

PLUMED LUCAS, MAXIMO

POLO MATEOS, FERNANDO

POO GARCIA, CLARA

PORCUNA CASTILLA, JUANA

PRATS SEGURA, ANDREA

PRIETO CORDERO, MIGUEL ANGEL

PUENTE CAMINERO, MARIA JOSE

PUEY MUÑOZ, VERONICA

PUJOL ROVIRA, ENRIC

PUMAR ROSENDE, LORENA

QUILES SANCHEZ, INGRID

QUINTANA FERNANDEZ, MARIA ANTONIA

QUINTANA MAULEON, JESUS

RAMIREZ DIEZ, MARIA DEL PILAR

RAMIREZ PEREA, DOLORES MARIA

RAMIREZ RODRIGUEZ, MARIA ISABEL

RAMIRO GIL S,L,

RAMOS RIDAO, GINES

REMIRO BASANTA, VERONICA

REQUES VAZQUEZ, JUDITH

RIAÑO MOROCHO, ALBERTO

RIBALTA ARIAS, JORDI

RIERA FERRAN, BERTA

RISQUETE REQUENA PEDRO

RIVAS BOTELLA, PILAR

RIVAS GARCIA, FERNANDO

RIVAS PORTILLO, LUCAS

RIVAS VAL, RAUL

RIVERO HERNANDEZ, SONSOLES

RIVERO JIMENEZ, ANDRES

ROCA BLANCH, MARIA DOLORES

RODRIGO GUTIERREZ MARIA DE LOS ANGELES

RODRIGUEZ ALVAREZ, BORJA

RODRIGUEZ CARTON MARIA NIEVES

RODRIGUEZ CASTRO, IGNACIO JAVIER

RODRIGUEZ DIAZ, MARIA ANGELES

RODRIGUEZ ESTEIRO, VANESA

RODRIGUEZ FUENTES, MARIA TERESA

RODRIGUEZ GARCIA, DAVID

RODRIGUEZ MADROÑAL, ALFONSO

RODRIGUEZ MORENO, ANA MARIA

RODRIGUEZ ROMERO, OSCAR

ROIGE VIDAL, SONIA GEMA

ROLDAN FERNANDEZ, ALFREDO

ROMERO JAROSO, ANTONIO

ROMERO LOPEZ, LOURDES

ROMERO RODRIGUEZ RAFAEL

ROVIROSA PIÑOL, MARIA ANTONIA

ROYO DELPOZO ,CARLES

RUBIO PALACIOS, ANA MARIA

RUIZ BURDALO, CARLOS

RUIZ LOPEZ, MIGUEL ANGEL

RUIZ MARCHESE, DAVID

RUZ CARPIO, INMACULADA

S & G SERVICIOS FINANCIEROS Y CONTABLES S L

SAEZ CLEMENTE, ALBERTO

SAEZ SANZ, ARCADIO

SAIZ CANO, FRANCISCO DAVID

SALAS BAENA, MARIA MERCEDES

SALAVERRI MARTINEZ, JOSE JAVIER

SALAZAR RUIZ, MANUEL

SALGADO ALVAREZ, MARIA JOSE

SALGADO HERNANDEZ, JUAN ANTONIO

SALGADO RODRIGUEZ, MARIA TERESA

SALGUERO VARGAS, RAFAEL

SAMPEDRO FEIJOO, JOSE BENITO

SAMPEDRO NEGRITO, JOSE ANTONIO

SAN ROMAN FERNANDEZ, MARIA VICTORIA

SANAGUSTIN GIMENEZ, JORGE LUIS

SANCHEZ BERMUDEZ, ALEJANDRO

SANCHEZ CASTAÑO MARIA, MANUELA

SANCHEZ CASTILLO, MIKEL ANDRES

SANCHEZ CHAPARRO, S,L,

SANCHEZ GRANDE TOVAR, JOAQUIN

SANCHEZ HERNANDEZ, JUSTO

SANCHEZ JUAN, ALEJANDRA

SANCHEZ MARTIN, ANABEL

SANCHEZ PEÑA, CARMEN

SANCHEZ ROMERO FRANCISCO

SANCHEZ SANCHEZ NOELIA

SANCHEZ SECO, JORGE JAVIER

SANCHEZ UZAL MARIA CRISTINA

SANCHO ARASA, OLGA MARIA

SANGUINO GUTIERREZ, MARIA LUISA

SANMAFRAILES S,L,

SANS GARDEÑES, ANNA

SANTAMARIA CABRERA, JOSE

SANTAMARIA GRAU, M BELEN

SANTANA CAMARA S,L

SANTOS SANCHEZ, MARCIAL

SANZ VILLARREAL, NOELIA

SASTRE GONZALEZ MARIA

SAUSOLUCIONS SL

SAZO SALGUERO, MARIA

SECO MARTINEZ, MARIA JOSEFA

SERBAN AGUIÑO S,L,

SERRA BERTRAN, JOAQUIN

SERRANO LOPEZ, JUANA

SERVICIOS FINANCIEROS AHIGAL, S,L,

SERVICIOS FINANCIEROS DEL CONDADO S,L,U,

SERVICIOS FINANCIEROS FORCAREI, S,L,

SERVICIOS INTEGRALES DOÑANA

SIMON YEBENES, JOSEFA

SOBREDO SIGUEIRO, JOSE MANUEL

SOLE RIBERA, MARIA

SOMOZA RECIO, RODRIGO

SORIANO RAMIREZ, MARIA TRINIDAD

SORO GINER, VANESA

SOROLLA LLAQUET, FEDERICO

SOUTO LOPEZ, PATRICIA

SUAREZ GARCIA, JOSE

SUAREZ MENDEZ, ESTEBAN

SUBIRA SOLER, ALEIX

TARI ESCLAPEZ, JOSE ALFONSO

TARRES MALE, MARC

TBL SEGUROS Y SERVICIOS FINANCIEROS SL

TELLA VILLAMARIN, ADRIAN

TELLEZ RUIZ, MARIA CONCEPCION

TOME LLANOS, VICTOR

TORNAVACAS VINAGRE, AMBROSIO

TORREÑO NIETO, BEATRIZ

TORRES BERMUDEZ, INMACULADA

TORRES GARCIA, MARIA AURORA

TORRES LOZANO, ANTONIO

TORRES MIGUEL, JOSE MANUEL

TORRES ROSA, GRATIANA

TORRUBIA ORTIGOSA, RAFAEL

TOVAR ASENSIO, SAUL

TREMPS ALDEA, MARIA ELENA

URGEL CASEDAS, CLARA

URUÑUELA NAJERA, MARIA DANIELA

USERO REYES, PATRICIA

VALCUENDE GARMON, MARIA INES

VALDES BRAVO, JAIME

VALDES MARTIN, JUAN MARIA

VALENZUELA MARTIN ASESORES S,L,

VALIENTE LORENZO, MARIA LUISA

VALIÑO IGLESIAS, MARIA LUISA

VALLECILLO MUÑOZ, BERNABE

VAZQUEZ COTO, GERARDO JOSE

VAZQUEZ YAÑEZ, NURIA

VEGA BLANCO, VANESA

VEGA JANILLO, LUIS MIGUEL

VEGUILLAS Y VEGUILLAS SL

VELASCO MAJADA, VIRGINIA

VJANUARY TANCO, JOSE CARLOS

VICENTE PEREZ, MARCOS

VIDAL JOVER, MIGUEL ANGEL

VIDAL VICENT, MARIA VICENTA

VIEJO GONZALEZ, FRANCISCO JOSE

VILA AYERBE PILAR

VILAS PALOMINO, JUAN JOSE

VILCHEZ FERNANDEZ, ZAIDA

VILLAMAÑAN MARTINEZ, ANA

VILLANUEVA DOMINGUEZ, JULIAN

VILLASANTE COTO, SUSANA

VILLEGAS MARTINEZ, PATROCINIO

VIÑAS RODRIGUEZ, LUIS EDUARDO

YEBEGEST S,L,

ZABALA USTARIZ, CRISTINA

ZAMBRANO PEREZ, MARTA

ZAYAS GOMEZ, ESTIBALITZ

ZURITA MARTINEZ, ANGELA

0880 SANTANDER SANTIBAÑEZ, S,L,

1321 SANTANDER LA ALBERCA S,L,

6155 SANTANDER LEDESMA, S,L,

6395 POYALES DEL HOYO AGENTE COLABORADOR, S,L

Directors' report

Banco Santander, S.A.

1. Introduction:

Banco Santander, S.A. (the "Bank") is a Spanish bank, incorporated as a sociedad anónima in Spain and is the parent company of Grupo Santander or Santander. Banco Santander, S.A. operates under the commercial name Santander.

The Bank operates through a branch network distributed in Spain and abroad.

On 7 June 2017, Santander acquired the entire share capital of Banco Popular Español, S.A.U. ("Banco Popular") in an auction in connection with a resolution plan adopted by the European Single Resolution Board (the European banking resolution authority) and executed by the FROB (the Spanish banking resolution authority) following a determination by the European Central Bank that Banco Popular was failing or likely to fail, in accordance with Regulation (EU) 806/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms. On 24 April 2018, the Bank announced that the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. had agreed to an absorption of Banco Popular by Banco Santander. The legal absorption was effective on 28 September 2018.

The directors' report has been prepared based on the accounting and Management records of Banco Santander, S.A.

The financial information included in this directors' report has been prepared in conformity with the Bank of Spain Circular 4/2017 of 27 November on Public and Reserved Financial Information Regulations and Financial Statements Forms, and subsequent modifications.

2. Situation of the Bank:

At December 2018, Santander was the largest banking group in the euro zone by market capitalisation (EUR 64,508 million) and the 16th in the world.

The Group engages in all types of activities, operations and services that are typical of the banking business in general. Its business model is focused on commercial banking products and services with the aim of meeting the needs of its 144 million customers, including private clients, SMEs, businesses and corporates. Santander's strategy remained focus on customer loyalty. The number of loyal customers (19.9 million) rose by 2.6 million in the year (+15%), with individuals as well as companies rising. The number of digital customers (32.0 million) rose by 6.6 million in 2018 (+26%), underscoring the strength of our multichannel strategy.

The Group operates through a global network of 13,217 branch offices, the largest of international banks, as well as digital channels, in order to provide top-quality service and flexibility.

Santander is among the top three banks in customer satisfaction in seven of our main countries.

Santander has EUR 1,459,271 million assets and manages EUR 980,562 million of customer funds across all its Customer segments. It has more than four million shareholders and over 200,000 employees (30,901 and 21,775 employees in Banco Santander, S.A. as of 31 December 2018 and 2017, respectively).
Commercial and retail banking accounts for 87% of the Group's revenue.

The Group is highly diversified and operates mainly in 10 core units, where it has significant market shares.

3. Financial performance:

<u>3.1 Economic outlook</u>:

Grupo Santander developed its business in 2018 in a generally dynamic economic environment. However, as the year advanced so it became clearer that the peak of the expansive cycle had been reached, giving rise to instability in the markets. The countries where the Group conducts its business performed in a less similar fashion although they are generally growing.

Trade tensions, despite the agreement reached in the renegotiation of NAFTA, and the tightening of US monetary policy were the main causes of greater uncertainty, which triggered tensions of varying intensity, particularly in developing markets such as Argentina and Turkey and, to a lesser extent, in Brazil and Mexico, also affected by the electoral cycle in most of the year.

Other factors such as the Brexit negotiations and the shape of Italy's fiscal policy also weighed on the tone of the markets.

Eurozone (GDP: +1.9% estimated in 2018 vs +2.5% in 2017). Economic activity could not maintain the strong rhythm of 2017. Yet growth in 2018 was above the potential. The jobless rate came down to 7.9%. After the hike in inflation because of energy prices, it eased at the end of the year (1.6%).

Spain (GDP: +2.5% estimated in 2018 vs +3.0% in 2017). The economy slowed in 2018, although Spain remained one of the euro zone's most dynamic economies. Job creation was very strong and the unemployment rate continued to fall. Inflation ended the year at 1.2%.

3.2 Balance sheet and results:

Banco Santander, S.A. is the Parent Bank of a financial group that operates in different countries through different businesses therefore its financial statements not only reflect its commercial activity in Spain, but also the activity derived from being the head of the Group. This last aspect makes it difficult to analyse its evolution, especially regarding the results more directly related to its holding nature.

As previously noted, for the correct interpretation of the individual financial statements of Banco Santander S.A., it is necessary to distinguish the results obtained by the commercial areas from those that derive from the holding activity as the parent company of Santander.

During 2018, Banco Santander carried out the following structural modification operations, all of them among companies that belong to Santander Group: Merger by absorption between Banco Popular Español S.A.U. (absorbing company) and Banco Pastor S.A.U. and Popular Banca Privada S.A.U. (as absorbed companies) and, subsequently, merger by absorption between Banco Santander S.A. (absorbing company) and Banco Popular Español S.A.U. (as an absorbed company), Santander Investment Bolsa Sociedad de Valores S.A.U. and Popular de Renting, S.A.U.

In accordance with the applicable regulations, as a result of the accounting of these merger transactions by absorption carried out by the Bank in 2018, there is an increase of 18 million euros (Note 29) in the Bank's voluntary reserves corresponding to the difference between 6,880 million euros due to the decrease in the stake in Banco Popular Español, SAU and 6,898 million euros of the consolidated net value of the assets and liabilities included in the Bank's balance sheet from the absorbed companies.

The evolution of the main headings of the balance sheet and the income statement in 2018 as compared to 2017 is strongly influenced by the impact of the corporate operations indicated above, which have led to a significant increase in balance sheet balances, and consequently, in income and costs derived from increased activity.

Net interest income amounts to 3,521 million euros in 2018, a 56% higher as compared to the previous year.

Income from equity instruments amounted to 4,151 million euros in 2018. This amount includes the dividends received from subsidiaries.

Net commission income increased 22.4% to 2,414 million euros as compared to 2017, mainly due to commissions for payment services and customer transactions, as well as the contribution of wholesale banking.

Gains from financial operations (including exchange differences) were 454 million euros, as compared to 427 million euros in the previous year, mainly derived from higher revenues in 2018 due to interest rate and exchange rate hedging portfolio management.

General administrative expenses (staff expenses and other administrative expenses) were 5,472 million euros, a 34.8% increase as compared to 2017, due to the increase in the perimeter because of the mergers carried out by the Bank, which were partially offset by the efficiency plans.

Impairment losses on financial assets (net) in 2018 were 686 million euros, a 30.9% increase as compared to the previous year, due to the added risks associated to the mentioned corporate transactions.

On the other hand, the impairment of investments in joint or associated businesses and non-financial assets reflects a reversal of provisions of 79 million euros as compared to impairment of 273 million last year.

Gains on non-financial assets and investments amount to 68 million euros (572 million euros last year mainly explained by the capital decreases of Sterrebeeck, B.V. and Santander Holding International, S.A.).

Finally, losses on non-current assets held-for-sale increase to 18 million euros in 2018, which correspond mainly to real estate activity.

Thus, as explained above, net interest income, dividends, income from financial operations (including exchange differences) and impairment of other assets include income, costs, losses or gains arising from the Bank's holding activity and therefore, do not reflect the evolution of the operating activities integrated in the Bank. These lines have little economic significance outside the context of the consolidated Group.

Regarding the balance sheet as of 31 December 2018, the Bank's total assets amounted to 608,376 million euros, a 23.5% increase over the previous year.

By financial statement line item, and final balances, the main variations that reflect the commercial activity of the Bank are summarized as follows:

Loans and receivables at amortized cost– Customers: at year-end stood at 236,669 million euros, a 35.3% increase as compared to the previous year. (-1.9% after perimeter adjustment). Solid commercial dynamics with good performance of the credit activity. Credit production increased from 2017, with a positive evolution in the main segments and especially in individuals and SMEs.

Financial liabilities at amortized cost - customers: at the end of the year amounted to 240,693 million euros, a 34% increase as compared to the previous year because of the mergers completed during 2018.

Distribution proposal of the Bank's profit

On account of the earnings for the 2018 financial year, the Bank has assigned 3,292 million euros to remunerate shareholders in cash and 432 million euros in shares according to the script dividend scheme ("Santander Dividendo Elección") approved by the Annual General Meeting of 23 March 2018, according to which the Bank offered the option to receive an amount equivalent to the second interim dividend of 2018 in cash or new shares.

The remuneration per share for 2018 that the Board of Directors proposes to the General Shareholders' Meeting is 0.23 euros.

4. Trend information:

The director's report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected. These risks and uncertainties are described in note 49 of the financial statements.

The global economy slowed in 2018 and left behind the peak of this expansion, although we expect a relatively dynamic environment will be maintained. We forecast global economic growth at 3.5% (3.7% estimate for 2018), slightly above its potential, although resulting from a less homogeneous performance by regions.

Mature economies are estimated to grow 2.0% (2.3% estimate for 2018), thanks to demand policies and the strength of the labour market. Growth in both the US and the euro zone will ease, while the UK, if there is a Brexit deal, will grow more modestly.

Mature markets are expected to withdraw monetary policy stimulus measures very slightly. The Federal Reserve could raise its interest rates a little and the European Central Bank begin to increase its rates in the last part of 2019, although that will depend on economic growth remaining firm. The Bank of England could increase its key rates towards the end of the year if Brexit does not create instability.

Long-term interest rates are expected to increase moderately. Yield curves show diverging trends, expecting some flattening in the US and a greater slope in Europe.

In any case, the fact that the recovery is moderate and inflation remains low, partly due to structural factors, suggests that interest rate movements, upward or downward, will be limited.

The balance of risks in the short term is downward: the probability of a geopolitical or economic policy shock, particularly in the US and Europe, has increased, which if it happens will lead to a potentially sharper downward revision. The situation in China or unstable financial conditions are other risk factors. In this context, we have seen increased volatility and risk aversion.

In this environment, Santander ended the year having met all of the main targets set for 2015-2018: growth, profitability and strength. The number of loyal and digital customers rose, and volumes in local currency increased. Profitability was higher and RoTE and efficiency improved. Also, the capital position was strengthened, while growing cash dividend per share.

The management priorities of Spain for 2019 are set out below:

The economy is forecast to grow by around 2.1% in 2019, higher than that envisaged for the euro zone, and inflation will remain low. Lending will gradually increase as the year progresses:

• We remain committed to keep our leadership in Spain and complete Banco Popular's integration, maintaining quality Service and customer relationship.
• Accelerate the Bank's digital transformation towards a data driven company in order to improve the customer experience.
• Keep on growing SMEs and corporate segments backed by Banco Popular's franchise, Santander's high added-value services and our competitive advantage in digital banking of companies.
• Increase customer revenue and obtain cost synergies related to Banco Popular's integration.
• Continue to reduce doubtful assets, leveraging on our capital light model.

The Real Estate Spain unit will continue its strategy to reduce assets and lending exposure.

See more information in the Consolidated Directors' Report.

5. Non-financial information:

This Non Financial Information Statement of Banco Santander, S.A., which forms part of its Individual Director´s Report, is prepared in addition to the Consolidated Non Financial Information Statement included in the Santander Group Consolidated Directors' Report and provides that other information of Banco Santander, S.A. which is significant, relevant, useful and comparable and that is relevant to understand the performance, results, status and impact of the activities of Banco Santander, S.A. with respect to social and environmental matters, respect for human rights and prevention of corruption and employees. It must be noted that, since Banco Santander, S.A. is the parent of a group of companies, to understand such performance, results, status and impact this Individual Non Financial Information Statement must be read in conjunction with the referred Consolidated Non Financial Information Statement.

When drawing up the non-financial information contained in this Separate Statement Of Non-Financial Disclosures, Banco Santander performed a materiality analysis, in line with the international reporting framework developed by the Global Reporting Initiative (GRI), which enabled it to identify the most important aspects about which to inform its stakeholders in accordance with the GRI standards.

<u>5.1 General information</u>

The purpose of Santander Group is to help people and businesses prosper. To achieve this, it has a distinctive business model that seeks to satisfy the needs of all kinds of customer: private individuals with varying income levels; companies of any size and sector; private corporations and public institutions.

Santander

Long-term personal relationships with its customers are the basis of the business. Through innovation, Santander is transforming its commercial model to capture a greater number of loyal and digital customers, thereby driving a more profitable and sustainable business.

Santander considers the proper integration of ethical, social and environmental criteria in its financial activity to be critical.

To achieve this, and in compliance with the international best practices regarding corporate social responsibility, Santander has a sound corporate governance structure, with the board of directors as the maximum decision-making body of the Group, with the exclusive power to approve the Group's general policies and strategies, including those regarding sustainability.

It also has policies for sustainability (general policy, environmental management and climate change, human rights and volunteer programmes) and other industry-specific ones governing the Group's financial activity in such sectors as defence, energy, mining/metals and agricultural commodities (e.g. palm oil, soya and timber). These policies are reviewed annually. In 2018 the general sustainability policy was updated, including a description of the criteria governing the Group's non-participation in the financing of certain customers and prohibited and/or restricted activities, as outlined in its sector policies (energy, defence, mining/metallurgy and agricultural commodities). At the same time, climate change and environmental management policies were updated to reflect the current governance bodies. As was the human rights policy, which also includes Santander's commitment to the rights of the LGBTI community.

Banco Santander's responsible banking strategy is also underpinned by other internal regulations such as the general code of conduct, the corporate culture policy (which includes principles of diversity and inclusion governing the group), the consumer protection policy, the new cybersecurity policy (which includes new risks and regulations in this area), the supplier certification policy (which includes the principles of responsible conduct for suppliers), the new policy of contributions for social purposes, and the corporate volunteer programme policy.

Moreover, in 2018 Banco Santander redesigned and strengthened its corporate governance, both to ensure it is compliant and to help address the challenges that were identified.

A new responsible banking, sustainability and culture committee has been created which will help the board of directors to comply with its responsibilities regarding the definition and supervision of the responsible banking, sustainability and culture strategy.

Two steering committees have already been created that will meet monthly to support the work of the committee. A culture steering committee to tackle the challenge of adapting the bank to the new business environment and which will be responsible for ensuring that the bank has the appropriate culture, competencies, framework and digital and business practices to meet the expectations of its stakeholders. And an inclusive and sustainable banking steering committee to address the challenge of contributing to inclusive and sustainable growth, that, among other things, promotes initiatives to encourage entrepreneurship, job creation, financial inclusion, responsible consumption and progress towards a low-carbon economy.

In addition, with the goal of driving progress on the responsible banking agenda, a new unit has been created which is part of the Group Executive Chairman's Office and a senior consultant in responsible business practices has been appointed who will report directly to the Group Executive Chairman and work with the responsible banking unit.

The identification of non-financial risks associated with its activity is a priority for Banco Santander.

The bank has procedures in place for their identification, analysis and assessment in transactions subject to Group policies and to external commitments such as the criteria of the Equator Principles, an initiative the bank joined in 2009.

In this sense, Banco Santander S.A. recognises the right of communities to a clean and healthy environment and undertakes to minimise the environmental impact of its operations, which means:

• Assuming, in line with the bank's commitment to the Equator Principles, the obligation to analyse, identify and correct, during the analysis of the risks of financing activities and consistently with the guidelines approved by the International Finance Corporation, the negative social and environmental impacts, including those affecting local communities.

• During due diligence prior to signing agreements for financing or of any other kind and complying with the Equator Principles and social and environmental risk management policies, Santander undertakes, as part of its analysis, to assess the human rights policies and practices of its counterparties.
• Establish specific policies governing the requirements for offering financing to those sectors, activities or potential customers that present a special risk in respect of social, environmental or human rights issues.

Santander has a working group for social, environmental and reputational risk, led by the Chief Compliance Officer, which assesses the risk of large transactions in the above-mentioned sensitive sectors and issues recommendations to the corresponding risk committees.

Banco Santander S.A. is part of the main initiatives at international level regarding sustainability (United Nations World Agreement, Banking Environment Initiative, World Business Council for sustainable Development, UNEP FI, Equator Principles, Responsible Banking Principles, CEO Partnership for Financial Inclusion, etc.).

In Spain, Banco Santander S.A us member of Foretica as well as for the Green Growth Spanish Group.
In addition, it forms part of the main stock market indices that analyse and evaluate companies' actions on sustainability. It has been a member of the Dow Jones Sustainability Index (DJSI) since 2000, and in 2018 it was the leading Spanish bank, the leading European bank and ranked third globally.

In 2007 the Group signed the Carbon Disclosure Project (CDP), a benchmark international initiative on companies' reporting of information on climate change, and since 2012 it has completed the CDP Water questionnaire.

5.2 Information about environmental issues

As part of its goal to help achieve the commitments made in the Paris climate agreement of 2015, Santander has created a Climate Finance Task Force, a working group whose objective is to define Santander's position and strategy on climate change and to identify business risks and opportunities in the transition towards a low-carbon economy.

Also, Santander has taken on various international commitments including some related to the environment such as the Equator Principles, the adoption of the Soft Commodities Compact promoted by the Banking Environment Initiative and the signing of the declaration of the European Financial Services Round Table on climate change.

Throughout 2018 the bank continued to develop a structured approach for its climate change strategy, with the aim of transversally involving its business lines and other key internal functions such as risk management, continuing to provide distinctive value to its customers and increasing its implication with the conservation of the environment.

The bank's actions on environmental matters are focused on the following lines of work:

a) The reduction of consumption and emissions

Since 2009 Santander has measured, calculated and controlled the environmental footprint of all the Group's facilities.

The environmental footprint includes data on the consumption of electricity, fuel, water and paper, data on waste generation and a breakdown of emissions of greenhouse gases.

The 2016-2018 Efficiency Plan, which targeted a 9% reduction in electricity consumption and emissions and a 4% reduction in paper consumption, was successfully completed.

In 2018, Banco Santander S.A. has continued reducing its environmental footprint through reductions in energy consumptions, CO_2 emissions and paper consumption. The variation in consumption and emissions compared to 2017 have been the following:

- Electricity consumption: -10,6%
- CO_2 emissions: -0,2%
- Paper consumption: -31,1%

100% of the electricity used by Banco Santander S.A. comes from green energy sources.

In addition, Santander continues to hold the ISO 14001 environmental certificate for the Santander Group City in Boadilla, the bank's headquarters, and the building at Gran Vía de Hortaleza. It has also obtained the LEED GOLD certificate for the new headquarters of Santander España (Luca de Tena), the Abelias building and the DPC in Santander.

b) The inclusion of social and environmental risks in loan approval processes

Banco Santander S.A. considers social and environmental aspects to be crucial in risk analysis and decision making within its financing operations in accordance with its general and sector policies in respect of sustainability, as mentioned above.

In this regard, the bank has established procedures for the analysis and assessment of these risks in operations subject to Santander Spain S.A. policies and to external commitments such as the Equator Principles.

In 2018, two projects in Spain were analysed within the scope of the Equator Principles, both in the project finance category.

c) Financing

As part of its climate change strategy, Banco Santander S.A. develops and offers financial products and services with added environmental value through which it contributes to the transition towards a low-carbon economy. In this respect, the bank is working on:

• The development of products and services that promote the conservation of the environment, contributing in this way to progress on adapting to and mitigating climate change.
• Identifying business opportunities and the prevention of risks associated with climate change via the Climate Finance Task Force.
• The implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in the preparation of its climate change strategy.
The main environmental products and services delivered by the bank are:
• Funding renewable energy projects: In 2018 Banco Santander helped to finance new renewable energy projects in Spain with an installed capacity of 353MW.
• Management of credit lines in relation to energy efficiency in collaboration with multilateral institutions:

- In the area of energy efficiency, Banco Santander channels most of the investments through multilateral institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). These entities are gradually increasing their investment in this area, which is an important business opportunity for Banco Santander.

- In Spain, the bank signed a 200 million euro credit line for the construction of renewable energy plants with the Council of Europe's Development Bank (CEB) in 2018. This loan forms part of the "Europa 2020" strategy to help the Spanish government reach its renewable energy goals.

5.3 Information about labour questions and employees

Banco Santander S.A. aims to be one of the best banks to work for, able to attract and retain the best global talent, enabling it to accelerate the transformation and helping people and society prosper.

Human resources strategy is based on having the best team of professionals: a diverse and committed team with a common culture (based on corporate behaviour and a way of making things simple, personal and fair) ready to give customers a distinctive and quality service.

a) Employment

At 31 December 2018, Banco Santander S.A. had a headcount of 30,901 employees, with an average age of 45, of whom in the case of executives 24% are women and 76% are men, and in the case of other line personnel 46% are women and 54% are men. Excluding the branches abroad of Banco Santander, S.A., the number of employees was 30,106 with the following details:

Functional distribution by gender			
	Men	Women	Total
Senior executives	616	189	805
Other executives	4,601	2,004	6,605
Employees	11,124	11,572	22,696
Total	**16,341**	**13,765**	**30,106**

Senior executives referred to Promontorio, Faro and Solaruco, meaning the top executive and those with high responsibility, functional or business.

Distribution of the workforce by age bracket	
	No. employees
<= 25	196
26 - 35	3,883
36 - 45	12,475
46 - 50	4,896
> 50	8,656
Total	**30,106**

Some 99.9% of labour contracts are permanent full-time.

Distribution by type of contract and employment			
	Men	Women	Total
Permanent / Full time	16,337	13,760	30,097
Permanent / Part time	1	3	4
Temporary / Full time	3	2	5
Temporary / Part time	0	0	0
Total	**16,341**	**13,765**	**30,106**

In 2018, a total of 1.034 employees dismissed. By dismissal we understand the unilateral termination, decided by the company, of an employment contract not subject to term expiration. The concept includes encouraged redundancies within the context of restructuring processes. These break down as follows:

Dismissals by professional category and gender			
	Men	Women	Total
Senior executives	24	7	31
Other executives	107	33	140
Employees	486	377	863
Total	**617**	**417**	**1,034**

Dissmissals by age bracket and gender			
	Men	Women	Total
<= 25	1	0	1
26 - 35	37	44	81
36 - 45	175	150	325
46 - 50	113	70	183
> 50	291	153	444
Total	617	417	1,034

The detail regarding the Banco Santander, S.A. average remuneration of 2018 and its evolution with respect to the previous year, disaggregated by gender and professional category is provided below:

	Gender		Job category			
Euros	Male	Female	(Group) Sr. Exec. VP, Executive VP & Vice President	Managers	Rest of employees	Total
Average Total Remuneration[1]	67,106	52,582	257,412	77,010	48,899	60,467
Year-on-year variation	*(10%)*	*(4%)*	*0%*	*(10%)*	*(3%)*	*(8%)*

1. Data at end of 2018. Total remuneration include Annual Base Salary, Pensions and Variable remuneration.

The gender pay gap, defined as the difference in pay regardless of job role or seniority, at Banco Santander S.A. is 15% (median of total remuneration) and the equal pay gap, comparison of pay between men and women in the same job definition, is 7%. The difference in comparison with the Group (3%) is mainly due to the mergers carried out in recent years and to changes in functions or levels of non-homogeneous positions.

Employees with a disability of 33% or more account for 1.01% of the total. To comply with the General Law of Rights for disability people and their social inclusion, Banco Santander S.A. undertakes alternative measures, including contracts with special employability centres or donations to social entities with the goal of employee programs and training to disability people.

Employees with disabilit		
	% empl. with disability	No. employees
Total	1.01%	304

b) Work organisation

Banco Santander S.A. encourages the transition towards more flexible ways of working that improve the work/life balance thanks to tools that enable continuous communication with teams working remotely. It is also redesigning its offices with new work spaces that encourage teamwork.

The corporate flexiworking policy, applicable to Santander S.A. and the entire Group, encompasses a wide range of measures so that employees can benefit according to their personal needs and professional situation. These measures refer mainly to:

• How the working day is organised (flexibility and working hours): time of starting and finishing work, alternative configurations for the working day, organisation of holidays, guidelines and recommendations for the rational use of e-mail and meetings, etc.

• Where employees work from (flexibility as to the workplace): remote working on certain days and at certain times, full-time teleworking.

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Also, through an agreement signed with employees' representatives, the bank undertakes to promote the rational management of work time and its flexible application, in addition to the use of technology that enables our employees to better organise their work and which includes the right to digital disconnection.

It is also redesigning its offices with new office spaces that encourage collaboration and teamwork.

c) Health and safety

Banco Santander has a plan for the prevention of workplace risks that is available to all employees on the corporate intranet.

Banco Santander also promotes a healthy work/life balance through flexible work policies and services to satisfy employees' personal and family needs. The general code of conduct highlights our ethical principles, including the importance of encouraging a working environment that is compatible with employees' personal and family life.

Also, as part of the "Our way of working" initiative, the bank has assessed its new work spaces and equipment, both from an ergonomic and safety perspective.

The health of its employees is a priority for the bank. The BeHealthy initiative aims to make Banco Santander one of the healthiest companies in the world and to offer employees health and wellbeing benefits.

In 2018, the bank began working with The Leadership Academy of Barcelona on a digital space where employees from all over the world can access information and an information pills on the four pillars of BeHealthy: Know your numbers, Move, Eat and Be Balanced. In this space, employees can access the Sustaining Executive Performance training programme, which provides help with achieving better personal and work performance by adopting healthy habits.

Also, in 2018 we signed a global agreement with the innovative company Gympass which gives employees the opportunity to benefit from over 40,000 affiliated health and wellness centres throughout the world, with a wide range of activities such as gyms, cross-fit, dance, yoga, Pilates and more.

Health and safety at work

	Men	Women	Total
Absenteeism	1.2	2.2	1.6
Work-related illnesses rate (days lost due to work-related accident per 100 hours)	0.09	0.12	0.11
Hours lost due to non work-related illness or accident	297,774	479,278	777,053
Hours lost due to work-related accident	25,949	29,029	54,978

d) Labour relations

Banco Santander has made a formal commitment to foster workforce labour relations in its code of conduct. The code of conduct stablishes the obligation to respect the internationally recognised rights of unionisation, association and collective bargaining, and the activities carried out by the unions that represent employees, in accordance with the functions and areas of responsibility legally attributed to them.

In addition, the human rights policy describes Santander's principles and commitments with respect to relations with the Bank's employees. These commitments are fostered through social dialogue and include:

- Preventing discrimination and practices that are harmful to people's dignity.
- Rejecting forced and child labour.
- Respecting freedom of association and collective bargaining.
- Protecting employees' health.
- Offering decent work

Also, in meetings of the European Works Committee, various declarations have been signed together with legal representatives of employees in the main European countries in which the Group operates (Spain, Portugal, Germany, the UK, Italy, Poland and Nordics).

- 2008: equal treatment in Santander Group companies.
- 2009: basic labour principles and rights that should govern the framework of labour relations in Santander within the scope of the European Union.
- 2011: framework of labour relations for the provision of financial services.
- 2016: joint declaration on the restructuring of workforces in the European area.

In addition, the collective labour agreement for the banking sector, negotiated and signed by the bank, contains various declarations about promoting labour dialogue.

The dialogue with employees' representatives is maintained through numerous bilateral meetings and specific committees, including:

- The Health and Safety Committee
- The Employment Committee
- The Training Committee
- The Pension Plan Oversight Committee
- The Equal Opportunities Committee
- The Committee for the Solidarity and Social Assistance Fund
- Bilateral meetings with Santander Group companies, such as Openbank and Santander Consumer

These specific meetings with the unions are held to inform them about significant bank projects and to obtain their feedback, in the understanding that their support is necessary and is directly related to the satisfactory implementation of these projects.

The 13th meeting of the European Works Committee, held in 2018, was attended by union representatives of the bank in Spain and representatives of the Human Resources department.

In Spain, practically 100% of the workforce is covered by a collective labour agreement.

Employees with collective labour agreement	
	No. employees
Total	30,085

e) Training

Continuous training is critical to help our employees adapt to a work environment undergoing constant rapid change. With this goal in mind, and to ensure the highest levels of training in Banco Santander S.A., a new global induction, knowledge and development policy was designed and approved by the board of directors in 2018.

The aim of this policy is to provide Santander Group undertakings as well as the bank as a hole, with several criteria for the design, review, implementation and supervision of training with a view to:

• Supporting business transformation.
• Promoting global talent management, facilitating innovation, encouraging knowledge sharing and identifying key employees in various areas of knowledge.
• Supporting the cultural transformation of the company under the corporate governance regulations established for the Santander Group.

Hours of training by category	
	Hours
Senior executives	33
Other executives	295,919
Employees	1,467,748
Total	**1,796,612**

f) Accessibility

Improving access to our products and services is a key aspect of Santander's commitment to be a bank that is Simple, Personal and Fair.

The corporate works manual includes minimum accessibility criteria based on Design for All (DfA) principles. These criteria, which refer to office architecture, furniture, lighting, signage and the functional allocation of spaces, are applied by default in new offices and in those upgrades in which this is technically possible.

Banco Santander has already opened more than 500 Smart Red offices nationally.

These accessibility criteria are also applied in the bank's head offices. In 2018 the Santander Group City underwent significant renovation with a special focus on improving accessibility. The new Luca de Tena headquarters of Santander España incorporated these criteria from the design stage.

Banco Santander also wants to provide maximum accessibility for all the users of its various websites. In this respect, both in the development and maintenance of its websites, the bank applies the accessibility guidelines established by the Web Accessibility Initiative (WAI) working group of the World Wide Web Consortium (W3C), at level AA.

g) Equality

As part of its commitment to helping to achieve the Sustainable Development Goals, Banco Santander tries daily to promote an attitude that is open to diversity as a way of increasing its human capital.

Banco Santander believes that diversity enriches human capital, resulting in an inclusive and diverse work environment that achieves better solutions and offers added value.

The board of directors of Banco Santander is a clear example of diversity in all its aspects. It has diversity of gender (over a third of board members are women) and nationality (Spanish, British, American and Mexican) and a broad industry representation (finance, retail, technology, infrastructure and academia).

In managing employee talent, Santander considers all existing sources of diversity, including gender, race, age, national origin, disability, culture, education, and professional and life experience.

In 2017, the bank approved principles for promoting diversity that act as a benchmark for all the initiatives that are developed in this area. These principles, which are included in the corporate culture policy, envisage all the aforementioned sources of diversity, and they are applicable to all stages of talent management in the bank (recruitment, training, professional development, compensation, etc.).

At the beginning of 2018, Banco Santander adopted the standard of conduct promoted by the United Nations for protecting the LGBTI community in companies.

To ensure proper management and promotion of diversity and of inclusion at the corporate level, the bank has created two working groups:

- A global network of executives who are experts in diversity and inclusion, with country representatives (an operating team to share practices and transmit ideas at the local level).
- A working group comprised of key executives in countries and divisions to develop and promote the Bank's diversity and inclusion strategy.

At the beginning of 2019, for the second year running, Banco Santander obtained the highest score among the 230 companies that form part of the Bloomberg Gender-Equality Index, which, among other aspects, acknowledges good management by undertakings in favour of gender equality and diversity among the workforce, customers and society.

5.4 Information about Human Rights

In line with its corporate culture, Santander undertakes to respect and promote human rights in its sphere of operations, and to prevent or minimise any violation directly caused by its activity.

Santander has a specific policy that includes Banco Santander S. A's commitment to human rights, in accordance with the strictest international standards, especially the UN's Guiding Principles on Business and Human Rights of 2011.

In 2018 the bank's human rights policy was updated to reflect the current corporate governance bodies and to include Santander's commitment to the LGBTI community's rights.

This policy, driven by the Board of Directors, is applicable to Santander Spain S.A. and the whole Group and is available at www.santander.com.

Santander's policy on human rights is in line with the bank's General Code of Conduct and its other policies in respect of sustainability.

5.5 Information about the fight against corruption

The Santander Group considers it a strategic objective to have a system for the prevention of money-laundering and terrorist financing that is advanced and effective, permanently adapted to the latest international regulations and able to deal with new techniques employed by criminal organisations.

It also has a corporate framework that lays down principles for acting in this respect and sets minimum standards applicable to local units. The latter are responsible for directing and co-ordinating procedures for the prevention of money-laundering and terrorist financing, and for investigating and issuing alerts about suspicious transactions and responding to requests for information from the supervisors.

The main activity indicators in 2018 for Banco Santander S.A.'s initial scope of consolidation is shown below:

• Investigatory proceedings in Spain: 1,322
• Notices sent to SEPBLAC: 528 plus 91 replies to requests from SEPBLAC (the Spanish Anti-Money Laundering Supervisory Authority).
• Employee training: 18,195 employees in Spain

As a signatory of the ten principles of the UN's Global Compact, Santander undertakes to work against corruption in all its forms, including extortion and bribery.

In addition, Banco Santander S.A. has whistle-blowers' channels for employees, which form part of the general code of conduct, and for suppliers, designed for reporting inappropriate behaviour by bank employees in matters regarding corruption and bribery that are contrary to internal regulations, to the compliance function.

In 2018, some 20 such notices were received, the most common reasons for complaints were related to human resources issues: they represented around three out of every four complaints received. The rest had very wide typology (for example, fraud, conflicts of interest, mis-selling and others).

5.6 Information about society

a) The bank's commitments to sustainable development

Banco Santander contributes to economic and social development through initiatives and programmes that promote education, entrepreneurship, employability and social wellbeing.

Through its Santander Universidades programme, the Group has over 1,200 agreements with universities and academic institutions in 33 countries. In Spain, Santander Universities has 79 agreements with universities and academic institutions. Investment in high education in Spain reached a total of 65.3 million euros.

The Santander Scholarships initiative. In 2018 a total of 17,444 scholarships were awarded.

The bank also supports the communities where it operates through numerous local programmes, encouraging the participation of bank employees as a way of promoting solidarity, motivation and pride in belonging, maintaining proximity and ties with their surroundings.

The most significant are:

- Santander ayuda. This programme pledges 400,000 euros per year to a total of 80 social projects implemented nationwide, chosen based on the social value of the proposal, the immediate impact on the community and the use of innovative practices. The aim is to start up projects that contribute to improving the quality of life of vulnerable groups. Each project receives up to 5,000 euros.

- Funding round for social projects. As part of its sustainability strategy, each year in Spain Banco Santander promotes the “EUROS DE TU NÓMINA” funding round for social projects. The round is aimed at social and development co-operation projects by NGOs with registered addresses in Spain, which support and promote better living standards for socially vulnerable people. The projects are nominated by bank employees. The winning projects are financed via contributions from employees who take part in the “EUROS DE TU NÓMINA” fund, which are then duplicated by the bank.

  In 2018, a total of 472,939 euros was allocated among the 10 NGOs chosen by the votes of the bank's employees. They will help over 4,000 people altogether.

- Volunteer programmes. The corporate volunteering policy enables the bank's employees to set aside part of their working day to participate in community support initiatives that contribute to the progress and wellbeing of the communities in which the bank is present.

  In 2018, the bank started a new pro bono programme at corporate headquarters under which employees in the areas of communication, human resources, technology and legal placed their knowledge and experience at the disposal of the NGOs to improve their internal organisation and procedures.

  At the same time, bank employees dedicate part of their working day to promoting financial education and teaching people how to manage their finances in the best way possible. They also take part in numerous activities whose focus is to improve people's quality of life and meet their most pressing needs.

In 2018, through the Santander Responsabilidad Solidario fund managed by Santander AM España, Banco Santander donated a total of 2.6 million euros to various social and labour insertion projects for groups at risk of social exclusion and to social economy and international cooperation projects. This is the largest amount ever raised by a Spanish bank through a solidarity investment fund. This sum will be distributed among 90 projects, benefiting close to 30,000 people.

In total, in 2018, Banco Santander helped over 500 thousand people in Spain.

Also, through the Banco Santander Foundation, the bank carries out important work in cultural patronage and the protection and recovery of natural spaces.

b) Outsourcing and suppliers

Banco Santander has a supplier management model and policy that establishes a common methodology for all units about the selection, certification and assessment of suppliers. In addition to traditional criteria such as price and service quality, this methodology also considers social and environmental criteria. These include:

- Whether the supplier has obtained official certifications related to quality, environmental management, labour relations, the prevention of workplace risks, corporate social responsibility and similar.
- Whether they have subscribed to the Global Compact or have their own principles in respect of ethical, social and environmental questions and report about these on a regular basis.
- Or whether they have frameworks, policies, procedures, records of indicators and/or initiatives related to environmental and social matters.

Also, the supplier certification policy was reviewed in 2018 in order, among other things, to include the new principles of responsible conduct for suppliers. These principles lay down the minimum conditions that the bank expects of its suppliers around ethics (ethics and conduct), labour matters (human rights, health and safety, and diversity and inclusion) and the environment. These principles are consistent with the ten principles of the Global Pact.

Similarly, the bank has a whistle-blowers' channel for suppliers through which suppliers who provide services to Banco Santander, S.A. or any of its subsidiaries in Spain can report inappropriate conduct by Group employees which does not conform to the framework of the contractual relationship between the supplier and Santander and the general principles of conduct of the Bank.

c) Consumers

For Banco Santander S.A., a key characteristic of a responsible bank is that it manages and oversees the marketing and commercialization of products and services and consumer protection appropriately.

The bank has a commercialization committee whose goal is to prevent mis-selling of products and services and guarantee the protection of its customers by vetting products before they are released to the market.

It also has a consumer supervision and customer protection committee that oversees the products and services sold, ensures that they satisfy customers' requirements and monitors the protection of their rights throughout the life cycle.

In addition, the corporate consumer protection policy establishes the criteria for the identification, organisation and implementation of consumer protection principles and the mechanism for the overseeing and supervising compliance.

In the last year, the Bank has been working on setting best practices in respect of the treatment of vulnerable customers and the prevention of over-indebtedness, in order to relay to all business units standards of action for the definition, identification, handling and management of customers in special circumstances and applying solutions adapted to their specific requirements, acting in their best interest and offering viable solutions.

These standards and good practices will be included in a corporate guide.

Appropriate management of complaints is another important aspect of a responsible banking strategy.

Banco Santander S.A. has a procedure for complaint management and root cause analysis whose objective is to issue standards to all the units for proper complaint management, ensuring compliance with the local and industry-wide regulations applicable in each case, and offering the best possible service to customers.

In 2018 Banco Santander SA received a total of 81,634 complaints. That was 21.41% lower than in 2017. Complaints fell significantly due to the reduction on mortgage arrangement costs complaints, despite the inclusion this year of complaints related to Grupo Popular.

The bank also constantly monitors its customers' opinions and their experiences with Santander. This information reveals how the range of services offered can be improved and helps to measure customer loyalty. In addition, customer satisfaction is one of the benchmarks in the variable compensation systems for most employees.

At the end of 2018, customer satisfaction with the bank in Spain was 87.1%, putting among the top 3financial entities with highest satisfaction levels.

d) Tax information

Banco Santander also contributes to the growth and progress of the communities in which it is present by paying taxes.

As part of its approach to responsible banking, Banco Santander's tax strategy ensures appropriate tax payments are made in the various jurisdictions in which the bank operates, depending on the value creation in each one.

This tax strategy, which has been approved by the board of directors, is part of the corporate tax policy, which sets out common principles, guidelines and patterns for operating in the tax area.

In addition to paying its own taxes, the Bank also contributes economically and socially in those countries in which it operates by collecting third-party taxes that arise from the development of their daily economic activity, and in collaboration with the tax authorities.

The total taxes collected and paid by Banco Santander in Spain in 2018 amounted to 3,588 million euros, of which 1,765 million were the bank's own taxes and 1,822 million euros were third-party taxes.

Total taxes collected and paid by the bank					
€million					
	Taxes over profit	Other taxes	Total own taxes	Third-party taxes	Total Contribution
Spain	464	1,301	1,765	1,822	3,588

6. Research, development and innovation:

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

Moreover, the data and information that we obtain from our new technological platforms will help us to better understand the customer journey of our clients and so be able to design a better digital profile that will enable us to generate greater confidence and increased customer loyalty.

As well as the competition between banks, financial entities must watch out for the new competitors that have entered the financial system, competitors whose great competitive advantage, and thus a differentiating factor, is their use of new technologies.

Consequently, developing an adequate strategic technology plan must allow for a greater capacity to adapt to customers' needs (products and tailored services, full availability and excellent Service in all channels); enhanced processes, which ensure that the Group's professionals attain greater reliability and productivity in the exercise of their functions, and lastly, adequate management of risks, endowing teams with the necessary infrastructure to provide Support for identifying and assessing all risks, be the business, operational and reputational risks, or regulatory and compliance ones.

In addition, Santander as a global systemically important bank, as well as its individual subsidiaries, is subjected to increasing regulatory demands that impact the systems' model and the underlying technology. This makes further investments necessary in order to guarantee their compliance and legal security.

The latest ranking by the European Commission (the 2018 EU Industrial R&D Investment Scoreboard, based on 2017 data) recognises, as did previous rankings, Santander's technological effort, placing it first among Spanish companies and the first global bank in the study (and the only one of the 100 companies investing the most) on the basis of investment in R&D.

Technological investment in 2018 in R&D&i amounted to EUR 1,468 million (3% of gross income).

Santander views cybersecurity as one of the Group's main priorities and a crucial element for supporting the Bank's vision of 'helping people and businesses prosper' and 'offering excellent digital services for our customers'. We continued in 2018 to develop measures to improve cybersecurity in all the Group's spheres. We launched training measures for our professionals to improve how they handle cyber risk issues (set out in the chapter on Responsible banking). The Group Risk Management Report also details the various steps taken to measure, monitor and control risks related to cybersecurity, and their respective mitigation plans. For these reasons, we continue to invest in systems and platforms that help us to improve in this sphere.

As well as the new technological platform, the evolution of infrastructure and the aforementioned cybersecurity measures, the Group is driving its digital transformation through various projects and initiatives developed in almost all countries.

See more information in the Consolidated Directors' Report.

7. Customer service and customer defence

Customer Service Annual Report

In accordance with article 17 of order ECO / 734/2004 of March 11 of the Ministry of Economy on the departments and services of Customer Service and the Customer Ombudsman of Financial Institutions, the directors' report summarizes the Annual Report to be presented by the holder of the Service on the Board of Directors in March 2019.

Customer service and customer defence service

In compliance with Law 44/2002 on Measures for the Reform of the Financial System of the 734/2004 Order of the Ministry of Economy on Departments and Services of Customer Service and the Customer Ombudsman of Financial Institutions and in accordance with Article 37 Of the Regulations of the Customer Claims and Attention and Defence Service in the Santander Group, below is a summary of the activity developed by the said Service during 2018, in relation to the management of complaints and claims.

This complaint and customer service department has managed during 2018 the claims of 28 companies of the Group in Spain.

Note that due to the absorption of Popular Banca Privada, S.A.U and Banco Pastor, S.A.U. by Banco Popular Español, S.A.U. and to the subsequent absorption of the latter by Banco Santander, all the claims and formal complaints received by these three companies during 2018 were transferred to Banco Santander, S.A.

Global evolution of complaints and claims received by the Bank in 2018

In 2018, 87,786 claims were accepted in the complaint and customer service department. Of these, 1,450 came through the Customer Ombudsman, 1,688 through the Bank of Spain, 228 through the National Securities Market Commission (CNMV) and 100 through the General Directorate of Insurance and Pension Funds (DGSFP).

We do not include in the list the floor clauses claims from the Banco Popular Group, since they were managed through the Claims Centre for Floor Clauses (CRS by its initials in Spanish) instead of the Claims and Customer Service Department. The CRS received 10,451 complaints during 2018.

Analysis of claims by affected products

Complaints and claims

The following is the classification of complaints received in 2018 according to the type of product:

Number of complaints	2018
Assets	28,620
Liabilities	14,833
Services	12,576
Insurances	994
Funds and Plans	916
Payment methods	10,751
Securities / Capital Markets / Treasury	18,516
Others	580
	87,786

Resolution of claims and complaints

As of 31 December 2018, 98% of the complaints and claims received had been resolved.

The average resolution time in 2018 was 24 calendar days. 52% of the complaints and claims resolved have required a processing time of more than 15 calendar days.

In 40% of cases, the resolutions have been favourable to customers.

Entities

The following are the companies adhering to the Regulation of the Customer Service of Complaints, Care and Defence of the Santander Group and their corresponding number of complaints and claims received.

Entities	Admitted to processing	Non-admitted to processing
BANCO SANTANDER, S.A.	81,634	15,574
- Santander network	55,247	7,512
- Banco Popular, Pastor, Popular Banca Privada networks	26,387	8,062
SANTANDER CONSUMER FINANCE, S.A.	1,903	240
OPEN BANK, S.A.	1,604	5
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA,SA	759	54
SANTANDER CONSUMER, E.F.C., S.A.	364	3
SANTANDER ASSET MANAGEMENT, S.A., S.G.I.I.C.	307	17
SANTANDER PENSIONES, S.A., E.G.F.P.	296	8
SANTANDER ESPAÑA MERCHANT SERVICES, EP	255	4
ALLIANZ POPULAR VIDA	187	13
ALTAMIRA SANTANDER REAL ESTATE, S.A.	158	11
EURO AUTOMATIC CASH	138	
ALLIANZ POPULAR ASSET MAN	86	5
ALLIANZ POPULAR PENSIONES	61	2
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C.	16	
SANTANDER LEASE, S.A., E.F.C.	7	1
SANTANDER REAL ESTATE, S.A., S.G.I.I.C.	7	
PASTOR VIDA, S.A. DE SEGUROS Y REASEGUROS	2	1
LURI 6, S.A.U.	1	
SANTANDER SECURITIES SERVICES	1	
POPULAR BOLSA, SV., S.A.	-	-
POPULAR GESTION PRIVADA, S.G.I.I.C., S.A.	-	-
SANTANDER INVESTMENT, S.A.	-	-
SANTANDER BRASIL E.F.C., S.A.	-	-
SANTANDER INTERMEDIACIÓN CORREIDURÍA DE SEGUROS, S.A.	-	-
SANTANDER PRIVATE BANKING GESTIÓN, S.A., S.G.I.I.C	-	-
SANTANDER INVESTMENT BOLSA, S.V., S.A.	-	-
TRANSOLVER FINANCE, E.F.C., S.A.	-	-
SANTANDER CAPITAL DESARROLLO, S.G.E.I.C., S.A.U.	-	-
Total	**87,786**	**15,938**

The network of branches and the different channels of relationship solve, in the first instance, the requests, disconformities or incidents that the clients communicate to the Bank, trying to avoid that they become complaints to other instances.

8. Risk management, solvency and capital:

See notes 49 and 1.e) on risk and capital to the Bank Annual Accounts. See more information in the Consolidated Directors' Report.

9. Other relevant information

9.1 Treasury shares:

See note 30 to the Bank Annual Accounts.

Our current treasury share policy was approved by our board on 23 October 2014, following recommendations published by the CNMV in this respect. The policy provides that treasury share transactions shall have the following objectives:

• To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances in supply and demand.

• To take advantage, for the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

The policy further establishes that treasury share transactions may not be carried out for the purpose of intervening in the free formation of prices. Therefore, it requires that:

• Orders to buy should be made at a price not higher than the greater of the following two:

  • The price of the last trade carried out in the market by independent persons; and
  • The highest price contained in a buy order of the order book.

• Orders to sell should be made at a price not lower than the lesser of the following two:

  • The price of the last trade carried out in the market by independent persons; and
  • The lowest price contained in a sell order of the order book.

Transactions with treasury shares are carried out by the investments and holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information.

Trading in treasury shares was last authorised at our 2018 AGM. This authorisation has a validity of five years (i.e. until 23 March 2023) and permits the acquisition of treasury shares provided that the shares held at any point in time do not exceed the legal limit provided for under the Spanish Companies Act (currently, 10% of the Bank's share capital).

It further requires that acquisitions are made at a price that is not lower than the nominal value of the shares and does not exceed the last trading price in the Spanish market for a transaction in which the Bank was not acting for its own account by more than 3%.

At 31 December 2018, Banco Santander, S.A. had no treasury shares.

9.2 Dividend policy:

As required in the Bank's by-laws, each year the shareholder remuneration policy is submitted for approval by the AGM.

In relation to the financial year 2017, the Bank paid its shareholders (with a charge against earnings for the year) EUR 0.22 per share, in four instalments: three cash payments of EUR 0.06 per share, and one payment for EUR 0.04 per share, through the remuneration programme named Santander Scrip Dividend, which allows shareholders to elect to receive the amount equivalent to the dividend either in cash or in Santander shares. The average percentage of acceptance of the payment in shares was 84.61%.

In 2018, the board of directors intends the payment against earnings for the year to be EUR 0.23 per share, to be paid quarterly. EUR 0.065 per share has already been paid in cash for the first and third dividends (August 2018 and February 2019, respectively), as well as EUR 0.035 per share through the Santander Scrip dividend programme (with a 76.55% acceptance rate of the payment in shares) for the second dividend (November 2018). The remaining EUR 0.065 per share is expected to be paid in April/May, in cash. This remuneration represents an average return of 4.75 % on the share price in 2018. The dividend per share paid increased 4.5% compared to 2017.

In April 2018, we announced the intention of the board to propose that the payment of dividends to be charged to the 2019 earnings be paid entirely in cash semi-annually.

9.3 Stock market information:

The Bank's shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, with trading symbol SAN), the New York Stock Exchange (in the form of American Depositary Shares, 'ADS' with trading symbol SAN), where each ADS represents one share of the Bank, the London Stock Exchange (in the form of Crest Depositary Interests, 'CDI' with trading symbol BNC), where each CDI represents one share of the Bank and the Warsaw Stock Exchange (with trading symbol SAN). They also trade on the unsponsored international trading system of the Mexican Stock Exchange (with trading symbol SANN).

In 2018 and early 2019, the number of secondary listings was streamlined and the Bank's shares were delisted from the Buenos Aires, Milan, Lisbon and Sao Paulo stock exchanges.

Markets ended 2018 much lower, after a start to the year with rises driven by the positive impact of the US's tax reform. This positive environment, however, dissipated in the following months because of greater volatility in stock markets mainly due to: (i) the political uncertainty in Italy and Brazil; (ii) the lack of agreement over Brexit, (iii) the increase in financial tensions in developing countries because of the dollar's appreciation, after the Fed raised its interest rates and the ECB continued its policy of monetary normalisation and announced the end of quantitative easing, and (iv) the escalation of trade tensions between the US and China and its possible impact on confidence and the global economy. Fears of slowdown in the global economy, coupled with the partial shutdown of the US government, intensified the fall in shares in the last part of the year.

In this context, the main indices and the Santander share ended lower. The Santander share was down 27.5% at EUR 3,973, while Euro Stoxx Banks and Stoxx Banks fell 33.3% and 28.0%, respectively. The Ibex 35 benchmark index of the Madrid Stock Exchange declined 15.0%, the DJ Stoxx 50 13.1% and the MSCI World Banks 19.7%. Santander's total shareholder return was 24.3% lower.

As of 31 December, Santander was the largest bank in the eurozone by market capitalisation (EUR 64,508 million) and 16th in the world. 19,040 million Santander shares were traded during 2018 for an effective value of EUR 95,501 million, the largest figure among the shares that comprise the EuroStoxx (liquidity ratio of 118%).

The total number of Santander shareholders at 31 December was 4,131,489 of which 3,857,687 were European (77.3% of the capital stock) and 256,366 from the Americas (21.6%). Excluding the board of Santander Group, which represents 1.1% of the Bank's capital stock, retail stakeholders hold 39.8 % and institutional shareholders 59.1%.

9.4 Average period of payment to suppliers:

The average period of payment to suppliers during 2018 is 12 days, term which is below the maximum established in applicable regulations.

10. Events after the reporting period:

On 6 February 2019, the Group announced that it had completed the placement of preferred securities contingently convertible into newly issued ordinary shares of the Bank, excluding preemptive subscription rights and for a nominal value of USD 1,200,000,000 (the “Issue” and the “CCPS”).

The CCPS were issued at par and its remuneration has been set at 7.50% on an annual basis for the first five years. The payment of the remuneration of the CCPS is subject to certain conditions and to the discretion of the Bank. After that, it will be reviewed every five years by applying a margin of 498.9 basis points on the 5-year Mid-Swap Rate.

11. Annual corporate governance report:

According to article 540 of the Spanish Capital Companies Law, Santander has prepared the 2018 Annual corporate governance report (that is part of the directors’ report of that financial year) with the contents determined by Order ECC/461/2013, of 20 March, and by Circular 5/2013, of 12 June, of the CNMV as defined by Circular 7/2015, of 22 December and Circular 2/2018, of 12 June, of the CNMV. This report includes a section that refers to the compliance of the corporate governance recommendations in Spain.

The annual corporate governance report is included, as a separate section, in the Individual Directors’ Report in accordance with the provisions of article 538 of the Capital Companies Law. The aforementioned report is sent individually, as a material fact, to the National Securities Market Commission (CNMV). It is available on the Bank's corporate website (www.santander.com) and on the CNMV website (www.cnmv.es).

Corporate governance

1. Overview of corporate governance in 2018

Redesigned corporate governance report

On 12 June 2018, the Spanish National Securities Market Commission (CNMV) approved new formats for the annual corporate governance and remuneration reports required for listed Spanish companies and, more importantly, allowed companies to draft their reports in a free format.

This welcome regulatory f exibility, together with the fresh look that we have given to this 2018 consolidated directors' report (see introduction to this report on page 2) has led to a new approach being adopted for the 2018 corporate governance report which now consists in this chapter in the consolidated directors' report.

Key to understanding the changes:

- In this 2018 corporate governance report, we have opted to follow a free format.
- This has allowed us in this 2018 corporate governance report to merge (1) the summary content that we typically included in the annual report and (2) the legally required content for the corporate governance report proper.
- With the purpose of providing a holistic view of our corporate governance practices in one single document, we have also included in this 2018 report the content that was previously set out in the reports on the activities of our board of directors' committees (see sections 4.4 to 4.7).
- This year's report also includes (1) the annual report on directors' remuneration that we are required to prepare and submit to a non-binding vote at our annual general shareholders' meeting (AGM), (see section 6 'Remuneration') and, (2) our directors' remuneration policy, (see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders' at our 2019 AGM). These were published previously separately but there was signif cant overlap with the corporate governance report.
- Therefore, we now publish in a single document the content that was previously included in at least f ve documents covering the same subject matter.

It is important to point out that the new format does not imply a reduction in the information we provide. It simply presents it in a more rational and organised manner. To achieve this, the 2018 corporate governance report does not fully diverge from its previous format:

- Section 9.1 'Reconciliation to CNMV's corporate governance report model' and section 9.4 'Reconciliation to CNMV's remuneration report model' include cross references to where information can be found in this chapter or elsewhere in this annual report for each section of the corporate governance and remuneration reports in CNMV's prescribed format.
- Moreover, we have traditionally f lled in the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code for Listed Companies to establish where we comply and also the few instances where we do not comply or we comply partially. Therefore, have included in section 9.3 'Cross-reference table for comply or explain in corporate governance recommendations' a chart with cross-references showing where the information supporting each response can be found in this 2018 corporate governance chapter or elsewhere in this consolidated directors´report.

1.1 Refreshing the board

Continued board composition improvement

Throughout 2018, we continued to refresh and strengthen our board, ref ecting our strong commitment to ensuring balance and diversity. The main board changes were as follows:

Mr Álvaro Cardoso de Souza was appointed as an independent director at our 2018 AGM. He f lled the vacancy left by executive director Mr Matías Rodríguez Inciarte.

Mr Álvaro Cardoso de Souza strengthens the international diversity of the board and brings to it his strong industry experience, which also reinforces the overall risk management and accounting skills within the board. This experience was acquired in an international environment considered strategic for our Group, as he has held dif erent executive positions at Citibank and several listed companies in Brazil.

- Mr Henrique de Castro has been proposed by the board of directors for election at our 2019 AGM as new independent director to f ll the vacancy left by Mr Juan Miguel Villar Mir on 1 January 2019.

Mr Henrique de Castro brings to the board his sound experience in the technological and digital industry along with signif cant experience in the US market, which he has acquired through top positions held in companies such as Yahoo! Inc. and Google, Inc.

- Mr José Antonio Álvarez, who continues as our Chief Executive Of cer (CEO), has been appointed executive vice chairman of the board on 15 January 2019. Mr Guillermo de la Dehesa, in turn, continues as director but ceased to be vice chairman on that date.

Changes	Stepping down from role	Taking up role
Increase in independent directors	Mr Matías Rodríguez Inciarte	Mr Álvaro Cardoso de Souza
Refreshment of independent directors	Mr Juan Miguel Villar Mir	Mr Henrique de Castro
Refreshment of vice chairman	Mr Guillermo de la Dehesa	Mr José Antonio Álvarez

Board committees

Our board has also made changes to the composition of its committees, in order to continue strengthening their performance and support to the board in their respective areas, according to the best international practices and internal rules and regulations.

The changes ef ected are:

- Executive committee: Ms Belén Romana became a member of the committee on 1 July 2018, increasing the number of independent directors in the committee.

- Appointments committee: Mr Ignacio Benjumea left the committee on 1 July 2018, dif erentiating the composition of the appointments committee from the remuneration committee, in line with best practices.

- Risk supervision, regulation and compliance committee: Mr Álvaro Cardoso de Souza became a member of the committee on 23 April 2018 and subsequently was appointed as its chairman on 1 October 2018. Mr Bruce Carnegie-Brown, the former chairman, left the committee on 1 January 2019, following a suitable transition period. Mr Guillermo de la Dehesa left the committee on 1 July 2018.

- Innovation and technology committee: Mr Rodrigo Echenique Gordillo and Ms Esther Giménez-Salinas i Colomer left the committee on 1 July 2018.

- The new responsible banking, sustainability and culture committee was established, appointing Mr Ramiro Mato García-Ansorena as chairman and Ms Ana Botín-Sanz de Sautuola y O'Shea, Ms Belén Romana García, Ms Homaira Akbari, Ms Sol Daurella Comadrán, Ms Esther Giménez-Salinas i Colomer and Mr Ignacio Benjumea Cabeza de Vaca as members. On 24 July 2018 Mr Álvaro Cardoso de Souza was appointed also member of this committee.

1.2 New responsible banking, sustainability and culture committee

Our board has created a responsible banking, sustainability and culture committee to help the Group progress towards its goal of being a more responsible Bank.

The committee's purpose is to assist our board in pursuing and reviewing the corporate culture and values and to advise on its relations with the various stakeholders, especially employees, customers and communities in which our Group carries out its activities.

The committee will also supervise the way in which the Group manages business responsibly and how we are helping people and businesses prosper.

For further information see 'Responsible banking, sustainability and culture committee' in section 4.3 of this chapter and the 'Responsible banking' chapter.

1.3 Achieving our 2018 priorities

The 2017 annual report disclosed our corporate governance goals and priorities for 2018. The following chart describes how we have delivered on each priority.

2018 goals	How we have delivered
Board refreshment Strengthen the composition of the board of directors, showing commitment to international diversity, especially from the strategic markets in which the Group operates, and ensure a suitable composition of the committees to improve performance of their functions and their respective areas of action.	Throughout 2018, signif cant work has been carried out to ensure that the overall composition and skills of our board of directors and board committees are appropriate. Desired areas of experience were identif ed and incorporated into board succession and recruitment planning overseen by the appointments committee. Mr Álvaro Cardoso de Souza's appointment has further strengthened the board's international diversity, specif cally in relation to Latin America / Brazil. Section 1.1 'Refreshing the board' describes other changes and improvements made to the composition of our board and board committees. In addition, the tenure of board members remained a key area of focus, ensuring that an appropriate balance between board refreshment and retaining continuity and stability was achieved. Our appointments committee also assessed the composition of the board committees to ensure continuity of ef ectiveness, skillset, experience, overall stability and appropriate distribution of workload following the creation of the responsible banking, sustainability and culture committee.
Boardroom Further improve the independence of the board by increasing the number of meetings between the independent board members and the lead independent director.	The number of private meetings between independent directors and the lead independent director was increased, scheduled at regular intervals throughout the year.
Board dynamics Intensify the board's dedication to strategic matters and, in addition to the specif c annual meeting dedicated specif cally to strategic matters, hold a meeting every six months on the progress of the strategic plan. Dedication to the supervision of emerging risks and cybersecurity will also be strengthened.	Our board reviews the progress of the strategic plan on a regular basis in line with the established priority, and held its annual Strategy Day in June 2018. Our board has focused closely on emerging risks, including cybersecurity risks. Our Group chief risk of cer reports to the board on a monthly basis on all risks and the Group cybersecurity of cer reports on cybersecurity matters on a quarterly basis.
Board committees Continue strengthening the functions and activities of the committees in advising and supporting the board.	All board committee functions are under constant review to ensure that all matters reviewed by the board have been previously assessed and challenged by the appropriate board committee(s). In addition, the main issues addressed by our committees are disclosed to our board as part of the report made by the relevant committee chair to the board in each meeting.
Responsible banking, sustainability and culture committee Establish the new responsible banking, sustainability and culture committee. Intensify the board's involvement in the development of corporate culture and its commitment to responsible business practices in relation to diversity, inclusion and sustainability.	Our responsible banking, sustainability and culture committee has been set up in June 2018. See section 1.2 'New responsible banking, sustainability and culture committee'. The committee's key areas include whistleblowing, corporate culture, disclosure of the Bank's approach to tax and the Bank's approach to various stakeholders; in addition to the oversight and scrutiny of how the Bank is fulf lling its purpose, including tackling issues such as f nancial exclusion, providing green f nance and supporting small- and medium-sized enterprises. The committee operates in full coordination with the risk supervision, regulation and compliance committee given convergence of responsibilities.
Regulatory framework Execute the modif cations introduced in the Rules and regulations of the board, putting into practice the best operating practices of our governance bodies that arise from the new guidelines issued by the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), and also meet the expectations of the supervisor.	Various actions have been taken: our audit committee has carried out a f nal assessment of the external auditor's performance in relation to the audit of the annual f nancial statements, as well as an annual assessment of the internal audit function and the performance of the head of this function. The supervisory role of our risk supervision, regulation and compliance committee has been strengthened with regard to risk and compliance functions. The composition of the appointments committee has been modif ed in line with best practices.

1.4 Continued improvement in corporate governance

We have a strong commitment to continuously strengthening our corporate governance framework and further improving its soundness and ef ectiveness in the coming years. This is key to successfully fulf lling our mission of becoming a more responsible Bank in an era of disruption, and to our success in tackling the many challenges that face us in today´s digital world.

That is why, on top of delivering on our 2018 priorities and the other enhancements mentioned above, we have continued to work on improvements on corporate governance:

- **Greater transparency.** As mentioned in the 'Introduction' to this consolidated directors' report and in the introduction of this Corporate governance chapter, in 2018 we have taken a signif cant leap forward in terms of improved disclosure in corporate governance and generally.
- **Further insight into the skills of our directors.** In our 2017 annual report we took the step of identifying each director in our board skills matrix. In this report, we have further revised

the matrix, adding new skills that have become relevant to our shareholders and ourselves (such as responsible banking and sustainability, human resources, talent, culture and remuneration), covering thematic skills, horizontal skills and diversity separately and including board tenure side-by-side for a clearer and more complete view . See 'Board skills and diversity matrix' in section 4.2. In addition, we have highlighted key skills attributed to each director in their prof les under section 4.1 'Our directors'.

- **Moving to full gender equality at board level.** On 26 February 2019 our board took the signif cant step of replacing our already achieved target of 30% of women representation in our board to a gender equality target that we will seek to achieve by 2021. This new gender equality target will mean that our board will strive to have a presence of women in the board of 40% to 60%. See section 4.2 'Board composition'.
- **Ref ecting our good long-standing practices in our Rules and regulations of the board.** We have in many respects gone beyond our own board rules in adopting best practices in corporate governance. From time to time, we amend our Rules and regulations of the board to embed those practices more formally. These are just the latest examples:
  - **Ref ecting in our Rules and regulations of the board the full independence of our audit committee.** Since 2005, we have gone beyond what our Rules and regulations of the board require by having an audit committee composed entirely of independent directors. On 26 February 2019 our board decided to build that practice into a rule by amending our Rules and regulations of the board. See section 4.3 'Board functioning and ef ectiveness'.
  - **The transferring of main responsibility for corporate governance to our appointments committee.** The strong oversight of our appointments committee on board ef ectiveness has meant that it has increasingly dealt with corporate governance-related matters beyond ef ectiveness. On 26 February 2019 our board, following best practices, decided to broaden the mandate of our appointments committee in corporate governance matters and has correspondingly reduced that of the risk supervision, regulation and compliance committee. In addition, given his particular involvement in corporate governance of our lead director, engagement with shareholders and appointments issues, the board has also expressly provided in the Rules and regulations of the board for his membership of the appointments committee. See 'Rules and regulations of the board' in section 4.3.

1.5 Priorities for 2019

Our board's priorities on corporate governance for 2019 are the following:

- **Responsible banking** will be a higher priority than ever. Our culture and corporate values are essential for long term value creation. For these purposes we will focus on:
  - Overseeing our business practices to ensure they are sound and responsible and how we engage with all our stakeholders.
  - Strong governance in decisions relating to sustainability and responsible banking, as well as transparency and disclosure of our non-f nancial information (environmental, social, prevention of corruption and bribery, ethics, etc.) will be also key for our responsible banking, sustainability and culture committee.
- **Strategy:** in the complex environment of today's f nancial markets, the success of the Bank requires:
  - The understanding that innovation and digital/technological transformation are a catalyst in our business model and strategy, turning technology challenges into opportunities.
  - In addition to the close monitoring of emerging and geopolitical risks.
- **Engagement with investors and other stakeholders**, closely monitored by:
  - Providing tailored feedback to all of stakeholders through, among others, the leadership of the lead independent director and one-to-one meetings, and meeting their expectations with transparency and reliability. Listening and giving voice to investors will enable the Bank to deliver better long term returns.
  - Leveraging on the implementation of the European Union shareholders' rights directive and other legislation to enhance and encourage stakeholder relations.
- **Diversity in the boardroom:** a strong and unbreakable commitment with broader diversity will remain a focus for our board and our appointments committee. The updated board skills and diversity matrix mentioned above will allow any gender and/or other types of imbalance to be addressed. Diversity is not a box to be ticked but a strategy for our success.
- **Ongoing board refreshment** with an appropriate and diverse composition of our board and board committees, in addition to a balanced tenure within the board, will remain a priority for the coming years.
- **Compensation ef ectiveness:** our board and the remuneration committee will continue to focus on shaping compensation structures and schemes for our executives, according to our corporate culture and values, while driving them towards alternative performance metrics.

2. Ownership structure

- Broad, widely distributed and well balanced shareholder base
- A single class of shares
- No takeover defences in our Bylaws
- Authorised capital in line with best practices, providing the necessary f exibility

2.1 Share capital

Our share capital is represented by ordinary shares with a par value of 0.50 euros each. All shares belong to the same class and carry the same rights, including as to voting and dividend.

There are no outstanding bonds or securities convertible into shares, other than the contingent convertible preferred securities (CCPPS) referred to in the next section 2.2 'Authority to increase capital'.

At 31 December 2018, the Bank had a share capital of EUR 8,118,286,971 represented by 16,236,573,942 shares.

In 2018, the share capital was altered only once through the capital increase made on 6 November 2018 as part of the Santander scrip dividend programme. A total of 100,420,360 new shares were issued representing 0.62% of the share capital at 31 December 2018.

We have a broad, widely distributed and balanced shareholder structure. At 31 December 2018, the total number of Santander shares owned or represented by shareholders was 4,131,489 and the distribution by type of investor, continent and size of shareholding was as follows:

Type of investor	% of share capital
Board[A]	1.13%
Institutional	59.11%
Retail	39.76%
Total	**100%**

A. Shares owned or represented by directors. For further details on shares owned and represented by directors, see 'Tenure, committee membership and equity ownership' in section 4.2 and subsection A.3 in section 9.2 'Statistical information on corporate governance required by CNMV'.

Continent	% of share capital
Europe	77.29%
Americas	21.63%
Rest of the world	1.08%
Total	**100%**

Size of shareholding	% of share capital
1-3,000	9.44%
3,001-30,000	17.19%
30,001-400,000	11.60%
Over 400,000	61.77%
Total	**100%**

2.2 Authority to increase capital

Under Spanish law, the authority to increase share capital rests with the general shareholder's meeting (GSM). However, our GSM may delegate to our board of directors the authority to approve or execute capital increases. Our Bylaws are fully aligned with Spanish law, and do not establish any dif erent conditions for share capital increases.

At 31 December 2018, our board of directors has been authorised by the GSM to approve or execute the following capital increases:

- **Authorised capital to 2021:** At our 2018 AGM, our board was authorised to increase share capital on one or more occasions and at any time by up to EUR 4,034,038,395.50 (or approx. 8,000 million shares representing approximately 49.70% of the share capital at 31 December 2018). This authority was granted for three years (i.e. until 23 March 2021).

  The authority can be used for issuances for a cash consideration, with or without pre-emptive rights for shareholders, and for capital increases to back any convertible bonds or securities issued under the authority granted to our board by the 2015 GSM to issue convertible bonds and securities.

The issuance of shares without pre-emptive rights under this authority is capped at EUR 1,613,615,358 (20% of capital at the time of the 2018 AGM or approx. 3,227 million shares representing approximately 19.88% of the share capital at 31 December 2018). This limit applies also to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET1 ratio falls below a pre-established threshold).

This authority has not been used to date except in connection with the issuances of CCPS of 8 February 2019 mentioned below.

- **Capital increases approved for contingent conversion of CCPS:** We have issued contingent convertible preferred securities that qualify as additional tier 1 instruments for regulatory capital purposes and which would convert into newly-issued shares if the CET1 ratio fall below a pre-established threshold. Each of these issuances is therefore backed by a capital increase approved under the authority to increase capital granted by the GSM to our board in force at the time of the CCPS issuance. The following chart shows the CCPS in circulation at the time of preparing this corporate governance report, with details of the capital increases backing them. The execution of these capital increases is therefore contingent and has been delegated to the board of directors.

Issues of contingent convertible preferred securities

Date of issuance	Nominal amount	Discretionary remuneration per annum	Conversion	Maximum number of shares in case of conversion[A]
12/03/2014	EUR 1,500 million	6.25% for the f rst f ve years		345,622,119
19/05/2014	USD 1,500 million	6.375% for the f rst f ve years		228,798,047
11/09/2014	EUR 1,500 million	6.25% for the f rst seven years		299,401,197
25/04/2017	EUR 750 million	6.75% for the f rst f ve years	If, at any time, the CET1 ratio of the Bank or the Group is less than 5.125%	207,125,103
29/09/2017	EUR 1,000 million	5.25% for the f rst six years		263,852,242
19/03/2018	EUR 1,500 million	4.75% for the f rst seven years		416,666,666
08/02/2019	USD 1,200 million	7.50% for the f rst f ve years		388,349,514

A. The f gure corresponds to the maximum number of shares that could be required to cover the conversion of the relevant CCPS, calculated as the quotient (rounded of b y default) of the nominal amount of the CCPS issue divided by the minimum conversion price determined for each CCPS (subject to any anti-dilution adjustments and the resulting conversion ratio).

- **Annual delegation to execute a capital increase (which is nearing expiry and will not be renewed):** As has occurred every year in the recent past, at our 2018 AGM, our board was delegated the power to execute a capital increase with pre-emptive rights for shareholders of EUR 500 million (or 1,000 million shares). Our board has not exercised this delegated power to date and the agreement will expire on the anniversary of our 2018 AGM (i.e. 23 March 2019). Our board will not propose the same delegation of power at our 2019 AGM in line with best practices in this area and the fact that the desired f exibility to increase capital is achieved with the authorised capital referred to above, which is consistent with those best practices.

2.3 Signifca nt shareholders

At 31 December 2018, no shareholder of the Bank individually held more than 3% of its total share capital (which is the signif cant threshold generally established under Spanish regulations for a signif cant holding in a listed company to be disclosed)[1]. Our Bylaws do not include any specif c provisions for signif cant holdings.

While at 31 December 2018 certain custodians appeared in our register of shareholders as holding more than 3% of our share capital, we understand that those shares were held in custody on behalf of other investors, none of which exceed that threshold individually. These custodians are State Street Bank and Trust Company (13.091%), The Bank of New York Mellon Corporation (8.853%), Chase Nominees Limited (6.695%), EC Nominees Limited (3.958%) and BNP Paribas (3.791%).

In addition, BlackRock Inc. had as of that date informed CNMV of its signif cant holding of voting rights in the Bank (5.585%) but had noted in its communications that the corresponding shares were being held for the account of a number of mutual funds or other investment entities, none of which exceeded 3% individually.

Throughout 2018 BlackRock Inc. informed CNMV of the following movements regarding its voting rights in the Bank: 23 April, decrease below 5%, 8 May, increase above 5%, 24 July, decrease below 5%, 3 August, increase above 5%, and 11 December, decrease below 5%. In addition, the asset manager Capital Research and Management Company notif ed CNMV that on 21 March 2018 it had increased its voting rights above 3%, and on 9 August 2018 that it had decreased it below 3%. The website of CNMV contains the aforementioned notices.

It should be noted that there may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

1. At 31 December 2018 neither our shareholders registry nor CNMV's registry showed any shareholder resident in a tax haven with a shareholding of 1% or higher of our share capital (which is the other threshold applicable under Spanish regulations).

While there are currently no shareholders qualifying as a signif cant shareholder, it should be noted that our Bylaws and Rules and regulations of the board provide an appropriate system for vetting and approving related party transactions as indicated in section 4.8 'Related-party transactions and conf icts of interest'.

2.4 Shareholders' agreements

In February 2006, a shareholders' agreement was entered into by various persons linked to the Botín-Sanz de Sautuola y O'Shea family whereby a syndicate was created with respect to the Bank's shares. CNMV was informed of the execution of this agreement and the subsequent amendments made by the parties, and this information can be found on CNMV website[2]. There have been no amendments in f nancial year 2018.

The main provisions of the agreement are the following:

- **Transfer restrictions:** except when the transferee is also a party to the agreement or the Fundación Botín, any transfer of the Bank's shares expressly included in the agreement requires prior authorisation from the syndicate meeting, which may be granted or denied freely; and

- **Voting syndicate:** under the agreement, the parties undertake to syndicate and pool the voting rights attached to their shares in the Bank, so that these rights may be exercised, and, in general, the syndicate members will act towards the Bank in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation established by the syndicate. This syndication and pooling of voting rights covers not only the shares expressly attached to the syndicate under the agreement but also any voting rights attached to other Bank shares held either directly or indirectly by the parties to the agreement, and any other voting rights assigned thereto, for as long as they hold those shares or are assigned those rights. For this purpose, representation of the syndicated shares is attributed to the chair of the syndicate, who shall be the chairman of the Fundación Botín (currently Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea). Ms Ana and Mr Javier Botín-Sanz de Sautuola y O'Shea are siblings.

The initial term of the agreement ends on 1 January 2056, but it will be automatically extended for further 10-year periods unless terminated by one of the parties with 6-months prior notice before the end of the initial term or the end of one of the extension periods. The agreement may only be terminated by unanimous agreement of all the syndicated shareholders.

At the date of execution of the agreement, the syndicate comprised a total of 44,396,513 shares of the Bank (0.273% of its share capital at the end of 2018). In addition, as established in the shareholders' agreement, the syndication extends, solely with respect to the exercise of the voting rights, to other Bank shares held either directly or indirectly by the parties to the agreement, or whose voting rights are attributed to them, from time to time. Accordingly, at 31 December 2018, a further 39,057,250 shares (0.241% of the Bank's share capital at such date) were also included in the syndicate. The total number of shares subject to the shareholders' agreement was 79,798,339, representing 0.491% of the Bank's share capital at such date.

Subsection A.7 of section 9.2 'Statistical information on corporate governance required by CNMV' shows the list of parties to the shareholders´ agreement.

2.5 Treasury shares

Our current treasury share policy was approved by our board on 23 October 2014, following recommendations published by CNMV in this respect. The policy provides that treasury share transactions shall have the following objectives[3]:

- To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances in supply and demand.
- To take advantage, for the benef t of shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

The policy further establishes that treasury share transactions may not be carried out for the purpose of intervening in the free formation of prices. Therefore, it requires that:

- Orders to buy should be made at a price not higher than the greater of the following two:
  - The price of the last trade carried out in the market by independent persons; and
  - The highest price contained in a buy order of the order book.
- Orders to sell should be made at a price not lower than the lesser of the following two:
  - The price of the last trade carried out in the market by independent persons; and
  - The lowest price contained in a sell order of the order book.

Transactions with treasury shares are carried out by the Investments and Holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information.

Trading in treasury shares was last authorised at our 2018 AGM. This authorisation has a validity of f ve years (i.e. until 23 March 2023) and permits the acquisition of treasury shares provided that the shares held at any point in time do not exceed the legal limit provided for under the Spanish Companies Act (currently, 10% of the Bank's share capital).

The authorization further requires that acquisitions are made at a price that is not lower than the nominal value of the shares and does not exceed the last trading price in the Spanish market for a transaction in which the Bank was not acting for its own account by more than 3%.

We are proposing to our 2019 AGM the renewal of this authorization. See section 3.5 'Our coming 2019 AGM'.

At 31 December 2018, the Bank and its subsidiaries held 12,249,652 shares representing 0.075% of our share capital at that date (compared to 3,913,340 at 31 December 2017, representing 0.024% of our Bank's share capital).

2. For more information about this shareholder agreement, see material facts with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703 and 226968 filed in CNMV on 17 February 2006, 3 June 2012, 19 November 2012, 17 October, 2013, 3 October 2014, 6 February 2015, 29 May 2015 and 29 July 2015, respectively and also can be found on the Group's website.

3. The policy focuses on the discretionary trading of treasury shares. The policy applies partially to trading of treasury shares linked to customer activities, such as market risk hedging and brokerage activities, or hedging for customers.

The following chart summarises the monthly average percentages of treasury shares between 2018 and 2017.

Monthly average percentages of treasury shares[A]

% of the Bank's share capital at month end

	2018	2017
January	0.04%	0.05%
February	0.03%	0.02%
March	0.02%	0.01%
April	0.04%	0.01%
May	0.05%	0.02%
June	0.07%	0.03%
July	0.07%	0.07%
August	0.07%	0.10%
September	0.07%	0.09%
October	0.07%	0.08%
November	0.07%	0.07%
December	0.07%	0.05%

A. Monthly average of daily positions of treasury shares.

In 2018, trading of treasury shares by the Bank and its subsidiaries involved:

- The purchase of 206,780,988 shares equivalent to a par value of EUR 103,4 million (cash amount of EUR 1,026.4 million) at an average purchase price of EUR 4.96 per share;
- The sale of 198,444,971 shares equivalent to a par value of EUR 99.2 million (cash amount of EUR 988.3 million) at an average price of EUR 4.98 per share; and
- A net loss for the Group of EUR 118,080 that has been recognised in the Group's equity under shareholders' equity-reserves.

The following chart ref ects the signif cant changes in treasury stock during the year, which have been communicated to CNMV.

Notif cation date	Total of acquired direct shares	Total of acquired indirect shares	Total % of share capital[A]
04/04/2018	128,699,007	32,857,278	1.002%
29/06/2018	76,457,880	8,469,406	0.526%

A. Percentage calculated with the existing share capital at the date of the notifc ation.

2.6 Stock market information

Markets

The Bank's shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, with trading symbol SAN), the New York Stock Exchange (NYSE) (in the form of American Depositary Shares, 'ADS', with trading symbol SAN and where each ADS represents one share of the Bank), the London Stock Exchange (in the form of Crest Depositary Interests, 'CDI', with trading symbol BNC and where each CDI represents one share of the Bank) and the Warsaw Stock Exchange (with trading symbol SAN). They also trade on the unsponsored Sistema Internacional de Cotizaciones of the Mexican Stock Exchange (with trading symbol SANN).

From July 2018 to early 2019, the number of secondary listings was streamlined and the Bank's shares were delisted from the Buenos Aires, Milan, Lisbon and São Paulo stock exchanges. In Mexico the Bank shares have been delisted from the Índice de Precios y Cotizaciones and listed in the above mentioned Sistema Internacional de Cotizaciones.

Share price performance

Markets ended 2018 much lower, after a start to the year with rises driven by the positive impact of the US's tax reform. This positive environment, however, dissipated in the following months because of greater volatility in stock markets mainly due to: (i) the political uncertainty in Italy and Brazil; (ii) the lack of agreement over Brexit; (iii) the increase in f nancial tensions in developing countries because of the dollar's appreciation, after the Fed raised its interest rates and the European Central Bank (ECB) continued its policy of monetary normalisation and announced the end of quantitative easing and (iv) the escalation of trade tensions between US and China and its possible impact on conf dence and the global economy. Fears of slowdown in the global economy, coupled with the partial shutdown of the US government, intensif ed the fall in shares in the last part of the year.

In this context, the main indices and the Santander share ended lower. The Santander share was down 27.5% at EUR 3.973, while Euro Stoxx Banks and Stoxx Banks fell 33.3% and 28.0%, respectively. The Spanish market Ibex 35 benchmark index declined 15.0%, the DJ Stoxx 50 13.1% and the MSCI World Banks 19.7%. Santander's total shareholder return was 24.3% negative.

Market capitalisation and trading

As of 31 December 2018, Santander was the largest bank in the eurozone by market capitalisation (EUR 64,508 million) and 16th in the world. A total of 19,040 million Santander shares were traded during 2018 for an ef ective value of EUR 95,501 million, the largest f gure among the shares that comprise the EuroStoxx (liquidity ratio of 118% in 2018[4]).

The Santander share

	2018	2017
Shares (million)	16,236.6	16,136.2
Price (EUR)		
Closing price	3.973	5.479
Change in the price	-27.5%	+12.3%
Maximum for the period	6.093	6.246
Date of maximum for the period	26/01/18	08/05/17
Minimum for the period	3.800	4.838
Date of minimum for the period	27/12/18	02/01/17
Average for the period	4.844	5.562
End-of-period market capitalisation (million)	64.508	88.410
Trading		
Total volume of shares traded (million)	19,040	20,222
Average daily volume of shares traded (million)	74.7	79.3
Total cash traded (EUR million)	95,501	113,665
Average daily cash traded (EUR million)	374.5	445.7

4. Total volume of shares traded over average number of shares in issue.

3. Shareholders. Engagement and shareholders meeting

- One share, one vote, one dividend
- No takeover defences in our Bylaws
- High participation and engagement of shareholders in our AGM

3.1 Shareholder engagement

The Bank is at the forefront of the best practices in engagement with shareholders and institutional investors, focusing in earning their lasting loyalty and driving prof tability and sustainable growth to their investments, in a Simple, Personal and Fair way and according to our corporate culture and values.

We consider transparency is vital to gain trust among our shareholders and other stakeholders and we take a proactive approach to align our reporting and disclosure with their expectations.

We engage with investors actively, fairly and transparently in the following ways:

- **Annual engagement through the AGM.** We consider our AGM as the most important annual corporate event for our shareholders.

  For that reason we strive to encourage the assistance and informed participation of our shareholders wherever they are based. See 'Participation of shareholders at the GSM' in section 3.2.

  With that aim we have adopted measures to facilitate the participation of shareholders in the AGM. In addition to make available to them the relevant information as required by law, we answer in writing all requests that shareholders send before the AGM in connection with the agenda. See 'Right to receive information' in section 3.2.

  Furthermore, during the AGM the chairman informs in suf cient detail on the most relevant developments of the Group's corporate governance, occurred during the year, supplementing the written information made available in the corporate governance report, and addresses any questions that the shareholders may pose verbally during the course of the general shareholders' meeting in connection with the matters included in the agenda. When it is impossible to satisfy the shareholder's right during the course of the meeting, and in the case of those requests made by remote attendees at the meeting, the appropriate information is provided in writing within seven days after the end of the AGM.

  The chairmen of the audit, appointments and remuneration committees also report to the AGM on the tasks of those committees, supplementing the committees activities annual reports which are now included in this Corporate governance chapter.

  We also broadcast our GSMs live on our corporate website. This allows non-attending shareholders, other investors and stakeholders in general to be fully informed of the discussions and results.

  The record quorum and outstanding voting results in our 2018 AGM show the importance we put on engagement through our GSMs. See section 3.4 '2018 AGM'.

- **Quarterly results presentations.** Each quarter we hold a results presentation on the same day we disclose those results. The results presentation can be followed live, via conference call or webcast. The corresponding f nancial report and results presentation material are available that day before the market opens. During the conference call it is possible to ask questions or send them via email to: investor@gruposantander.com.

  Our last event has been on 30 January 2019, when the 2018 Results Presentation took place. During 2018, the f rst, second and third quarter results presentations took place on 24 April, 25 July and 31 October, respectively.

- **Investor and strategy days.** We also organise investor and strategy days. These events allow our senior management to lay out our strategy for investors and stakeholders in a broader context than what results presentations typically allow. These events also allow investors to have direct interaction with senior management and some of our directors, something we see as increasingly important as a way to further underscore the strength of our board. In line with CNMV recommendations, announcements of meetings with analysts and investors and the documentation to be used at those meetings are published in advance by the Bank. The Bank has already announced that its next investor day will take place on 3 April 2019 in London[5].

5. The information that will be made available in the investor day is not incorporated by reference in this annual report nor otherwise considered to be a part of it.

- **Lead independent director engagement with key investors.** Our lead independent director, Mr Bruce Carnegie-Brown, maintains regular contact with investors and shareholders in Europe and North America, particularly during the months prior to our AGM, allowing us to gather their insights and to form an opinion about their concerns, especially in connection with our corporate governance. As he is also chairman of the appointments and the remuneration committees, he is well suited to provide all the perspectives on the governance of the Group and get in detail investors sentiment and views. During 2018 and early 2019 he met with 30 investors in 7 dif erent cities totalling a 22% of our share capital. The contribution of our lead independent director in incorporating international best practices, developing relations with institutional investors and providing them tailored feedback is highly valued by the other directors in our annual board self-assessment.

- **Investor roadshows**. Our Investors Relations department is in constant contact with our investors, analysts and other stakeholders, seeking direct contact to provide all-round discussion on shareholder value, on covering also improvements to governance and remuneration structures and sustainability matters.

  During 2018 they had 1,134 contacts with 678 dif erent institutional investors. Those included roadshows, 1 on 1 and group meetings and telephone calls. The team reached 33.62% of our share capital, that is more than 50% of the capital held by institutional investors.

- **Shareholder and Investor Relations team**. As part of our exercise of openness towards our retail shareholders, during 2018 we held 252 events where they were informed about the latest results and the Group´s strategy, as well as the evolution of the share. Our Shareholders team has personally attended to 16,943 shareholders who represent 6.55% of the Bank´s share capital in dif erent roadshows and 1 on 1 group meetings.

  To comply with our commitment to transparency and information, our Shareholder and Investor Relations team of ers numerous attention channels. In 2018, we responded to 166,149 queries received via our shareholder helplines, mailboxes and WhatsApp and achieved a 98% recommendation score in the satisfaction surveys carried out. New in 2018, and in line with our digital transformation and Simple, Personal and Fair culture, we launched a 'Virtual Customer' channel where shareholders can hold one-on-one meetings with the Shareholder and Investor Relations team using their mobile devices.

- **Proxy advisors, environment, social and governance (ESG) analysts and other infuen cers.** We have for a long time recognised the importance and value for our investors that can be obtained by seeking an open dialogue with corporate inf uencers such as proxy advisors and ESG analysts. Ensuring our priorities and messages are well understood by those players translates into better communication to the end investors that look to them for advice or counsel.

- **Respect of fair disclosure principles.** All our interactions with investors, analysts and other stakeholders follow the principle of fair disclosure and CNMV's guidelines in this respect. Therefore, material information on our f nancial performance and prospects and other similarly relevant information is only disclosed in the types of interaction mentioned above or in other analysts meetings for which we announce the fact that the meeting will take place and publish the documentation that will be used, according to CNMV´s recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals. The purpose of other interactions is therefore to better explain the public information available to all investors and be able to directly address and understand areas of interest or concern.

Our policy for communicating with shareholders, institutional investors and proxy advisors establishes the rules and applicable practices in this respect, is respectful of market abuse regulations and dispenses similar treatment to all shareholders. The policy is published on the Bank´s corporate website.

3.2 Shareholder rights

Our Bylaws provide for only one class of shares (ordinary shares), granting all holders the same rights. Each Santander share entitles the holder to one vote.

The Bank does not have any defensive mechanisms in the Bylaws, fully conforming to the principle of one share, one vote, one dividend.

In this section we highlight certain key features available to our shareholders.

No restrictions on voting rights or on the free transfer of shares in our Bylaws

There are no legal or bylaw restrictions on the exercise of voting rights except for those resulting from the failure to comply with applicable regulations as indicated below.

There are no non-voting or multiple-voting shares, or shares giving preferential treatment in the distribution of dividends, or shares that limit the number of votes that can be cast by a single shareholder, or quorum requirements or qualif ed majorities other than those established by law.

There are no restrictions on the free transfer of shares other than the legal restrictions indicated in this section.

The transferability of the shares is not restricted by our Bylaws or in any other manner other than by the application of legal and regulatory provisions. Likewise, there are no bylaw restrictions on the exercise of voting rights (except where an acquisition has been made in breach of legal or regulatory provisions).

Further, the Bylaws do not include any neutralisation provisions (as these are referred to in Spanish Securities Market Law), which apply in the event of a tender of er or takeover bid.

Please also note that the shareholders' agreement referred to in section 2.4 'Shareholders' agreements' contains transfer and voting restrictions on the shares subject to that agreement.

Legal and regulatory restrictions on the acquisition of significant holdings

These legal and regulatory provisions apply mainly because of the Bank's presence in regulated sectors (which implies that the acquisition of significant holdings or influence is subject to regulatory approval or non-objection) and its status as a listed company (which implies that a tender offer or takeover bid for the Bank's shares must be made for the acquisition of control and other similar transactions).

The acquisition of significant ownership interests is regulated mainly by:

- Regulation (EU) 1024/2013 of the Council of 15 October 2013, conferring specific tasks on the ECB relating to the prudential supervision of credit institutions;
- Spanish Securities Markets Law; and
- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (articles 16 to 23) and its implementing regulation, Spanish Royal Decree 84/2015, of 13 February.

The acquisition of a significant stake in the Bank may also require the authorisation of other domestic and foreign regulators with supervisory powers over the Bank's and its subsidiaries' activities and shares listings or other actions in connection with those regulators or subsidiaries.

Participation of shareholders at the GSM

All registered holders of shares on record at least five days prior to the day on which a meeting is scheduled to be held are entitled to attend. The Bank allows shareholders to exercise their rights to attend, delegate and vote using remote communication systems, which also foster participation in the GSM.

Another communications channel available to shareholders is the electronic shareholders' forum. This forum, which is available on our Bank's corporate website at the time of the meeting, allows shareholders to post supplementary proposals to the agenda announced in the call notice, along with requests for support for those proposals, initiatives aimed at reaching the percentage required to exercise any of the minority shareholder rights provided for by law, as well as offers or requests to act as a voluntary proxy.

Supplement to the meeting call

Shareholders representing at least 3% of the share capital may request the publication of a supplement to the AGM call with a statement of the name of the shareholders exercising this right and of the number of shares held by them, as well as the items to be included on the agenda, attaching a rationale or substantiated proposal for resolutions concerning these items and, if appropriate, any other relevant documentation.

Shareholders representing at least 3% of the share capital may also submit duly grounded resolutions concerning matters that have already been included or to be included, relating to one or more items on the agenda.

These rights must be exercised by means of a certified notice that must be received by the Bank's registered office within five days after the publication of the notice of the call to meeting.

Right to receive information

From the publication of the call to the GSM until the fifth day, inclusive, prior to the date for which the meeting has been called at first call, shareholders may deliver written requests for information or clarifications, or submit written questions on issues they consider to be relevant concerning the items on the meeting agenda. In addition, in the same manner and within the same period, shareholders may deliver written requests for clarifications concerning the relevant information that the Bank has provided to CNMV since the last GSM was held or concerning the auditor's reports. The requested information and the answers provided by the Bank are published in its corporate website.

Additionally, this information right may be exercised in the meeting itself but when it is impossible to satisfy the shareholder's right during the course of the meeting, or those requests made by remote attendees at the meeting, the appropriate information is provided in writing within seven days following after the end of the GSM.

Quorum and majorities required for passing resolutions at the GSM

The quorum required to hold a valid general shareholders' meeting and the system for adopting resolutions set out in our Bylaws and in the Rules and regulations for the Bank's GSM are the same as those set down by Spanish law.

Except for specific matters as indicated below, the quorum on first call shall be met by the attendance of shareholders representing at least twenty five per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the GSM shall be held on second call, where no minimum quorum is required.

For purposes of determining the quorum, shareholders who vote by mail or through electronic means before the meeting are counted as present at the meeting, as provided by the Rules and regulations for the Bank's GSM.

Except for specific matters as indicated below, resolutions at GSMs are passed when, with respect to the voting capital present or represented at the meeting, the number of votes in favour is higher than the number of votes against.

The quorum and majorities required for Bylaws amendments, issuances of shares and bonds, structural modifications and other significant resolutions provided for in applicable law are those set out below for Bylaws amendments. In addition, pursuant to the rules applying to credit institutions, the increase above 100% (up to 200%) of the ratio of the variable remuneration components over the fixed ones for executive directors and other key function holders requires a qualified majority of two thirds if there is a quorum of more than 50% and a majority of three quarters if there is not such a quorum.

Our Bylaws do not require any decisions that entail an acquisition, disposal or contribution to another company of core assets or other similar corporate transactions to be subject to the approval of the GSM, except in those cases established by law.

Rules governing amendments to our Bylaws

The GSM has the power to decide on any amendment of the Bylaws, except for the change in the location of the registered office within Spain, which may be decided by the board.

If the Bylaws are to be amended by the GSM, the Bank's board or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders with the call notice for the meeting at which the proposed amendment will be voted on.

Furthermore, the call notice for the GSM must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the Bank's registered office, and to request that these documents be delivered or sent to them free of charge.

If the shareholders are called upon to deliberate on amendments to the Bylaws, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the GSM shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent of the subscribed share capital with the right to vote are in attendance, the resolutions on amendments to the Bylaws may only be validly adopted with the favourable vote of two-thirds of the share capital present in person or by proxy at the meeting. However, when shareholders representing fifty per cent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority.

Any changes to the Bylaws involving new obligations for shareholders must have the consent of those affected.

Authorisation is required under the Single Supervisory Mechanism (SSM) to amend our Bylaws. However, the following amendments are exempt from this authorisation procedure, although they must nevertheless be reported to the SSM: those intended to reflect a change in registered office within Spain, a capital increase, additions to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature or wording changes to comply with court or administrative rulings and any other amendments which the SSM has ruled to be exempt from authorisation due to a lack of materiality in response to prior consultations submitted to it for this purpose.

Corporate website

Our corporate website includes the information on corporate governance as required by law. In particular, it includes (i) the key internal regulations of Banco Santander (Bylaws, Rules and regulations of the board, Rules and regulations for the GSM, etc.); (ii) information on our board of directors and its committees as well as the professional biographies of the directors and (iii) information relating to the GSMs.

The route to the information on corporate governance in our corporate website is: https://www.santander.com/csgs/Satellite/CFWCSancomQP01/es_ES/Informacion-para-accionistas-e-inversores.html?leng=en_GB. This route is included for informational purposes only. The contents of our corporate website are not incorporated by reference in this annual report or otherwise considered to be a part of it.

3.3 Dividend policy

In relation to the financial year 2018, the board of directors intends the payment against earnings for the year to be EUR 0.23 per share, to be paid quarterly. EUR 0.065 and EUR 0.065 per share has already been paid in cash in August 2018 and February 2019, respectively, as well as EUR 0.035 per share through the Santander Scrip dividend programme (with a 76.55% acceptance rate of the payment in shares) in November 2018. The remaining EUR 0.065 per share is expected to be paid in April/May 2019, in cash as fourth dividend against the 2018 results subject to the approval of the 2019 AGM.

This remuneration represents an average return of 4.75% on the share price in 2018.

The dividend per share, once the final payment of EUR 0.065 per share is approved and made, will have increased 4.50% compared to 2017.

In order to have flexibility in determining how shareholder remuneration is paid to shareholders, the board is proposing a resolution to the 2019 AGM authorizing the acquisition of shares to be held in treasury with the express possibility of executing share repurchases to reduce the number of shares in issue, should market conditions make such action advisable. Any such share repurchases may also be made in conjunction with a scrip dividend, referred to below, should such a dividend be deemed appropriate.

In addition, in view of the significant acceptance of the scrip dividend, especially among our retail shareholders, and to allow the required flexibility to be able to take advantage of the opportunities for profitable growth in our markets, the board has decided to propose to shareholders to retain the option to use a scrip dividend. This could be combined with share repurchases to satisfy the maximum number of shareholders, institutional and retail, with the target of maximizing earnings per share.

These proposals will provide the board with the required flexibility to determine whether or not to use these mechanisms, depending on the Group's performance and its progress against the targets set.

The board will announce the 2019 interim dividend after the September board of directors meeting. To align ourselves with our European peers current practice, it is the board's intention to set a pay-out ratio of 40-50% in the mid-term, increasing it from the current pay-out ratio of 30-40%; that the proportion of dividend paid in cash is not lower than that of the last year; and, as was announced in the 2018 AGM, to make two payments against the results of 2019.

The agenda for the 2019 AGM includes two proposals in this respect. See section 3.5 'Our coming 2019 AGM'.

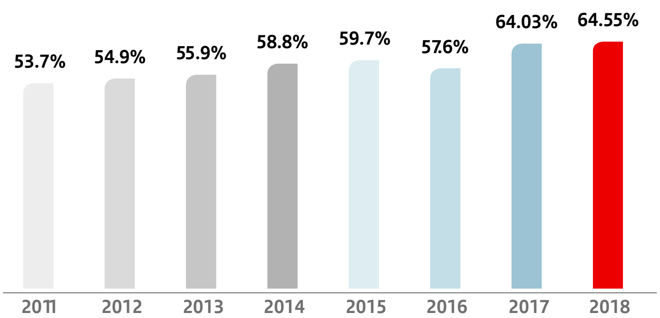
3.4 2018 AGM

- Record quorum of 64.55%
- Corporate management of the Bank in 2017 approved with 99.22% voting in favour
- 2017 annual report on directors remuneration approved with 94.42% voting in favour
- Appointment and re-election of directors approved with at least 96.98% voting in favour
- No opposing vote of more than 15.43%

Quorum and attendance

The quorum for the annual general meeting of 2018 rose to 64.55%, our highest to date.

Quorum at annual general shareholders' meetings



The breakdown of the quorum was as follows:

Physically present and remote attendance	0.823%
By proxy	
Cast by post or directly	44.982%
Via Internet	2.630%
Remote voting	
Cast by post	15.735%
Via Internet	0.377%
Total	**64.547%**

Voting results and resolutions

All items in the agenda were approved. The average percentage of votes in favour for proposals submitted by our board was 97.61%.

The following chart summarises the resolutions approved at the 2018 AGM and the voting results:

	Valid votes					
	For	Against	Blank	Total[A]	Total[B]	Abstention
1. Annual accounts and corporate management						
1A. Annual accounts and directors' reports for 2017	99.31	0.12	0.07	99.51	64.23	0.49
1B. Corporate management 2017	99.22	0.15	0.07	99.45	64.19	0.55
2. Application of results	99.47	0.14	0.07	99.69	64.35	0.31
3. Appointment, re-election or ratif cation of directors						
3A. Establishing the number of directors	99.39	0.18	0.08	99.65	64.32	0.35
3B. Mr Álvaro Cardoso de Souza	99.28	0.24	0.08	99.60	64.29	0.40
3C. Mr Ramiro Mato	99.29	0.24	0.08	99.61	64.29	0.39
3D. Mr Carlos Fernández	98.67	0.89	0.08	99.64	64.31	0.36
3E. Mr Ignacio Benjumea	97.51	2.04	0.08	99.64	64.31	0.36
3F. Mr Guillermo de la Dehesa	96.98	2.45	0.08	99.52	64.24	0.48
3G. Ms Sol Daurella Comadrán	98.93	0.63	0.08	99.64	64.32	0.36
3H. Ms Homaira Akbari	98.84	0.60	0.08	99.52	64.24	0.48
4. Authorisation to acquire treasury shares	98.08	1.52	0.07	99.67	64.33	0.33
5. Amendments of Bylaws						
5A. Regarding the board of directors	98.76	0.79	0.08	99.64	64.31	0.36
5B. Regarding the delegation of powers of the board and to board committees	99.34	0.20	0.08	99.62	64.30	0.38
5C. Relating to reporting tools	99.38	0.16	0.08	99.63	64.31	0.37
6. Delegation to the board of the power to increase share capital	96.30	3.30	0.07	99.67	64.34	0.33
7. Authorisation granted to the board to increase share capital	84.16	15.43	0.07	99.67	64.33	0.33
8. Increase in share capital via scrip dividend	99.10	0.51	0.07	99.68	64.34	0.32
9. Directors' remuneration policy	94.22	3.61	0.08	97.92	63.21	2.08
10. Maximum total annual remuneration of directors in their capacity as directors	98.24	0.95	0.08	99.28	64.08	0.72
11 Maximum ratio of f xed and variable components in the total remuneration of executive directors	98.31	1.20	0.08	99.60	64.14	0.40
12. Remuneration plans which entail the delivery of shares or share options:						
12A. Deferred multiyear objectives variable remuneration plan	95.65	2.32	0.08	98.05	63.29	1.95
12B. Deferred conditional variable remuneration plan	96.90	2.31	0.08	99.29	64.09	0.71
12C. Group buy-out policy	97.59	1.60	0.08	99.28	64.08	0.72
12D. Plan for employees of Santander UK Group Holdings and other companies of the Group in the UK	98.86	0.66	0.09	99.60	64.29	0.40
13. Authorisation to implement the resolutions approved	99.40	0.18	0.07	99.66	64.33	0.34
14. Annual directors' remuneration report	94.42	3.74	0.08	98.25	63.42	1.75
15 to 28. Dismissal and removal of directors[C]	0.00	98.54	0.00	98.54	47.73	1.46

A. Percentage of total valid votes and abstentions.

B. Percentage of the share capital at the date of the 2018 AGM.

C. Items 15 to 28, not included in the agenda, were submitted to a separate vote. Each item refers to the proposal for dismissal and removal of each director in of ce at the 2018 AGM.

The full texts of the resolutions adopted at the 2018 AGM can be viewed on the Group's corporate website and on CNMV's website, since they were f led as a signif cant event on 23 March 2018.

Shareholder communications

In line with the policy for communicating with shareholders, institutional investors and proxy advisors, in 2018 Banco Santander continued to strengthen communications with, service to and contact with its shareholders and investors in the context of the 2018 AGM.

Telephone service lines	9,522 queries addressed
Shareholder and investor mailbox	792 e-mails replied
WhatsApp	14 queries addressed

3.5 Our coming 2019 AGM

The board of directors has agreed to call the 2019 annual general shareholders' meeting on 11 or 12 April, at first or second call respectively, with the following proposed resolutions.

- **Annual accounts and corporate management.** To approve:
  - The annual accounts and the directors reports of the Bank and its consolidated Group for the financial year ended 31 December 2018. For further information see 'consolidated financial statements'.
  - The consolidated non-financial statement for the financial year ended 31 December 2018, which forms part of this consolidated directors' report. See 'Santander vision' and the 'Responsible banking' chapter.
  - The corporate management for the financial year ended 31 December 2018.
  - The **application of results** obtained during financial year 2018. See section 3.3 'Dividend policy'.
- **Appointment of directors.**
  - Set the number of directors at 15, within the maximum and the minimum established by the Bylaws.
  - Appointment of Mr Henrique de Castro as new independent director (see section 1.1 'Refreshing the Board') and re-election of the following board members for a three-year period: Mr Javier Botín-Sanz de Sautuola O'Shea, Mr Ramiro Mato García-Ansorena, Mr Bruce Carnegie-Brown, Mr José Antonio Álvarez Álvarez and Ms Belén Romana García.
- **External auditor.** To re-elect the firm PricewaterhouseCoopers Auditores, S.L. (PwC), as external auditor for financial year 2019. See 'External auditor' in section 4.4.
- **Authorization to acquire treasury shares**, with express provision for executing share repurchase programs. See section 3.3 'Dividend policy'.
- **Increase in share capital via scrip dividend.** See section 3.3 'Dividend policy'.
- **Authority to issue convertible securities.** To delegate to the board of directors the authority to issue debentures, bonds, preferred interests and other fixed-income securities or debt instruments of a similar nature that are convertible into shares of the Bank.
- **Authority to issue non-convertible securities.** To delegate to the board of directors the authority to issue debentures, bonds, preferred interests and other fixed-income securities or debt instruments of a similar nature that are not convertible into shares of the Bank.
- **Remuneration policy.** To approve the Bank's directors remuneration policy for 2019, 2020 and 2021. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Remuneration of directors.** To approve the fixed annual amount of remuneration for directors in their capacity as such. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Variable remuneration.** To approve a maximum ratio of 200% between the variable and fixed components of the total remuneration for executive directors and certain employees belonging to professional categories that have a material impact on the Group's risk profile. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Remuneration plans.** To approve the implementation of remuneration plans involving the delivery of shares or share options or referenced to the value of shares. For further information see section 6.4 'Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.
- **Annual directors' remuneration report.** To provide a consultative vote on the annual directors' remuneration report. For further information see section 6 'Remuneration'.

The related documents and information shall be available for viewing on the Bank's corporate website (www.santander.com) as from the date of publication of the announcement of the call to meeting.

Likewise, the Bank will provide a live broadcast of our 2019 AGM, as it did with the 2018 AGM. We will not remunerate the attendance at the 2019 AGM, and therefore it is not necessary to establish a general, long-term policy in this respect. Notwithstanding the above, and as has been a tradition for decades, the Bank offers attendees of the AGM a commemorative courtesy gift.

4. Board of directors

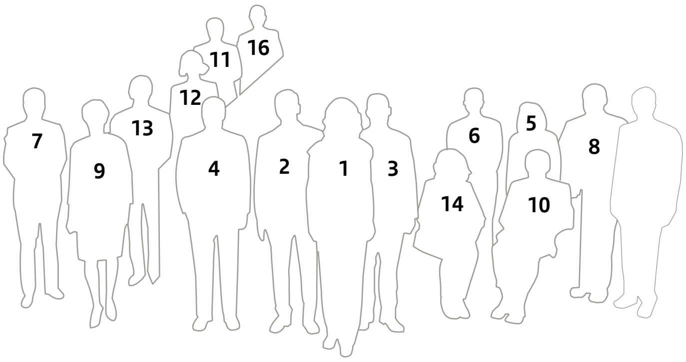
A committed, balanced and diverse board

- Of the 15 directors, 12 are non-executive and 3 are executive
- A majority of independent directors
- 33% female board members

Ef ective governance

- Thematic committees supporting the board
- New responsible banking, sustainability and culture committee focusing on priorities

Complementarity roles: executive chairman, CEO and lead independent director



1. **Ms Ana Botín-Sanz de Sautuola y O'Shea**
   Group executive chairman. Executive director

2. **Mr José Antonio Álvarez Álvarez**
   Vice chairman[6] and Chief executive ofc er (CEO)
   Executive director

3. **Mr Bruce Carnegie-Brown**
   Vice chairman and lead independent director.
   Non-executive director (independent)

4. **Mr Rodrigo Echenique Gordillo**
   Vice chairman. Executive director

5. **Ms Homaira Akbari**
   Non-executive director (independent)

6. **Mr Ignacio Benjumea Cabeza de Vaca**
   Non-executive director

7. **Mr Javier Botín-Sanz de Sautuola y O'Shea**
   Non-executive director

8. **Mr Álvaro Cardoso de Souza**
   Non-executive director (independent)

9. **Ms Sol Daurella Comadrán**
   Non-executive director (independent)

10. **Mr Guillermo de la Dehesa Romero**
    Non-executive director[7]

11. **Mr Carlos Fernández González**
    Non-executive director (independent)

12. **Ms Esther Giménez-Salinas i Colomer**
    Non-executive director (independent)

13. **Mr Ramiro Mato García-Ansorena**
    Non-executive director (independent)

14. **Ms Belén Romana García**
    Non-executive director (independent)

15. **Mr Juan Miguel Villar Mir**[8]
    Non-executive director (independent)

16. **Mr Jaime Pérez Renovales**
    General secretary and secretary of the board

6. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019
7. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.
8. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

4.1 Our directors

This information is presented as at 31 December 2018.

Ms Ana Botín-Sanz de Sautuola y O'Shea

GROUP EXECUTIVE CHAIRMAN

Executive director

Joined the board in 1989.

Nationality: Spanish. Born in 1960 in Santander, Spain.

Education: Degree in Economics from Bryn Mawr College (Pennsylvania, United States).

Experience: She joined Banco Santander after working at JP Morgan (New York, 1980-1988). In 1992 she was appointed senior executive vice president. Between 1992 and 1998 she led the expansion of Santander in Latin America. In 2002, she was appointed executive chairman of Banco Español de Crédito, S.A. Between 2010 and 2014 she was chief executive of cer of Santander UK. In 2014 she was appointed executive chairman of Santander.

Other positions of note: Member of the board of directors of The Coca-Cola Company. She is also founder and chairman of the CyD Foundation (which supports higher education) and of the Empieza por Educar Foundation (the Spanish subsidiary of the international NGO *Teach for All*) and she sits on the advisory board of the Massachusetts Institute of Technology (MIT).

Positions in other Group companies (non-executive in all cases and director unless otherwise indicated): Santander UK plc., Santander UK Group Holdings plc., Portal Universia, S.A. (chairman) and Universia Holding, S.L. (chairman).

Membership of board committees: Executive committee (chairman), innovation and technology committee (chairman), and responsible banking, sustainability and culture committee.

Skills and competencies: She has an extensive international executive career in the banking sector, where she has held the highest executive positions. She has also led the transformational, strategic and cultural change in the Santander Group. In addition, she has shown an ongoing commitment to sustainable and inclusive growth, as ref ected in her philanthropic activities.

Mr José Antonio Álvarez Álvarez

VICE CHAIRMAN[9] & CHIEF EXECUTIVE OFFICER

Executive director

Joined the board in 2015.

Nationality: Spanish. Born in 1960 in León, Spain.

Education: Graduate in Economics and Business Administration. MBA from the University of Chicago.

Experience: He joined Santander in 2002 and was appointed senior executive vice president of the Financial Management and Investor Relations division in 2004 (Group chief f nancial of cer). He also served as director at SAM Investments Holdings Limited, Santander Consumer Finance, S.A. and Santander Holdings US, Inc. He also sat on the supervisory boards of Santander Consumer AG, Santander Consumer Bank GmbH and Santander Bank Polska, S.A. He was also a board member of Bolsas y Mercados Españoles, S.A. (BME).

Other positions of note: None.

Positions in other Group companies: (non-executive in all cases and director unless otherwise indicated): Banco Santander (Brasil) S.A.

Membership of board committees: Executive committee and innovation and technology committee.

Skills and competencies: With a distinguished career in the banking sector, he is a highly qualif ed and talented leader. He brings to the board signif cant strategic and international management expertise, in particular in relation to f nancial planning, asset management and consumer f nance. He has a strong experience with and reputation amongst key stakeholders, such as regulators and investors.

9. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

Mr Bruce Carnegie-Brown

VICE CHAIRMAN
LEAD INDEPENDENT DIRECTOR
Non-executive director (independent)

Joined the board in 2015.

Nationality: British. Born in 1959 in Freetown, Sierra Leone.

Education: Master of Arts in English Language and Literature from the University of Oxford.

Experience: He was non-executive director of Jardine Lloyd Thompson Group plc (2016-2017), non-executive director of Santander UK Group Holding Ltd (2014-2017), non-executive director of Santander UK, plc. (2012-2017) and he held the non-executive chair of AON UK Ltd (2012-2015). He was also the founder and managing partner of the quoted private equity division of 3i Group plc., and president and chief executive of cer of Marsh Europe, S.A. He was also lead independent director at Close Brothers Group plc. (2006-2014) and at Catlin Group Ltd (2010-2014). He previously worked at JP Morgan Chase for eighteen years and at Bank of America for four years.

Other positions of note: He is currently the non-executive chairman of Moneysupermarket.com Group plc. and Lloyd's of London.

Positions in other Group companies: None.

Membership of board committees: Executive committee, appointments committee (chairman), remuneration committee (chairman), innovation and technology committee and risk supervision, regulation and compliance committee (he stepped down from this committee on 1 January 2019).

Skills and competencies: He has a broad insurance background and f nancial services experience (in particular, in investment banking). He also possesses signif cant international experience, having had extensive exposure to Europe (UK), Middle East and Asia. His top management experience brings to the board know how in remuneration, appointments and risk-related matters. In addition, as lead independent director, he has gained an excellent understanding of investor expectations and experience in managing relations with them and with f nancial communities.

Mr Rodrigo Echenique Gordillo

VICE CHAIRMAN
Executive director

Joined the board in 1988.

Nationality: Spanish. Born in 1946 in Madrid, Spain.

Education: Graduate in Law and State Attorney.

Experience: From 1973 to 1976 he held several positions in the Spanish Public Administration (General Secretary of the Post and Telecommunications Of ce, Technical Advisor in the Of ce of the Spanish Prime Minister and other positions in the Spanish Tax Authority of ces in Pontevedra and Madrid). Former chief executive of cer of Banco Santander, S.A. between 1988 and 1994. He served on the board of directors of several industrial and f nancial companies, including Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícolas, S.A., and was chairman of the advisory board of Accenture, S.A. He was also non-executive chairman of NH Hotels Group, S.A., Vocento, S.A., Vallehermoso, S.A. and Merlin Properties SOCIMI, S.A. He has also been non-executive chairman of Banco Popular Español, S.A.

Other positions of note: He is currently a non-executive director of Inditex, S.A. and chairman of the board of trustees and the executive committee of the Banco Santander Foundation.

Positions in other Group companies: (non-executive in all cases and director unless otherwise indicated): Universia Holding, S.L., Grupo Financiero Santander México, S.A.B. de C.V., Santander Vivienda, S.A. de C.V. SOFOM, E.R. Grupo Financiero Santander México, Banco Santander (Mexico), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México, Santander Consumo, S.A. de C.V., SOFOM. E.R., Grupo Financiero Santander México, Banco Santander International and Portal Universia, S.A.

Membership of board committees: Executive committee.

Skills and competencies: His extensive experience with senior executive and other non-executive roles in various industrial and f nancial companies along with his deep knowledge on the Santander Group are very valuable for the board. In addition, his prior experience in the Spanish government provides the board with strategic insights into regulations and relations with the public sector.

Ms Homaira Akbari

Non-executive director (independent)

Joined the board in 2016.

Nationality: North-American and French. Born in 1961 in Tehran, Iran.

Education: Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.

Experience: She was chairman and CEO of SkyBitz, Inc., managing director of TruePosition Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC. and she has held various posts at Microsoft Corporation and at Thales Group.

Other positions of note: She is chief executive of cer of AKnowledge Partners, LLC. She is also a non-executive director of Gemalto NV. Landstar System, Inc. and Veolia Environment, S.A.

Positions in other Group companies: None.

Membership of board committees: Audit committee, innovation and technology committee and the responsible banking, sustainability and culture committee.

Skills and competencies: She brings signif cant executive experience in technology-related companies. Her knowledge of the digital transformation challenges is an asset to the board. In addition, her insights, gained from her extensive international experience in a diverse range of geographies, are of particular value to our Group.

Mr Ignacio Benjumea Cabeza de Vaca

Non-executive director

Joined the board in 2015.

Nationality: Spanish. Born in 1952 in Madrid, Spain.

Education: Degree in Law from Deusto University, ICADE E-3 and State Attorney.

Experience: Former senior executive vice president, general secretary and secretary of the board of Banco Santander, and board member, senior executive vice president, general secretary and secretary to the board of Banco Santander de Negocios, S.A. and of Santander Investment, S.A. He was also technical general secretary of the Ministry of Employment and Social Security, general secretary of Banco de Crédito Industrial, S.A. and director of Dragados, S.A., Bolsas y Mercados Españoles, S.A. (BME) and of the Governing Body of the Madrid Stock Exchange.

Other positions of note: He is vice chairman of the board of trustees and member of the executive committee of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

Positions in other Group companies: None.

Membership of board committees: Executive committee, remuneration committee, risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

Skills and competencies: He brings signif cant f nancial expertise to the board, in particular in banking and capital markets. He also has a wide experience in corporate governance and regulatory matters, having served as general secretary and secretary of the board of several banking institutions and held several positions in the Spanish government. He also has a signif cant involvement in several foundations.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director

Joined the board in 2004.

Nationality: Spanish. Born in 1973 in Santander, Spain.

Education: Degree in Law from the Complutense University of Madrid.

Experience: Co-founder and executive director, equities division of M&B Capital Advisers. S.V., S.A. (2000-2008). Previously he was legal advisor to the International Legal Department of Banco Santander (1998-1999).

Other positions of note: Executive chairman of JB Capital Markets, Sociedad de Valores, S.A.U. In addition to his work in the f nancial sector, he collaborates with several non-prof t organisations. Since 2014 he has been chairman of the Botín Foundation. He is also a trustee of the Princess of Girona Foundation.

Positions in other Group companies: None.

Membership of board committees: None.

Skills and competencies: He brings to the board international and management experience, in particular in the f nancial sector. He also brings a deep knowledge of the Santander Group and its operations and strategy, acquired through his tenure as a non-executive director of the Bank.

Mr Álvaro Cardoso de Souza

Non-executive director (independent)

Joined the board in 2018.

Nationality: Portuguese. Born in 1948 in Guarda, Portugal.

Education: Degree in Economics and Business Administration from Pontif cia Universidade CatÃlica de Sao Paulo, Master of Business Administration (MBA-Management Program for Executives) from the University of Pittsburgh and a graduate of the Investment Banking Marketing Program from Wharton Business School.

Experience: He has held various positions at the Citibank Group, including CEO of Citibank Brazil and various senior positions in the US with respect to the consumer f nance, private banking and Latin American businesses. He was a member of the board of AMBEV. S.A., Gol Linhas Aéreas, S.A. and of Duratex, S.A. He has been chairman of WorldWildlife Group (WWF) Brazil, member of the board of WWF International and chairman and member of the audit and asset management committees of FUNBIO (Fundo Brasileiro para a Biodiversidade).

Other positions of note: None.

Positions in other Group companies (non-executive in all cases and director unless otherwise indicated): Non-executive chairman of Banco Santander (Brasil) S.A.

Membership of board committees: Risk supervision, regulation and compliance committee (chairman) and responsible banking, sustainability and culture committee.

Skills and competencies: He possesses a broad international banking experience, particularly in Brazil. He has a solid understanding of strategy and risk management-related matters, acquired from his executive experience, which is key to his role as chairman of our risk supervision, regulation and compliance committee. In addition, he actively collaborates in several environmental foundations and NGOs which brings him very useful knowledge in sustainability matters.

Ms Sol Daurella Comadrán

Non-executive director (independent)

Joined the board in 2015.

Nationality: Spanish. Born in 1966 in Barcelona, Spain.

Education: Degree in Business and MBA from ESADE.

Experience: She served on the board of the Círculo de Economía and also as an independent non-executive director at Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She has also been the honorary consul general of Iceland in Barcelona since 1992.

Other positions of note: She is chairman of Coca Cola European Partners, plc., executive chairman of Olive Partners. S.A. and holds several positions at companies belonging to the Cobega Group.

Positions in other Group companies: None.

Membership of board committees: Appointments committee, remuneration committee and responsible banking, sustainability and culture committee.

Skills and competencies: She brings to the board excellent skills in strategy and high-level management, acquired through her international top executive experience in listed and large privately held entities, in particular in the distribution sector. The above also provides her a vast knowledge of corporate governance matters. In addition, her experience as a trustee of various Foundations oriented to health, education and environmental matters brings the board responsible business and sustainability insights.

Mr Guillermo de la Dehesa Romero

Non-executive director[10]

Joined the board in 2002.

Nationality: Spanish. Born in 1941 in Madrid, Spain.

Education: Government Economist and head of of ce of the Bank of Spain.

Experience: Former secretary of state of Economy, secretary general of Trade, chief executive of cer of Banco Pastor, S.A., international advisor to Goldman Sachs International, chairman of Aviva Grupo Corporativo, S.L. and non-executive chairman of Santa Lucía Vida y Pensiones, S.A.

Other positions of note: He is currently non-executive vice chairman of Amadeus IT Group, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) of London, a member of the Group of Thirty based in Washington and chairman of the board of trustees of IE Business School.

Positions in other Group companies: None.

Membership of board committees: Executive committee, appointments committee, remuneration committee, and innovation and technology committee.

Skills and competencies: Due to his experience and education, he brings to the board strategic insights in the macroeconomic and regulatory environment and on business management, after having held top management positions as well as non-executive positions.

10. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

Mr Carlos Fernández González

Non-executive director (independent)

Joined the board in 2015.

Nationality: Mexican and Spanish. Born in 1966 in Mexico City, Mexico.

Education: Industrial engineer. He completed graduate studies in business administration at the Instituto Panamericano de Alta Dirección de Empresas.

Experience: Mr Fernández has also sat on the boards of Anheuser-Busch Companies, LLC and Televisa S.A. de C.V., among other companies.

Other positions of note: He is the chairman of the board of directors of Finaccess, S.A.P.I., non-executive director of Inmobiliaria Colonial. S.A. and member of the supervisory board of AmRest Holdings, SE.

Positions in other Group companies: None.

Membership of board committees: Audit committee, appointments committee and remuneration committee.

Skills and competencies: He possesses signif cant international experience not only in f nancial, but also in other retail businesses, where he has held top executive positions with overall responsibility for f nancial reporting and audit functions as well as human resources matters.

Ms Esther Giménez-Salinas i Colomer

Non-executive director (independent)

Joined the board in 2012.

Nationality: Spanish. Born in 1949 in Barcelona, Spain.

Education: PhD in Law and Psychologist by the University of Barcelona.

Experience: She was chancellor of the Ramon Llull University, member of the Conference of Rectors of Spanish Universities (CRUE), member of the General Council of the Judiciary of Spain, member of the scientif c committee on criminal policy of the Council of Europe, executive vice president of the Centre for Legal Studies and Specialised Training of the Justice Department of the Government of Catalonia and member of the advisory board of Endesa-Catalunya.

Other positions of note: Professor emeritus at Ramón Llull University, director of the Chair of Restorative and Social Justice at the Pere Tarrés Foundation, Special Chair of Restorative Justice Nelson Mandela of the National Human Rights Comission of Mexico, director of Aqu (quality assurance agency for the Catalan university system) and of Gawa Capital Partners, S.L. Member of the Bioethics Committee of the Government of Catalonia.

Positions in other Group companies: None.

Membership of board committees: Risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee.

Skills and competencies: Her relevant experience in senior academic and governmental roles, for which she has a strong reputation, enhances the oversight capacities of the board. In addition, her career path brings to the board knowledge and experience in legal matters, cultural transformation and in embedding an ethical and responsible culture.

Mr Ramiro Mato García-Ansorena

Non-executive director (independent)

Joined the board in 2017.

Nationality: Spanish. Born in 1952 in Madrid, Spain.

Education: Degree in Economics from the Complutense University of Madrid and Management Development Programme of the Harvard Business School.

Experience: He has held several positions in Banque BNP Paribas, including chairman of the BNP Paribas Group in Spain. Previously, he held several signif cant positions in Argentaria. He has been a member of the Spanish Banking Association (AEB) and of Bolsas y Mercados Españoles, S.A. (BME) and member of the board of trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).

Other positions of note: None.

Positions in other Group companies: None.

Membership of board committees: Executive committee, audit committee, risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee (chairman).

Skills and competencies: He has had an extensive career in banking and capital markets, where he has held senior executive and non-executive positions. He brings to the board signif cant expertise in top management and also in audit, risk and strategy, mainly related to the f nancial sector. In addition, he has been actively participating in the boards of trustees of several foundations aimed at enhancing education.

Ms Belén Romana García

Non-executive director (independent)

Joined the board in 2015.

Nationality: Spanish. Born in 1965 in Madrid, Spain.

Education: Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist.

Experience: She was formerly senior executive vice president of Economic Policy and senior executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the CNMV. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She served as non-executive director of Banco Español de Crédito, S.A. and executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

Other positions of note: Non-executive director of Aviva plc. London and of Aviva Italia Holding SpA, and member of the advisory board of the Rafael del Pino Foundation and co-chair of the Global Board of Trustees of the Digital Future Society.

Positions in other Group companies: None.

Membership of board committees: Executive committee, audit committee (chairman), risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

Skills and competencies: Her background as a government economist and her overall, executive and non-executive, experience in the financial sector (in particular, in the audit committee of listed companies) support her recognition as financial expert and qualify her for her role as chairman of the audit committee.

In addition, the relevant positions held in Spanish credit institutions in the field of capital markets provide the board with strategic insights into financial regulations and Spanish government relations.

Mr Juan Miguel Villar Mir[11]

Non-executive director (independent)

Joined the board of directors in 2013 and left the board on 1 January 2019.

Nationality: Spanish. Born in 1931 in Madrid, Spain.

Education: Doctorate in Civil Engineering, graduate in Law with a certificate in Industrial Organisation.

Experience: He was Minister of Finance and vice president of the government for Economic Affairs from 1975 to 1976. He also acted as chairman of Grupo OHL, Electra de Viesgo, Altos Hornos de Vizcaya, Hidro Nitro Española, Empresa Nacional de Celulosa, Empresa Nacional Carbonífera del Sur, Cementos del Cinca, Cementos Portland Aragón, Puerto Sotogrande, Fundación COTEC and the National College of Civil Engineering.

Other positions of note: He serves as chairman of Grupo Villar Mir. He is also currently Professor of Business Organisation at the Politécnica University of Madrid, a full member of the Spanish Royal Academy of Engineering and the Spanish Royal Academy of Moral and Political Sciences, an honorary member of the Spanish Royal Academy of Doctors and a supernumerary member of the Spanish Royal Academy of Economic and Financial Sciences.

Positions in other Group companies: None.

Membership of board committees: None.

Skills and competences: He brings to the board strategic insights into Spanish government relations, due to the relevant positions that he has held. In addition, his experience as chairman and first executive brings the board significant corporate governance and top management skills.

Mr Jaime Pérez Renovales

General secretary and secretary of the board

He joined the Group in 2003.

Nationality: Spanish. Born in 1968 in Valladolid, Spain.

Education: Graduate in Law and Business Administration at Universidad Pontificia de Comillas (ICADE E-3) and State Attorney.

Experience: He was director of the office of the second vice president of the Government for Economic Affairs and Minister of Economy, deputy secretary of the Presidency of the Government, chairman of the Spanish State Official Gazzete and of the committee for the Public Administration Reform. Previously, he was general vice secretary and vice secretary of the board and head of legal of the Santander Group, general secretary and secretary of the board of Banco Español de Crédito, S.A. and deputy director of legal services at CNMV.

Secretary of all board committees.

11. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

4.2 Board composition

Size

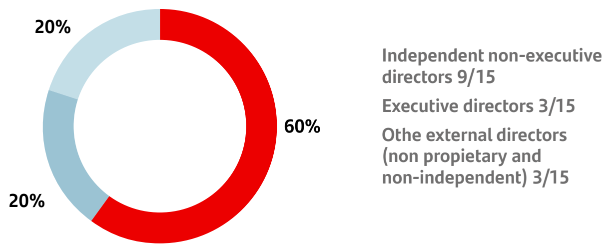
At 31 December 2018, our board of directors was made up of the 15 members whose prof le and background are described in the section 4.1 'Our directors' above. Our Bylaws allow for a board with a minimum of 12 and a maximum of 17 members.

Composition by type of director

The composition of our board of directors is balanced between executive and non-executive directors, most of whom are independent.

The status of each director has been verif ed by the appointments committee and submitted to our board.

Our board composition



Diversity

We believe that a diverse environment is essential to ensure that objectives are achieved and that the combination of experiences and skills in the board provides an environment where dif erent views emerge and the quality of decision-making is improved. Therefore, we seek a solid balance of technical skills, experiences and perspectives in the board.

As further detailed below, our policy governing the selection, suitability assessment and succession of directors promotes diversity within the board, including diversity of gender, geography, experience and knowledge, with no implicit bias that could lead to any form of discrimination on the grounds of age, disability, race or ethnic origin. This policy was amended in July 2018 in order to bring it into line with recent European legislation on the disclosure of non-f nancial and diversity information and with EBA and ESMA guidelines on suitability assessment of board members and key functions holders. The Bank applies this policy when selecting directors to f ll any vacancy or looking for candidates to add or replace board members.

The selection policy promotes diversity in the board of directors from dif erent standpoints:

- **Geographical provenance or background diversity:** the selection process takes into account the diversity of cultural or international educational background, especially in the main geographies where the Group is present.
- **Gender diversity:** both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing women to the board who meet the requirements of ability, suitability and ef ective dedication to the position of director, making a conscious ef ort to search for female candidates who have the required prof le. Our internal policy promotes a selection of directors, that endeavours to include a suf cient number of female board members to have a balanced presence of women and men.

  On 26 February 2019, our board replaced the target set in 2016 by the appointments committee for the minority gender (women) from 30% in 2020 to a gender equality target in the board, which implies a presence of women in the board of 40% to 60%, to be achieved by 2021. The board has exceeded the initial target women currently comprise 33.35% of the board.

  Female representation on our board is well above the average for large listed companies in Europe. According to a study conducted by the European Commission with data at October 2017, the percentage of female board members at large listed companies was 28.25% for all 28 countries in the European Union and 22% for Spain.
- **Education and professional background:** the selection of candidates ensures that they are qualif ed and suitable for the overall understanding of our Group, its businesses, structure and the geographies in which it operates, both individually and collectively; that they are aligned with the Santander culture. The selection process ensures that the candidates have skills and competencies in banking and f nancial services and in other areas identif ed as relevant in our board skills and diversity matrix. In this regard, knowledge acquired in an academic environment is taken into account, together with experience in the professional performance of duties.
- The policy has no implicit bias that could lead to discrimination by **age, race, disability and/or ethnic origin.** With regard to age, there are no age limits for directors or for any position on the board, including the chairman and CEO.

In 2018, the Bank placed great emphasis on ensuring a diverse composition in the board covering aspects such as gender and geographical diversity but also ensuring there is no discrimination on account of race, age or disability. We believe that such an environment is vital to ensure that our goals as a business are achieved. The combination of experience and personalities on the board provides a good range of perspectives and improves the quality of decision-making.

The result of implementing these dif erent diversity criteria in 2018 is described in section 1.1 'Refreshing the board'. In particular, international diversity in the board as well as the need to ensure it has a balanced and adequate composition at all times was a priority for us in 2018, as indicated in section 1.3 'Achieving our 2018 priorities'.

The functioning, ef ectiveness and results of the execution of our diversity policy can be evidenced by the breadth of skills, experience and diversity on the board and its committees shown in the 'Board skills and diversity matrix' below. This year, as stated in section 1.4 'Continued improvement in corporate governance', we provide in the matrix more information on the skills and diversity of our board, adding new skills that have become relevant to our shareholders and for the management of the Bank, covering diversity and board tenure separately.

Our strong and unbreakable commitment with broader diversity will remain a focus for our appointments committee in 2019 because, as we stated in section 1.5 'Priorities for 2019', diversity is not a box to be ticked but a strategy for our success.

Board skills and diversity matrix

Our board composition provides the balance of knowledge, capabilities, qualif cations, diversity and experience required to execute our long-term strategy in an evolving market environment.

This balance is ref ected in the board´s skills matrix that has been updated in 2018 in order to make it simpler, more transparent and also meet the expectations of our investors and other stakeholders, who are demanding greater visibility on certain skills within the board. In addition, the new structure takes into account the recommendations of the new EBA and ESMA guide on the suitability assessment of board members and key functions holders, which came into ef ect in June 2018. To this end, and in relation to the skills matrix from last year, the key changes introduced are as follows:

- We have dif erentiated **two groups of skills or competences: thematic skills** and horizontal skills.
- Regarding **thematic skills**, we have regrouped and renamed the skills th at we had included in the past, and added the following new categories 'HR, Culture, Talent & Remuneration' and 'Responsible Business & Sustainability'.
- Regarding **horizontal skills**, we have included in this section skills additional to the thematic ones and which are also desirable. The skills in this section had been included in previous years and are now re-grouped under this heading, with the addition of a new skill labelled 'signif cant directorship tenure'.
- In addition, we have introduced a new **diversity section**, including not only gender diversity but also diversity in geographical provenance and/or training or education abroad, and a new board tenure section, ref ecting the tenure of each directorship. These changes have transformed our board skills matrix into a more complete board skills and diversity matrix, now with more information for shareholders and investors.

As last year, the skills matrix discloses the skills and competencies of each board member showing our commitment to transparency in this matter. In addition, to more clearly identify the background for this skills matrix, we have included a paragraph on skills and competencies for each director in section 4.1 'Our directors'.

Board skills and diversity matrix[A]

		Executive			
		Ana Botín (chairman)	José Antonio Álvarez (vice chairman[B] - CEO)	Rodrigo Echenique (vice chairman)	Bruce Carnegie-Brown (vice chairman and lead independent director)
SKILLS AND EXPERIENCE					
THEMATIC SKILLS					
Banking (93.3%)		●	●	●	●
Other financial services (73.3%)		●	●		●
Accounting, auditing & financial literacy (93.3%)		●	●	●	●
Retail (93.3%)		●	●	●	●
Digital & information technology (33.3%)		●	●		
Risk management (86.7%)		●	●	●	●
Business strategy (86.7%)		●	●	●	●
Responsible business & sustainability (86.7%)		●		●	●
Human resources, culture, talent & remuneration (93.3%)		●	●	●	●
Legal (26.7%)				●	
Governance & control (93.3%)		●	●	●	●
International experience	Europe (93.3%)	●	●	●	●
	US/UK (80%)	●	●	●	●
	Latam (66.7%)	●	●	●	
	Others (33.3%)			●	●
HORIZONTAL SKILLS					
Top management (93.3%)		●	●	●	●
Government, regulatory & public policy (40.0%)				●	
Academia & education (60%)		●		●	●
Significant directorship tenure (100%)		●	●	●	●
DIVERSITY					
Female (33.3%)		●			
Geographical provenance / international education	Europe (73.3%)	●	●	●	
	US/UK (46.7%)	●	●		●
	Latam (20%)				
	Others (6.7%)				
BOARD TENURE					
0 to 3 years (20%)					
4 to 11 years (53.3%)			●		●
12 years or more (26.7%)		●		●	

A. As at 31 December 2018.
B. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.
C. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.
D. Mr Juan Miguel Villar Mir left the board on 1 Janaury 2019.

	Independent								Other external		
	Homaira Akbari	Alvaro Cardoso de Souza	Sol Daurella	Carlos Fernández	Esther Giménez-Salinas	Ramiro Mato	Belén Romana	Juan Miguel Villar Mir[D]	Ignacio Benjumea	Javier Botín	Guillermo de la Dehesa[C]
		●	●	●	●	●	●	●	●	●	●
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Executive directors

- Ms Ana Botín-Sanz de Sautuola y O'Shea, Group executive chairman.
- Mr José Antonio Álvarez Álvarez, Group vice chairman[12] and CEO.
- Mr Rodrigo Echenique Gordillo, Group vice chairman.

A more detailed description of their roles and duties is included in 'Group executive chairman and chief executive of cer' in section 4.3.

Independent non-executive directors

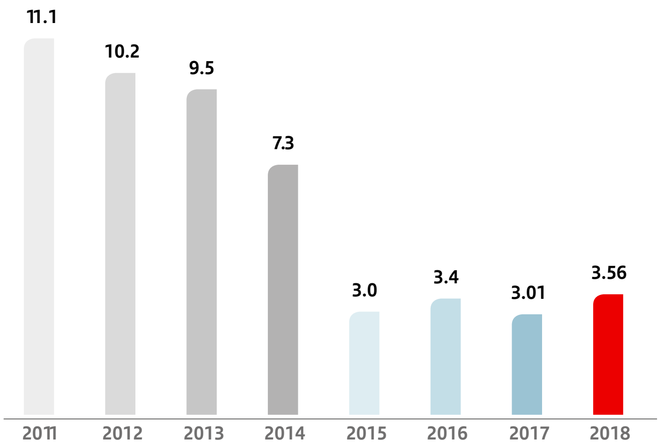
- Mr Bruce Carnegie-Brown (lead independent director).
- Ms Homaira Akbari.
- Mr Álvaro Cardoso de Souza.
- Ms Sol Daurella Comadrán.
- Mr Carlos Fernández González.
- Ms Esther Giménez-Salinas i Colomer.
- Mr Ramiro Mato García-Ansorena.
- Ms Belén Romana García.
- Mr Juan Miguel Villar Mir. He left the board on 1 January 2019.

On an annual basis, the appointments committee verif es and informs the board about the category of the independent directors, taking into account all the circumstances that are pertinent to each case and, in particular, the existence of any possible signif cant business relationships that could af ect their independence. This analysis is described further in section 4.5 'Appointments committee activities in 2018'.

Independent non-executive directors account for 60% of our board, following best practices in corporate governance and complying with the Rules and regulations of the board that require the board to be made up predominantly of non-executive directors and have a number of independent directors that represent at least 50% of the board.

At year-end 2018, the average length of service for independent non-executive directors was 3.56 years.

Years of service of independent directors



Other external directors

- Mr Ignacio Benjumea Cabeza de Vaca.
- Mr Javier Botín-Sanz de Sautuola y O'Shea.
- Mr Guillermo de la Dehesa Romero[13].

These directors cannot be classif ed as proprietary directors as they do not hold or represent shareholdings equal to or greater than the size of shareholding that qualif es as signif cant by law nor have been appointed as directors on account of their status as shareholders[14].

Mr Botín is a party to the shareholders' agreement referred to under section 2.4 'Shareholders agreement', to which the executive chairman is also a party.

They also cannot be considered independent directors for the followings reasons:

- Mr Botín and Mr de la Dehesa have both held position of director for over 12 years.
- In the case of Mr Benjumea the required period has not lapsed since he ceased his professional relationship with the Bank (other than that as a director of the Bank and of Santander Spain).

12. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

13. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

14. The board of directors, following the proposal of the appointments committee, and after a review of practices in comparable markets and companies, resolved on 13 February 2018 to apply the legally established threshold for significant shareholdings (3% of share capital) to be considered as proprietary director. Since the shareholding represented by Mr Javier Botín-Sanz de Sautuola y O'Shea (0.98%) was below the referred threshold, he has ceased to meet the requirements to be considered as proprietary director, whilst not satisfying the criteria to be regarded as an independent director. As a consequence, the board of directors, following the proposal of the said committee, resolved on that date, to categorize him as other external director.

Tenure, committee membership and equity ownership[A]

Board of directors					Committees						
		Executive	Independent	Other external	1. Executive committee	2. Audit committee	3. Appointments committee	4. Remuneration committee	5. Risk supervision, regulation and compliance committee	6. Innovation and technology committee	7. Responsible banking, sustainability and culture committee
Executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea				C					C	
Vice chairman[B] and Chief executive of cer	Mr José Antonio Álvarez Álvarez										
Vice chairmen	Mr Bruce Carnegie-Brown[C]						C	C			
	Mr Rodrigo Echenique Gordillo										
Members	Ms Homaira Akbari										
	Mr Ignacio Benjumea Cabeza de Vaca										
	Mr Javier Botín-Sanz de Sautuola y O'Shea										
	Mr Álvaro Cardoso de Souza								C		
	Ms Sol Daurella Comadrán										
	Mr Guillermo de la Dehesa Romero[D]										
	Mr Carlos Fernández González										
	Ms Esther Giménez-Salinas i Colomer[H]										
	Mr Ramiro Mato García-Ansorena										C
	Ms Belén Romana García					C					
	Mr Juan Miguel Villar Mir[I]										
	Total										
General secretary and secretary of the board	Mr Jaime Pérez Renovales										

C Chairman

A. Data at 31 December 2018 except where otherwise indicated. The changes in the membership of the committee during 2018 are shown in section 1.1 'Refreshing the board'.

B. Mr José Antonio Álvarez was appointed vice chairman of the board on 15 January 2019.

C. Mr Bruce Carnegie-Brown left the risk supervision, regulation and compliance committee on 1 January 2019.

D. Mr Guillermo de la Dehesa has been vice chairman of the board until 15 January 2019.

E. For further explanation, see 'Election, refreshment and succession' in section 4.2. Indicated periods do not take into account the additional period that may apply under article 222 of the Spanish Companies Act.

F. The Bank has a shareholding policy that is intended to reinforce the alignment of executive directors with the long-term interests of shareholders. This policy includes the directors' commitment to maintain a signif cant personal investment in the Bank's shares while they are actively performing their executive duties, equivalent to two times the amount of their annual f xed remuneration (net of taxes). A 5-year period from the approval of the policy in 2016 (or, if later, after the appointment of the director) is granted to attain the established investment level.

G. Includes shares owned by Fundación Botín, of which Mr Javier Botín is the chairman, and syndicated shares, except those corresponding to Ms Ana Botín and Mr Javier Botín as they are already included within their direct or direct shareholdings. In subsection A.3 of section 9.2 'Statistical information on corporate governance required by CNMV' we have adapted this information to CNMV's format, and have therefore added all the syndicated shares as shareholding of Mr Javier Botín. See 2.4 'Shareholders' agreements'.

H Ms Esther Giménez-Salinas left the innovation and technology committee on 1 July 2018.

I. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

Tenure			Bank shareholding[F]				
Date of f rst appointment	Date of last appointment	End date[E]	Direct	Indirect	Shares represented	Total	% of share capital
04/02/1989	07/04/2017	First six months of 2020	668,836	20,334,245		21,003,081	0.129%
25/11/2014	07/04/2017	First six months of 2020	1,083,149			1,083,149	0.007%
25/11/2014	18/03/2016	First six months of 2019	22,443			22,443	0.000%
07/10/1988	07/04/2017	First six months of 2020	1,039,401	14,591		1,053,992	0.006%
27/09/2016	07/04/2017	First six months of 2021	22,000	9,000		31,000	0.000%
30/06/2015	23/03/2018	First six months of 2021	3,516,698			3,516,698	0.022%
25/07/2004	23/03/2018	First six months of 2019	5,272,830	12,652,340	119,468,000[G]	137,393,170	0.846%
23/03/2018	23/03/2018	First six months of 2019	0	0		0	0.000%
25/11/2014	23/03/2018	First six months of 2021	143,255	456,970		600,225	0.004%
24/06/2002	23/03/2018	First six months of 2021	173	0		173	0.000%
25/11/2014	23/03/2018	First six months of 2021	18,524,499	4		18,524,503	0.114%
30/03/2012	07/04/2017	First six months of 2020	6,062	0		6,062	0.000%
28/11/2017	23/03/2018	First six months of 2019	40,325	0		40,325	0.000%
22/12/2015	07/04/2017	First six months of 2020	167	0		167	0.000%
07/05/2013	27/03/2015	First six months of 2018	1,338	0		1,338	0.000%
			30,341,176	**33,467,150**	**119,468,000**	**183,276,326**	**1.13%**

For further details see section 9.2 'Statistical information on corporate governance required by CNMV'.

Election, refreshment and succession of directors

Election of directors

Our directors are appointed for three-year terms, and one-third of our board is renewed each year, following the order established by the length of the service on the board, according to the date and order of the respective appointment. Outgoing directors may be re-elected. Each appointment, re-election and ratif cation is submitted to a separate vote at the AGM.

Procedures for appointing, re-electing, evaluating and removing directors

Our internal policy for the selection, suitability assessment and succession of directors, stipulates the criteria concerning the quantitative and qualitative composition of our board of directors, the process for reviewing its composition, the process for identifying potential candidates and the selection and appointments process.

The appointment and re-election of directors corresponds to the GSM. In the event that directors vacate their of ce during the term for which they were appointed, the board of directors may provisionally designate another director, by co-option, until the shareholders, at the earliest subsequent GSM, either conf rm or revoke this appointment.

The proposals for appointment, re-election and ratif cation of directors, regardless of the status thereof, that the board of directors submits to the shareholders at the GSM and the decisions adopted by the board itself in cases of co-option must be preceded by the corresponding report and reasoned proposal of the appointments committee.

The proposal must be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualif cations, experience and merits of the proposed candidate. In cases of re-election or ratif cation of directors, this committee proposal shall contain an assessment of the work and ef ective dedication to the position during the last period in which the proposed director occupied the post. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons in the minutes for the record.

Our directors must meet the specif c requirements set forth by law for credit institutions and the provisions of our Bylaws, and must formally undertake, upon taking of ce, to fulf l the obligations and duties prescribed therein and in the Rules and regulations of the board.

Our directors must be persons of renowned commercial and professional integrity, and must have the knowledge and experience needed to exercise their function and be in a position to carry out the good governance of the entity. Candidates for the position of director will also be selected on the basis of their professional contribution to the board as a whole.

For further information see section 4.1 'Our directors' and under 'Board skills and diversity matrix' within this section 4.2.

In all cases, our board of directors shall endeavour to ensure that external or non-executive directors represent a signif cant majority over executive directors and that the number of independent directors represents at least half of all directors.

Our directors shall cease to hold of ce when the term for which they were appointed elapses, unless they are re-elected, when the GSM so resolves, or when they resign (explaining the reasons for this in a letter that shall be sent to the other members of the board) or place their of ce at the disposal of the board of directors.

Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments committee, deems it f t, in those cases in which they may adversely af ect the operation of the board or the credit or reputation of the Bank and, in particular, if they are involved in any of the circumstances of incompatibility or prohibition provided by law. The foregoing without prejudice to the provisions of Royal Decree 84/2015, which implements Law 10/2014 on the organisation, supervision and solvency of credit institutions, on the honorability requirements for directors and the consequences of directors subsequently failing to meet such requirements.

Directors must notify the board, as soon as possible, of those circumstances af ecting them that might prejudice the credit or reputation of the Bank, and particularly the criminal cases with which they are charged.

Furthermore, proprietary non-executive directors must tender their resignation when the shareholder they represent disposes of, or signif cantly reduces, its ownership interest.

Finally, succession planning for the main directors is a key element of the Bank's good governance, ensuring an orderly leadership transition whilst maintaining continuity and stability of the board. Board succession planning continues to be an area of focus for the appointment committee and the board, with appropriated and robust plans in place that are regularly revisited.

In application of these procedures, in September 2018 the Bank resolved to appoint Mr Andrea Orcel as new CEO, subject to obtaining the necessary regulatory approvals, the shareholders´meeting passing the relevant resolutions on his future remuneration and to the termination of the contractual relationship with his former employer. Subsequently, due to the change on the basis upon which such decision was taken and the fact that the costs of compensating Mr Orcel for past remuneration exceeded those having been considered at the time of his appointment, the board resolved in January 2019 to leave without ef ect Mr Orcel's appointment.

4.3 Board functioning and ef ectiveness

Our Board is the highest decision-making body, focusing on the supervisory function

Except in matters falling within the exclusive purview of the GSM, our board of directors is the Bank's highest decision-making body and performs its duties with unity of purpose and independent judgement.

The board's stated policy is delegating the day-to-day management of the Bank and the implementation of its strategy to the executive bodies and the management team and focusing its activity on the general supervisory function and those functions that it cannot delegate as provided by law, the Bylaws, and the Rules and regulations of the board, which in summary are the following:

- General policies and strategies (including capital and liquidity strategy, new products, activities and services; corporate governance and corporate policy and internal culture and values; risk control; remuneration policy and compliance).

- Financial information and general information reported to shareholders, investors and the general public, and the processes and controls that ensure the integrity of this information.

- Approval of policies for the provision of information to and for communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Bank.

- Internal audit plan and results.
- Selection, succession and remuneration of directors.
- Selection, succession and remuneration of senior management and other key positions.
- Ef ectiveness of the Group's corporate and internal governance system.
- Signif cant corporate & investment transactions.
- Call the general shareholders' meeting.
- In general, governance-related matters such as related party transactions.
- Corporate governance and internal governance of the Bank and its Group, including the group-subsidiary governance model, corporate frameworks and relevant group internal regulation.

Structure of the board

Our board has implemented a governance structure to ensure it discharges its duties ef ectively. Further details of this structure are provided in the next pages of this section and it can be split into four dimensions:

- **Group executive chairman and chief executive of cer** who, as further explained under 'Group executive chairman and chief executive of cer' within this section 4.3 are the top responsibles for the strategic and ordinary management of the Bank which that board is responsible for overseeing, ensuring at the same time that there is a clear separation and complementarity of their roles.
- **A lead independent director** who, as further explained under 'Lead independent director' within this section 4.3 is responsible for the ef ective coordination of non-executive directors and generally ensuring that they serve as an appropriate counter-balance to executive directors.
- **A board committees structure**, which, as further described under 'Board committee structure', within this section 4.3, supports our board in three main areas:
  - In the management of the Bank by exercising decision-making powers through the executive committee.
  - In def ning strategy in key areas, through the responsible banking, sustainability and culture committee and the innovation and technology committee.
  - In its supervisory functions and signif cant decision-making, through the audit, appointments, remuneration and risk supervision, regulation and compliance committees.
- **A board secretary**, who, as further described under 'Secretary of the board', within this section 4.3 supports the board, its committees and our chairman, and is also the general secretary of the Group.

Rules and regulations of the board

Our Rules and regulations of the board and the Bank's Bylaws are available at www.santander.com.

- **Bylaws.** Our Bylaws contain the basic rules and regulations that apply to the composition and functioning of the board of directors and its members' duties, which are supplemented and further developed by the Rules and regulations of the board. They can be amended only by our GSM, as described in 'Rules governing amendments to our Bylaws' in section 3.2.
- **Rules and regulations of the board.** The Rules and regulations of the board establish the rules of operation and internal organisation of our board of directors and its committees through the development of applicable legal and bylaw provisions, setting forth the principles that are to govern all action taken by the board and its committees and the rules of behaviour to be observed by its members.
  - Our board amended its Rules and regulations on 25 June 2018 to allow the responsible banking, sustainability and culture committee to be chaired by an independent director. In 2019, on 26 February the board amended again its Rules and regulations in order, among others:
  - To establish the audit committee to be composed entirely of independent directors and to strengthen its supervision functions over the non-f nancial information.
  - To broaden the mandate of our appointments committee in corporate governance matters taking up functions previously fell with the risk supervision, regulation and compliance committee.
  - To expressly provide that the lead independent director must be a member of the appointments committee.
  - To include other minor changes in the composition and functioning of the appointments and remuneration committees anticipating the recommendations and good operating practices.

Our Rules and regulations of the board meet all legal requirements and adhere to the main principles and recommendations established in the Spanish Corporate Governance Code for Listed Companies of CNMV of February 2015, the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015, as well as the guidelines established by the EBA in 'Guidelines on internal governance under Directive 2013/36/EU' that came into force on 30 June 2018.

Our rules on the audit committee also adhere to the recommendations and good operating practices established in Technical Guide 3/2017 of CNMV, on Audit Committees of Public Interest Entities, of 27 June 2017. This committee also complies with the regulations applicable in the US because of the listing of our shares as American Depositary Shares on the New York Stock Exchange and with Rule 10A-3 under the Securities Exchange Act introduced by the Sarbanes-Oxley Act of 2002 (SOx), on requirements for the audit committees of companies.

Group executive chairman and chief executive officer

Our Group executive chairman is Ms Ana Botín-Sanz de Sautuola y O'Shea and our chief executive officer is Mr José Antonio Álvarez Álvarez.

The roles of our Group executive chairman and chief executive officer are clearly separated, as follows:

Group executive chairman	Chief executive officer
• The chairman is the highest-ranking officer of the Bank, and is responsible for ensuring that its Bylaws are fully complied with and that the resolutions adopted at the general shareholders' meeting and by the board of directors are carried out. The chairman is also responsible for the overall inspection of the Bank and all its services. • The chairman is the main Group representative vis-a-vis the regulators, authorities and other major stakeholders. • The chairman's direct reports are related to long-term strategy. • The chairman is in charge of leading succession planning of main executives of the Bank.	• The chief executive officer is responsible for the day-to-day management of the business, with the highest executive functions. • The chief executive officer's direct reports manage businesses and ordinary management support corporate divisions. • The country heads, who are the Group's first representatives in the countries in which it operates, also report to the chief executive officer.

There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank's corporate governance structure, including the following:

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The lead independent director is responsible for convening and coordinating the non-executive directors, and communicating their concerns. The lead independent director also oversees the periodic process of assessing the Group executive chairman and coordinates the succession plan with the appointments committee.
- The audit committee is chaired by an independent director considered to be a financial expert, as this term is defined in Regulation S-K of the Securities and Exchange Commission (SEC).
- The Group executive chairman may not hold simultaneously the position of chief executive officer of the Bank.
- The corporate risk, compliance and internal audit functions, as independent units, report to a committee or a member of the board of directors and have direct access to the board when they deem it appropriate.

The board of directors has delegated to each of the executive chairman and the chief executive officer all the powers of the board except those that cannot be delegated pursuant to the law, the Bylaws and the Rules and regulations of the board. The board directly exercises those powers in the performance of its general supervisory function.

Lead independent director

Our board has appointed Mr Bruce Carnegie-Brown as lead independent director.

The role of the lead independent director is key in our governance structure, as he oversees the proper coordination of non-executive directors and ensures that they serve as an appropriate counter-balance to the executive directors.

The following chart illustrates his functions and their application in 2018:

Duties	Activities during 2018
• Coordinate and organise meetings of non-executive directors and voice their concerns.	Three meetings were held with non-executive directors, without executive directors being present, where they were able to voice any concerns or opinions.
• 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 for the determination of her variable remuneration and for the board effectiveness annual review.
• Contact investors and shareholders to obtain their points of view for the purpose of gathering information on their concerns, in particular, with regard to the Bank's corporate governance.	See section 3.1 'Shareholder engagement'.
• Substitute the chairman in the event of absence under the terms set down in the Rules and regulations of the board of directors.	He has chaired three meetings of the executive committee due to such absence.
• Request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board.	

Board committee structure

Our board currently has seven committees and one international advisory board.

For a description of the composition, functions, rules of operation and activities of:

- **The executive committee, the responsible banking, sustainability and culture committee, and the innovation and technology committee, see the following sections within this section 4.3.**
- **The audit, appointments, remuneration, and the risk supervision, regulation and compliance committees, see their activities reports in sections 4.4, 4.5, 4.6 and 4.7, respectively.**

	Voluntary committees (permitted under Bylaws)		Mandatory committees (required by law and under Bylaws)	
	Decision-making powers	Support and proposal in strategic areas	Supervision, information advice and proposal functions in risks, fna ncial information and audit matters	
Board committees	Executive committee	Responsible banking, sustainability and culture committee	Audit committee	Appointments committee
		Innovation and technology committee	Risk supervision, regulation and compliance committee	Remuneration committee
External advisory board		International advisory board (members are non-directors)		

Secretary of the board

Our board secretary is Mr Jaime Pérez Renovales. He assists the chairman in her duties and ensures the formal and substantive legality of all action taken by the board. He also ensures that the good governance recommendations and procedures are observed and regularly reviewed.

The secretary of our board is the general secretary of the Bank, and also acts as secretary for all board committees; he does not need to be a director in order to hold this position.

A report from the appointments committee is required prior to submission to the board of proposals for the appointment or removal of the secretary of the board. Our board also has a deputy secretary to the board, Mr Óscar García Maceiras, who assists the secretary and replaces him in the performance of his duties in the event of absence, inability to act or illness.

Proceedings of the board

Our board of directors held 12 meetings in 2018. The Rules and regulations of the board provide that it shall hold no less than nine annual ordinary meetings, and one meeting at least quarterly. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately 12 hours per meeting, with the chairman estimated to have spent double that time per meeting.

The board holds its meetings in accordance with a calendar established annually and an agenda of matters to be discussed, without prejudice to any further items that may be added or any additional meetings that need to be held according to the business needs that may arise. Directors may also propose the inclusion of items on the agenda. Directors will be duly informed of any modif cations to the calendar or the agenda of matters to be discussed.

Likewise, the board keeps a formal list of matters reserved to it and will prepare a plan for the distribution of those matters between the ordinary meetings established in the provisional calendar approved by the board.

The relevant documentation for each meeting of the board of directors and of the dif erent committees to which the directors are members, is sent to the directors four business days before the board meeting and three business days before the corresponding committee meeting. The information, which is provided to the directors via secure electronic means, is specif cally for the purpose of preparing these meetings. In the opinion of the board, that information is complete and is sent suf ciently in advance.

In addition, the Rules and regulations of the board of directors expressly recognise the directors' right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right to inspect, which allows them to examine the books, f les, documents and any other records of corporate transactions, and to inspect the premises and facilities of these companies. Furthermore, directors are also entitled to request and obtain, through the secretary, such information and advice deemed necessary for the performance of their duties.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors. Generally, the meeting must be called 15 days in advance by the board secretary.

Additionally, the lead independent director is authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called.

Our directors must attend the meetings in person and shall endeavour to ensure that absences are reduced to cases of absolute necessity. However, if directors are unable to personally attend a meeting, they may grant a proxy to another director, in writing and specif cally for each meeting, to represent them for all purposes therein. Proxy is granted with instructions and non-executive directors may only be represented by another non-executive director. A director may hold more than one proxy. For more information about directors' attendance see 'Board and committees attendance' in this section 4.3.

Our board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Board meetings are validly convened when more than half of its members are present in person or by proxy.

Resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie. The Bylaws and the Rules and regulations of the board only provide for qualif ed majorities for matters in which the law prescribes a qualif ed majority.

The board secretary maintains the documentation relating to the board of directors and maintains a record in the minutes of the content of the meetings. The minutes of the meetings held by the board of directors and its committees include any statements made at meetings that are expressly requested to be included in them.

The board and its committees may contract legal, accounting or f nancial advisers or other experts, at the Bank´s expense, to assist in the exercise of their functions.

Our board is tasked with promoting and encouraging communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee and the responsible banking, sustainability and culture committee. In this regard, any director may attend and participate in, but not vote, at meetings of board committees of which they are not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested attendance to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.

During the year, directors that are not members of the executive committee attended 27 of the total of 45 meetings held.

Comparison of number of meetings held[A]

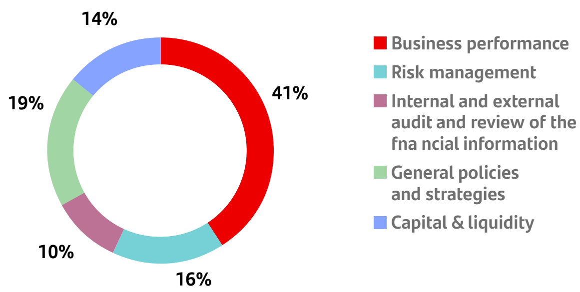
	Santander	Average Spain	US average	UK average
Board	12	11.1	8	7.3
Executive committee	45	8.5	-	-
Audit committee	13	8.4	8.4	5.2
Appointments committee	13	6.3	4.6	4
Remuneration committee	11	6.3	6.2	5.2
Risk supervision, regulation and compliance committee	13	13	NA	6.1

A. Source: Spencer Stuart Board Index 2018 (Spain, United States and United Kingdom).

NA: Not available

The chart and table below show the distribution of the approximate time dedicated to each task at the meetings held by the board in 2018 and the high rate of attendance to board and committee meetings, respectively.

2018 Approximated allocators of time



Board and committees attendance

Directors	Board	Committees: Executive	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	Responsible banking, sustainability and culture
Average attendance	96%	95%	98%	94%	96%	97%	92%	100%
Individual attendance	-	-	-	-	-	-	-	-
Ms Ana Botín-Sanz de Sautuola y O´Shea	12/12	42/45	-	-	-	-	3/3	2/2
Mr José Antonio Álvarez Álvarez	12/12	43/45	-	-	-	-	3/3	-
Mr Bruce Carnegie-Brown[A]	12/12	38/45	-	13/13	11/11	13/13	2/3	-
Mr Rodrigo Echenique Gordillo[B]	12/12	45/45	-	-	-	-	1/2	-
Ms Homaira Akbari	12/12	-	13/13	-	-	-	3/3	2/2
Mr Ignacio Benjumea Cabeza de Vaca[C]	12/12	45/45	-	7/7	11/11	13/13	3/3	2/2
Mr Javier Botín-Sanz de Sautuola y O´Shea	12/12	-	-	-	-	-	-	-
Mr Álvaro Cardoso de Souza[D]	7/8	-	-	-	-	6/8	-	2/2
Ms Sol Daurella Comadrán	12/12	-	-	12/13	10/11	-	-	2/2
Mr Guillermo de la Dehesa Romero[E]	12/12	42/45	-	12/13	10/11	7/7	3/3	-
Mr Carlos Fernández González	12/12	-	12/13	12/13	11/11	-	-	-
Ms Esther Giménez-Salinas i Colomer[F]	12/12	-	-	-	-	13/13	2/2	2/2
Mr Ramiro Mato García-Ansorena	12/12	45/45	13/13	-	-	13/13	-	2/2
Ms Belén Romana García[G]	12/12	23/23	13/13	-	-	13/13	3/3	2/2
Mr Juan Miguel Villar-Mir[H]	7/12	-	-	-	-	-	-	-

A. Left risk supervision, regulation and compliance committee on 1 January 2019. Relinquished chairmanship of that committee on 1 October 2018.
B. Left the innovation and technology committee on 1 July 2018.
C. Left the appointments committee on 1 July 2018.
D. Member of the board since 1 April 2018 and member of the risk supervision, regulation and compliance committee since 23 April 2018.
E. Left the risk supervision, regulation and compliance committee on 1 July 2018.
F. Left the innovation and technology committee on 1 July 2018.
G. Member of the executive committee since 1 July 2018.
H. Mr Juan Miguel Villar Mir left the board on 1 January 2019.

On average, each of our directors has dedicated approximately 144 hours to board meetings. In addition, those who are members of the executive committee dedicated approximately 225 hours; members of the audit committee 130 hours; members of the appointments committee 52 hours; members of the remuneration committee 44 hours; members of the risk supervision, regulation and compliance committee 130 hours; members of the innovation and technology committee 12 hours and members of the responsible banking, sustainability and culture committee 10 hours. In all the cases, the relevant chairman is estimated to have dedicated double that time.

Directors must inform the appointments committee of any professional activity or position for which they are going to be proposed, so that the time commitment to the Group can be assessed on an ongoing basis, and any possible conf ict of interest derived from such position can be verif ed.

Additionally, the annual suitability reassessment made by our appointments committee (see in section 4.5 'Appointments committee activities in 2018') allows us to keep up to date all information relating to the estimated time dedicated by directors to other positions and/or professional activities and to conf rm their capacity to exercise good governance as directors of the Bank.

This allows the Bank to verify compliance with applicable legal requirements regarding the maximum number of company boards to which our directors may belong at the same time (no more than one executive position and two non-executive positions, or four non-executive positions, including positions held in the same Group as a single position and not including positions held at non-prof t organisations or entities that do not pursue commercial activities)[15].

15. This maximum is established, as provided for in article 36 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.

Training of directors and induction programme for new directors

Given the board´s commitment to continuously improve its functioning, an ongoing training programme for the board as a whole is in place, which in 2018 consisted in f ve training sessions provided by internal and external speakers. Among others the training program included items like model risk, payment services directive II (PSD2), responsible banking, cyberrisk and cybersecurity, digital transformations, anti-money laundering and risk appetite.

Likewise, our board has a robust induction and development programme for new directors to develop their understanding of the Group's business, including governance rules, where key members of the management of the Group provide detailed information on their areas of responsibility, while addressing any development needs identif ed in the suitability assessment process. In 2018, Mr Ramiro Mato and Mr Álvaro Cardoso de Souza completed their respective induction programmes designed for them on the basis of their experience and the specif c induction needs identif ed during their suitability assessment processes.

In 2018, incorporating feedback from the external board ef ectiveness review conducted in 2017, training sessions were scheduled to take into account the board and board committees operations rhythm in order to optimise the attendance.

Self-assessment of the board

Our board conducts a yearly assessment of its functioning and the ef ectiveness of its work. At least once every three years, the assessment is conducted with the assistance of an external independent consultant, whose independence is assessed by the appointments committee.

Action Plan following the 2017 self-assessment

In 2017 our appointments committee carried out the board self-assessment with the assistance of an external consultant. The appointments committee verif ed the expert´s independence, and in particular the absence of other relevant business relationships with the Group that could impair its independence.

The overall review was positive in terms of outcome and key f nding and the exercise resulted in an action plan for further improvement in board ef ectiveness, which focused mainly on the composition and organisation of the board, board dynamics and internal culture and the functioning of board committees, as described in section 1.3 'Achieving our 2018 priorities'.

In 2018 these actions contained in the action plan were monitored by the appointments committee and were successfully completed and implemented, enhancing the board's overall functioning and ef ectiveness. The status of those actions was periodically reported to the board of directors.

2018 self-assessment

In 2018 and according to the Rules and regulations of the board that contemplate an annual assessment and with the assistance of external consultant every three years, the board made self-assessment internally. The scope of the assessment included the functioning of the board and all its committees, as well as the performance of the executive chairman, the chief executive of cer, the lead independent director, the secretary and each director´s performance.

The process was coordinated by the executive chairman and the chairman of the appointments committee.

It was based on a conf dential, anonymous questionnaire covering the scope referred above that was fully completed by all of our board members. The assessment process focused on the following aspects:

- In relation to the board as a whole: (i) structure (size and composition; skills and competencies), (ii) organisation and functioning (planning of meetings, quality of reporting, training areas, reporting by committees) and (iii) dynamics and internal culture (formal and informal engagement).
- In relation to the board committees: (i) leadership, size and composition (including skills), (ii) responsibilities and (iii) quality of reporting and timelines.
- Individual performance of the chairman of the board, chief executive of cer, lead independent director and general secretary.
- In relation to each individual director: (i) willingness to speak at the meetings, (ii) contribution and receptivity of other views, (iii) constructively challenging fellow directors and proposals and management of senior management, (iv) applying a strategic mindset to board and (v) bringing their own skills and experience to board.

The results of the 2018 assessment process, after the board and the committees have discussed f ndings and actions specif c to them, revealed the following:

- Directors´ satisfaction with the progress the board has made to enhance its ef ectiveness.
- The size and level of independence within the board and committees is appropriate and we have made positive enhancements to board skills through recent appointments.
- The open and transparent discussions and the constructive challenge with fellow directors and senior management.
- The leadership and operation of the committees is ef ective.
- The positive overall performance of the executive chairman/ chairman of the board, CEO, lead independent director and general secretary and the high degree of conf dence that directors have in these individuals´ competence to serve their roles to a high standard.
- The positive assessment of all other directors ref ects the view that overall the board is seen as ef ective.

As a result of the self-assessment, on 26 February 2019, our board, with the prior report of our appointments committee, approved an action plan with improvements in the following areas:

- Strength the composition of the board with international experience in countries where the Group has operations and greater technology experience, sustainability and environmental matters.
- To enhance the current new director induction and development programme to incorporate visits to the Bank´s main subsidiaries, covering country-specif c macroeconomic environment, business activities and regulation.
- To review the annual agenda to ensure appropriate scheduling and time allocation continues to be devoted to business strategy and to review the Bank´s major risks.
- To consider whether the new responsible banking, sustainability and culture committee should meet with greater frequency and establish greater coordination with the countries, in those matters.
- Continue to provide opportunities for the board to interact with executive team and strengthen relations between them.
- Continue to focus on gender diversity amongst the board and senior executives.

Executive committee

Composition		Category
Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive
Members	Mr José Antonio Álvarez Álvarez	Executive
	Mr Bruce Carnegie-Brown	Independent
	Mr Rodrigo Echenique Gordillo	Executive
	Mr Ignacio Benjumea Cabeza de Vaca	Other external (neither proprietary nor independent)
	Mr Guillermo de la Dehesa Romero	Other external (neither proprietary nor independent)
	Mr Ramiro Mato García-Ansorena	Independent
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

Functions

Our executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of our board, except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and regulations of the board. This allows our board to focus on its general supervisory function. Oversight of our executive committee is ensured through regular reports submitted to the board on the principal matters dealt with by the committee and by making available to all directors the minutes of its meetings and all the supporting documentation made available to it.

Organisation

Our board of directors determines the size and qualitative composition of the executive committee, adjusting to ef ciency criteria and ref ecting the guidelines for determining the composition of the board. The executive committee, although it does not exactly replicate the qualitative composition of the board of directors, since the presence of all executive directors must be combined with a size that allows an agile development of their functions, is aligned with having a majority of external directors, including three independent directors. The secretary of the board is also the secretary of the executive committee.

Our executive committee meets as many times as it is called to meeting by its chairman or by the vice chairman in her absence. It generally meets once a week.

Meetings of the executive committee are held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee has the tie-breaking vote. The committee members may grant a proxy to another member, although non-executive directors may only be represented by another non-executive director.

Main activities in 2018

During 2018 the executive committee took action relating to business of the Group, the main subsidiaries, risk matters, corporate transactions and the main matters that are subsequently submitted to the full board:

- **Earnings:** the committee was also kept up to date on Group earnings, and their impact on investors and analysts.
- **Business performance:** the committee was kept continuously and fully informed of the performance of the Group's various business areas, through management reports or specif c reports on determined subjects submitted. It was also informed of various projects relating to the transformation and development of the Group's culture (Simple, Personal and Fair).
- **Information reported by the chairman:** the chairman of our board of directors, who also chairs the executive committee, regularly reported on key aspects relating to Group management and on strategy and institutional issues.
- **Corporate transactions:** the committee analysed and, where applicable, approved corporate transactions carried out by the Group (investments and divestments, joint ventures, capital transactions, etc.).
- **Banco Popular:** the Banco Popular integration process and its associated risks and mitigating controls were an item that was continuously monitored by the committee.
- **Risks:** the committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that had to be approved by it due to their amount or relevance.
- **Subsidiaries:** the committee received reports on the performance of the various units and, in line with current internal procedures, authorised transactions and appointments of directors of subsidiaries.
- **Capital and liquidity:** the committee received frequent information on the performance of capital ratios and of the measures being used to optimise these ratios, in addition to reviewing regulatory plans.
- **Talent and culture:** the committee received ongoing reports of the implementation of the corporate culture and values within the Group.
- **Activities with supervisors and regulatory matters:** the committee was regularly informed of the initiatives and activities of supervisors and regulators, in addition to projects to ensure compliance with its recommendations and regulatory changes.
- **Governance Models:** the committee approved the Governance Models of the newly created Wealth Management division, of Santander Universities and Universia and that of the international branches under the management responsibility of Santander Corporate & Investment Banking division.

In 2018, the executive committee held 45 meetings. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately f ve hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of executive committee members at those meetings.

Responsible banking, sustainability and culture committee

Composition		Category
Chairman	Mr Ramiro Mato García-Ansorena	Independent
Members	Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive
	Mr Homaira Akbari	Independent
	Mr Ignacio Benjumea Cabeza de Vaca	Other external (neither proprietary nor independent)
	Mr Álvaro Cardoso de Souza	Independent
	Ms Sol Daurella Comadrán	Independent
	Ms Esther Gimenez-Salinas i Colomer	Independent
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

Functions

The purpose of this committee is to assist our board of directors in fulf lling its oversight responsibilities with respect to the responsible business strategy and sustainability issues of the Group, preparing and reviewing the corporate culture and values and advising on its relations with various stakeholders, especially with employees, customers and communities with which the Group carries out its activities, and in particular in the following areas:

- Formulation of the corporate culture and values, including the strategy on responsible business practices and sustainability.
- Formulation of the Group's strategy on relations with stakeholders, including employees, customers and communities in which the Group develops its activities.
- Corporate reputation particularly on social and environmental matters.
- Assist the board in the promotion of the corporate culture and values across the Group, including liaising:
  - With the remuneration committee in the alignment of the Group's remuneration programmes with the referred culture and values.
  - With the risk supervision, regulation and compliance committee in (i) the alignment of the risk appetite and limits of the Group with our culture and values and (ii) assessment of the Group's non-fn ancial risks.
  - With the appointments committee in (i) the supervision of the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders, and (ii) in the processes of communication and relations with the other stakeholders.

- Liaise and coordinate with the committees of the board in relation to issues concerning responsible banking practices and sustainability and ensure that adequate and ef ective control processes are in place and that risks and opportunities relating to sustainability and responsibility are identif ed and managed.

- Report periodically to the board of directors on the Bank's and its Group's performance and the progress made with regard to responsible business practices and sustainability, providing advice in relation to these matters, issuing reports and implementing procedures within its area of responsibility at the request of the board of directors or its chairman.

Organisation
Our responsible banking, sustainability and culture committee approves an annual calendar of meetings, which provides for at least four meetings. The committee meets as many times as it is required to fulf l its responsibilities.

Meetings of the committee are held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie. The chairman, who shall be necessarily an independent director of the committee has the casting vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director.

The committee has the power to require executives to attend its meetings under the terms stated by it.

The committee, through its chairman, reports to the board of directors on its activities and work. Furthermore, the supporting documentation that is provided to the committee is made available to all directors as well as a copy of the minutes.

Main activities in 2018
The main topics discussed since the committee was set up are as follows:

- The new responsible banking governance model.

- The guiding principles of governance and supervision in matters of responsible banking, sustainability and culture for the Group's subsidiaries.

- The establishment of main lines of action and monitoring metrics.

- The review of the adequacy of the general sustainability and socio-environmental policies, and analysis of potential gaps to internally regulate these topics. More specif cally, the review of the criteria for f nancing activities related to coal, both those related to its extraction (mining) and its use as an energy source.

- The positioning of the Bank as a relevant player in the f nancing of clean energy projects.

The main priorities for the committee in 2019 are set out in page 19 of the 'Responsible banking' chapter.

Since it was created in June 2018 it has met on two occasions. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately f ve hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of the responsible banking, sustainability and culture committee members at those meetings.

Innovation and technology committee

Composition		Category
Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive
Members	Ms Homaira Akbari	Independent
	Mr José Antonio Álvarez Álvarez	Executive
	Mr Ignacio Benjumea Cabeza de Vaca	Other external (neither proprietary nor independent)
	Mr Bruce Carnegie-Brown	Independent
	Mr Guillermo de la Dehesa Romero	Other external (neither proprietary nor independent)
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

Functions
The purpose of our innovation and technology committee is to assist our board of directors in fulf lling its oversight responsibilities and activities with respect to the overall role of technology in the business strategy of the Group and in matters related to the Group innovation strategy and plans as well as the trends resulting from new business models, technologies and products. In particular, it has the following functions:

- Review and report on plans and activities relating to technology and innovation.

- Assist the board with implementation of the framework for the Group strategic technology plan.

- Assist the board with recommendations covering the Group's innovation agenda.

- Assist the board in the identif cation of key threats to the status quo resulting from new business models, technologies, processes, products and concepts.

- Propose to the board the annual systems plan.

- Assist the board in evaluating the quality of the technological service.

- Assist the board in evaluating the capabilities and conditions for innovation at a Group and country level.

- Assist the risk supervision, regulation and compliance committee in the supervision of technological risks and cybersecurity.

Organisation

Our innovation and technology committee approves an annual calendar of meetings, which provides for at least four meetings. The committee meets as many times as it is required to fulf l its responsibilities.

Meetings of the committee are validly held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee has the casting vote. The committee members may grant a proxy to another member, although non-executive directors may only represent another non-executive director.

The committee has the power to require executives to attend its meetings under the terms stated by it.

The committee, through its chairman, reports to our board of directors on its activities and work. Furthermore, the supporting documentation that is provided to the committee is made available to all directors as well as the minutes.

Main activities in 2018

During 2018 the innovation and technology committee carried out, amongst others, the following activities:

- Review of the Global Technology Strategy Plan.

- Review of the platform and cloud strategy.

- Review of the policy on data and artif cial intelligence (machine learning) and its potential impact.

- Review of main digital strategies to transform the core, and accelerate the growth of new businesses.

- Review of metrics to measure and monitor the impact of digital transformation.

- Review of the status update for the implementation of cybersecurity within the Group, the main risks and mitigating controls.

- Review of the status of OpenBank digital and technological projects.

The committee met on three occasions in 2018. In 2018, the average estimated time dedicated by each member to preparing for and participating in meetings was approximately f ve hours per meeting, with the chairman estimated to have spent double that time per meeting. 'Board and committees attendance' in section 4.3 provides information on the attendance of the innovation and technology committee members at those meetings.

International advisory board

Composition		Positions
Chairman	Mr Larry Summers	Former Secretary of the US Treasury and president emeritus of Harvard University
Members	Ms Sheila C. Bair	Former chairman of the Federal Deposit Insurance Corporation and former president of Washington College
	Mr Mike Rhodin	Board member of TomTom, HzO and Syncsort. Former IBM senior Vice President
	Ms Marjorie Scardino	Former CEO of Pearson and director of Twitter
	Mr Francisco D'Souza	CEO of Cognizant and director of General Electric
	Mr James Whitehurst	Chairman and CEO of Red Hat
	Mr George Kurtz	CEO and co-founder of CrowdStrike
	Ms Blythe Masters	CEO of Digital Asset Holdings
Secretary	Mr Jaime Pérez Renovales	

Functions

The purpose of Banco Santander's international advisory board, which comprises external experts in economy, strategy, IT and innovation, is to provide strategic advice to the Group, with a special focus on innovation, digital transformation, cybersecurity and new technologies. It also provides views on trends in capital markets, corporate governance, brand and reputation, regulation and compliance, and global f nancial services with a customer-based approach.

Meetings

The international advisory board meets at least twice per year.

In 2018, the international advisory board met twice, one in spring and one in fall.

4.4 Audit committee activities in 2018

This section constitutes the audit committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the audit committee on 21 February 2019 and approved by the board of directors on 26 February 2019.

Composition

Composition		Category
Chairman	Ms Belén Romana García	Independent
Members	Ms Homaira Akbari	Independent
	Mr Carlos Fernández González	Independent
	Mr Ramiro Mato García-Ansorena	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge and experience in f nance, accounting, auditing, internal control, information technologies, business and risk management. Specif cally, Ms Belén Romana García, the committee's chairman, is considered to be a f nancial expert, as def ned in SEC Regulation S-K, based on her training and expertise in accounting, auditing and risk management, and as a result of having held various positions of responsibility at entities in which knowledge of accounting and risk management was essential.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in section 4.2.

There have been no changes in the composition of the committee during 2018.

How the committee works

Our audit committee meets in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting suf ciently in advance of the meeting date, thereby ensuring committee ef ectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a f uid and ef cient relationship with the dif erent units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or f nancial advisers or other experts, at the Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

External auditor

Our external auditor is PricewaterhouseCoopers Auditores, S.L. (PwC) with registered of ce in Madrid, Paseo de la Castellana, no. 259 B, with Tax ID Code B-79031290 and registered in the Of cial Registry of Auditors of Accounts (Registro Of cial de Auditores de Cuentas) of the Accounting and Audit Institute (Instituto de Contabilidad y Auditoría de Cuentas, (ICAC)) of the Ministry for Economy with number S0242.

The lead partner is Mr Alejandro Esnal, a leading audit partner for the banking sector in Spain (having audited entities such as Banco Sabadell, S.A., Unicaja and Barclays Bank Spain). Throughout his 25 years of professional career, he has led numerous projects both in Spain and New York and London, mainly in audit services, as well as in internal control environments of f nancial entities. As an audit leader for banking, he participates actively in committees and working groups of the sector and collaborates proactively with the f nancial regulation department, in matters such as the restructuring of the sector or the strengthening of banking practices.

Report on the independence of the external auditor

The audit committee has verif ed favorably the independence of the external auditor, at its meeting of 21 February 2019 and prior to the issuance of the auditor's report on the f nancial statements, in the terms established section 4.f) of article 529 quaterdecies of the Spanish Companies Act, and under article 17.4.c)(iii) of the Rules and regulations of the board, concluding that in the committees' opinion there are no objective reasons for doubting the independence of the external auditor.

To evaluate the independence of the external auditor, the committee has considered the information included under section 'Duties and activities in 2018' on the remuneration of the auditor for audit services and any other services and the written conf rmation from the external auditor itself conf rming its independence with respect to the Bank under the applicable European and Spanish legislation, the SEC rules and the rules of the Public Company Accounting Oversight Board (PCAOB).

Proposed reelection of the external auditor for 2019

As indicated in section 3.5 'Our coming 2019 AGM', the board of directors, following the proposal of the audit committee, has submitted to our 2019 AGM the reelection of PwC as external auditor for 2019.

Duties and activities in 2018

This section contains a summary of the audit committee's activities in 2018, classif ed in accordance with the committee's basic duties.

Duties	Actions taken by the audit committee
Financial statements and other fn ancial information	
• **Review the f nancial statements and other f nancial information**	• Reviewed the individual and consolidated f nancial statements and directors´ reports for 2018 and endorsed their content prior to their authorisation for issue by the board, and ensured compliance with legal requirements and the proper application of generally accepted accounting principles and that the external auditor issued the corresponding report with regard to the ef ectiveness of the Group's system of internal control of f nancial reporting (ICFR). • Endorsed quarterly the f nancial information statements dated 31 March, 30 June, 30 September and 31 December 2018, respectively, prior to their approval by the board and their disclosure to the markets and to supervisory bodies. • Endorsed other f nancial information such as: annual corporate governance report; DRA f led with CNMV; Form 20-F with the f nancial information of 2017, f led with SEC; the half-yearly f nancial information f led with CNMV and with SEC in Form 6-K, and the Group's interim consolidated f nancial statements specif c to Brazil. • Monitored the implementation of IFRS9 throughout the year.
• **Report to the board about the tax policies applied**	• Received information from the Group's tax advisory unit regarding the tax policies applied, in compliance with the Code of Good Tax Practices and submitted this information for the board of directors.
Relationship with the external auditor	
Auditing the fn ancial statements	
• **Receive information on the audit plan and its implementation**	• Obtained conf rmation from the external auditor that it has had full access to all information, to conduct its activity. • Discussed improvements in the reporting of f nancial information resulting from changes to accounting standards, and best international practices. • Analysed the detailed information on the planning, progress and execution of the audit plan and its implementation. • Analysed the auditor's reports for the annual f nancial statements prior to the external auditor's report to the board of directors.
• **Relations with the external auditor**	• The external auditor attended 11 of 13 committee meetings held in 2018, serving as a channel of communication between the auditor and the board. • Met two times with the external auditor without the presence of the Bank's executives relating to the audit work.
• **Assessment of the auditor's performance**	• Performed an evaluation of the external auditor and how it has contributed to the integrity of the f nancial information. In this evaluation, our committee was informed by the auditor and also analysed the results of any inspections carried out by the regulators on PwC, concluding that it did not observe threats to its independence as external auditor.

Duties	Actions taken by the audit committee

Independence

PwC's remuneration for audit and non-audit services

- Monitored the remuneration of PwC; the fees for the audit and non-audit services provided to the Group that were as follows:

EUR million

	2018	2017	2016
Audits	90.0	88.1	73.7
Audit-related services	6.5	6.7	7.2
Tax advisory services	0.9	1.3	0.9
Other services	3.4	3.1	3.6
Total	**100.8**	**99.2**	**85.4**

The 'Audits' heading includes fees paid for auditing the annual consolidated f nancial statements of Banco Santander and its Group; the consolidated f nancial statements on Form 20-F f led in the SEC; internal control audit (SOX) for those required entities; the audit of f nancial statements of the Bank for the Brazilian regulator; and the regulatory reports required from the auditor corresponding to the dif erent locations of the Group.

The 'Audit-related services' refer to aspects such as the issuance of comfort letters and other services required by other regulations in relation to aspects such as, for example, securitisation and other services provided by the external auditor.

The amount of fees paid for non-audit works and the percentage they represent of all fees invoiced to the Bank and/or its group is as follows:

	Company	Group companies	Total
Amount of non-audit work (EUR thousand)	585	3,665	4,250
Amount of non-audit work as a % amount of audit work	0.6%	3.6%	4.2%

In 2018, the Group commissioned services from audit f rms other than PwC in the amount of EUR 173.9 million (115.6 and 127.9 EUR million in 2017 and 2016, respectively).

- **Non-audit services. Assess threats to the independence and the safeguard measures**

- Reviewed and updated the internal policy of the approval of non-audit services.
- Reviewed services rendered by PwC, and verif ed its independence. For these purposes:
  - Verif ed that all services rendered by the Group's auditor, including audit and audit-related services, tax advisory services and other services detailed in the section above, meet the independence requirements set out in the applicable regulation.
  - Verif ed the ratio of fees received during the year for non-audit and audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio for 2018 standing at 4.2%.
  - Average fees paid to auditors in 2018 for non-audit and related services account for 15% of total fees paid as a benchmark according to available information on the leading listed companies in Spain.
  - Verif ed the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by PwC f rm in 2018. Group's total fees paid are less than 0.3% of PwC's total revenue in the world.
  - Reviewed the banking transactions performed with companies related to PwC, concluding that no transactions have been carried out that compromise PwC's independence.

- **External auditor independence report**

- After considering the information detailed above, the committee issued the 'Report on the independence of the external auditor'.

Re-election of the external auditor

- **Re-election of the external auditor**

- Submitted to the board of directors the proposal to re-elect PwC as external auditors for 2019. The board submitted PwC's re-election proposal as the Bank's external auditors to our 2019 AGM.

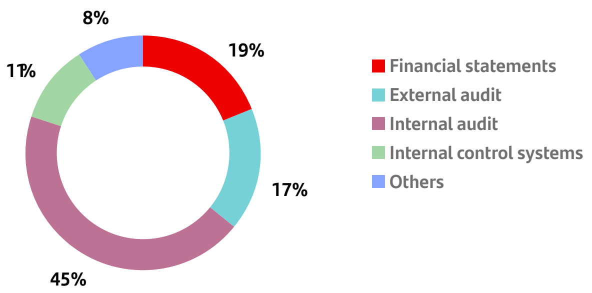
Duties	Actions taken by the audit committee
Internal audit function	
• **Assess the performance of internal audit function**	• Supervised the Internal Audit function and ensured its independence and efficacy throughout 2018. • Reported on the progress of the internal audit plan, allowing the committee to have and exhaustive control on Internal Audit recommendations and ratings of the different units and divisions. • Representatives of the Internal Audit division attended 11 of 13 meetings held by the audit committee in 2018, one of them only with the chief audit executive without the presence of other executives or the external auditor. • Proposed the budget of Internal Audit function for 2019, ensuring that it has the material and human resources necessary to carry out its function. • Reviewed the annual audit plan for 2019 and submitted it to the board for approval. • Received regular information of the internal audit activities carried out in 2018. • Reviewed the application of the measures included in the strategic internal audit plan for the 2016-2018 period. • Reviewed and was informed about internal audit function, methodologies, ratings, recommendations and main conclusions of the internal audit work in other units and geographies. • Assessed the adequacy and effectiveness of the function when performing its mission, as well as the chief audit executive's performance in 2018, which was reported to the remuneration committee and to the board in order to establish their variable remuneration.
Internal control systems	
• **Monitor the efficacy of internal control systems**	• Received information of the process of evaluating and certifying the Group's internal control model (ICM) for 2017 and the conclusions on its effectiveness. No material weaknesses were detected at Group level in accordance with this annual evaluation process. • Reviewed the effectiveness of the Bank's internal controls on the generation of financial information contained in the Group's consolidated annual report filed in the US (Form 20-F) for 2017, as required by the Sarbanes-Oxley Act, concluding that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects.
• **Whistleblowing channel**	• Received information from the Compliance & Conduct area about the activity of the whistleblowing channel and the irregularities committees existing in the Group for these purposes specially in regard to issues relating to questionable financial and accounting practices and the process of generating financial information, auditing and internal controls, verifying that in 2018 there was not any claim about this issues filed through these channels.
• **Coordination with Risk**	• Joint meetings with board risk supervision, regulation and compliance committee in order to share information regarding IFRS9, IT and obsolescence risk, whistleblowing, policy on outsourcing of services and other matters.
• **Communications with regulators and supervisors**	• Submitted to CNMV information requested about the compliance with the obligations related to the composition, functions and operating of the audit committee.
Related-party and corporate transactions	
• **Creation of special-purpose vehicles or entities in countries considered tax havens**	• Received the justification of the establishment of a new company in Jersey and separate the activity in Jersey and isle of Man from the so-called Ring Fenced Bank to comply with the banking reform in UK. Finally, this company in Jersey was incorporated but it remains inactive. The committee was informed that the business in Jersey and the Isle of Man will remain within the Group in the UK, although outside Santander UK.
• **Approval of related party transactions**	• Reviewed the transactions that the Bank carried out with related parties, and ensured that they were made under the terms envisaged by law and in the Rules and regulations of the board and did not require approval from the governing bodies; otherwise, approval was duly obtained following a favourable report issued by the committee, once the agreed consideration and other terms and conditions were found to be within market parameters. No member of the board of directors, direct or indirectly, has carried out any significant transactions or any transaction on non-customary market conditions with the Bank. The committee has examined the information regarding related party transactions in the financial statements. See section 4.8 'Related-party transactions and conflicts of interest'.
• **Transactions involving structural or corporate modifications**	• Reviewed the transactions involving structural or corporate modifications planned by the Group during 2018 previously to the submission to the board of directors, analysing their economic conditions and the accounting impact. Among others, the committee reviewed the absorbtion of Banco Popular and the effectiveness of the Bank's internal controls concerning its integration.

Duties	Actions taken by the audit committee
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2018 AGM, Ms Belén Romana, acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the audit committee.
• **Corporate documentation for 2017**	• Drafted the report of the committee for the year 2017, 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 2018 identified following the self-assessment carried out by our board and its committees.

Time devoted to each task

In 2018, the audit committee held 13 meetings. In section 4.3 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately 10 hours per meeting, with the chairman estimated to have spent double that time per meeting.



Annual assessment of the functioning and performance of the committee and fulfilment of the goals set for 2018

The committee's effectiveness during 2018 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the audit committee.

In 2018, the committee successfully addressed all the challenges put forward for the year and identified in the 2017 activities report, especially regarding coordination with the risk supervision, regulation and compliance committee in supervising the execution of the internal audit plan which has provided a holistic view of the key internal audit risks, internal audit methodologies, ratings, recommendations and main conclusions of the internal audit work in the most relevant units.

Further, the regular meetings held by the chairman of the Group audit committee with the chairmen of the audit committees of the different subsidiaries in main geographies during the second half of the year provided their coordination and the agreement on key issues, and also allowed sharing an overview of regulatory matters and new regulations, applied across the Group's main geographies.

As a result of this assessment, it was concluded that the committee effectively performed its functions of supporting and advising the board. This was demonstrated through holding, an appropriate number of meetings, for which sufficient and accurate documentation was provided on the topics discussed, the proper presentation of which enhanced the quality of debate among members and sound decision-making.

2019 priorities

The committee's self-assessment exercise identified the following priorities for 2019:

- Ongoing focus on the **size and composition** of the committee, particularly in connection with necessary accounting, financial, risk management and audit expertise to guarantee its effectiveness.

- Continue working on **coordination with units and Group divisions**, implementing information sharing mechanisms on a regular basis.

- Build up a **holistic** of certain key topics using 'white books' to ensure proper oversight and monitor the activities of units and divisions taking into account the recommendations provided by Internal Audit.

- Monitor the **implementation of IFRS9**, made in 2018, analysing the impact of the new standard and the Bank's adaptation process, in order to reduce implementation costs and compliance risk.

4.5 Appointments committee activities in 2018

This section constitutes the appointments committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the appointments committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

Composition

Composition		Category
Chairman	Mr Bruce Carnegie-Brown	Independent
Members	Ms Sol Daurella Comadrán	Independent
	Mr Guillermo de la Dehesa Romero	Other external (neither proprietary nor independent)
	Mr Carlos Fernández González	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in section 4.2.

How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees, either present or represented, and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting suf ciently in advance of the meeting date, thereby ensuring committee ef ectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a f uid and ef cient relationship with the dif erent units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or f nancial advisers or other experts, at Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

Duties and activities in 2018

This section contains a summary of the appointments committee's activities in 2018, classified in accordance with the committee's basic duties.

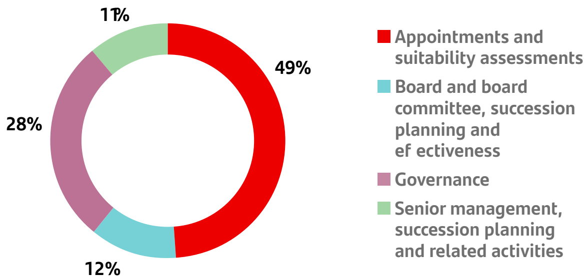
Duties	Actions taken by the Appointments Committee
Appointments and removal of directors and committee members	
• **Selection and succession policy and renewal of the board and its committees**	• Updated the policy for the selection, suitability assessment and succession of directors in accordance with EBA and ESMA guidelines on suitability, assessment for directors and the ECB Guide to fit and proper assessments. • Ensured that the procedures for selecting board members guaranteed the individual and collective training of directors, fostering diversity of gender, experience and knowledge and, in partnership with an external firm, conducted the relevant analysis of the necessary competencies and skills for the position, and assessing the time and dedication required to properly perform the role. • Also assessed the composition of the board committees to ensure continuity of appropriate skillset and experience, overall stability and appropriate distribution for the better development of their duties.
• **Appointment, re-election, ratification and removal of directors, and committee members**	• Analysed the candidates presented, as well as their credentials, and assessed their skills and suitability for the position. • Took note of the resignation of Mr Juan Miguel Villar Mir as director, once his tenure expired, after requesting not to be proposed for re-election at the last AGM. • In 2018 Mr Álvaro Cardoso de Souza was appointed, Mr Ramiro Mato was ratified, and Mr Carlos Fernández, Mr Ignacio Benjumea, Mr Guillermo de la Dehesa, Ms Sol Daurella, and Ms Homaira Akbari were re-elected. All these appointment, ratification and re-election were proposed to the board by the appointments committee. • Submitted a proposal to the board regarding changes in the composition of the board committees, to further strengthen their performance and support to the board in their respective areas, according to the best international practices and our internal Rules and regulations of the board (for more information see 'Board committees' in section 1.1). • Approved, upon completion of one year of their term of office and in accordance with the Bylaws, the re-election of members of the Santander Group's international advisory board (for more information see 'International advisory board' in section 4.3). • In 2018, our appointments committee examined the overall composition and skills of our board of directors and board committees to ensure that they are appropriate. The committee identified, utilising the skills matrix, the desired areas of expertise and experience profiles for recruitment which informed the selection process. The committee proposed Mr Álvaro Cardoso de Souza's appointment as member of the board who has further strengthened the board's international diversity, specifically in relation to Latin America / Brazil.
Succession plan	
• **Succession plan for executive directors and senior management**	• Continued the regular review of talent and succession plans from executive directors and senior management of the Group to ensure that they are oriented to have, at all times, sufficiently qualified personnel to allow the execution of Group´s strategic plans without interruption, safe-guard business continuity and avoid any relevant functions not being take care of. This involves identifying possible replacements for key positions, in order to provide them with appropriate training and capabilities in advance.
Verification of the status of directors	
• **Annual verification of the status of directors**	• Verified the classifications of each director (as executive, independent and other external) and submitted its proposal to the board of directors for the purpose of its confirmation or review at the AGM and in the annual corporate governance report. See section 4.2. 'Board composition'. • When assessing the independence directors, the committee has verified that there is no significant business relationship between Santander Group and the companies in which they are, or have previously been, significant shareholders or directors and, in particular, with regard to the financing granted by the Santander Group to these companies. In all cases, the committee concluded that the existent relationships were not significant, among other reasons, as the business relationships: (i) do not generate a situation of economic dependence in the relevant companies in view of the substitutability of this financing for other sources of funding, either bank-based financing or other, (ii) are aligned with the market share of Santander Group within the relevant market, and (iii) have not reached certain comparable materiality thresholds used in other jurisdictions as reference: e.g. NYSE, Nasdaq and Canada's Bank Act.

Duties	Actions taken by the Appointments Committee
Periodic assessment	
• **Annual suitability assessment of directors and key functions holders**	• Assessed the suitability of the members of the board, the senior management, those responsible for internal control functions and those holding key positions for the conduct of the Group's banking business, ensuring that they demonstrate commercial and professional integrity, and have suitable knowledge and experience to perform their duties. Likewise, the committee concluded that the members of the board are capable of carrying out good governance of the Bank, and have capacity to make independent and autonomous decisions for the Group´s benef t. • Verif ed that the Bank had not been informed by any director of any circumstances that, in its opinion and in opinion of the board would have justif ed their dismissal as a member of the board of directors of the Bank.
• **Potential confi cts of interest and other directors´professionals activities**	• Examined the information provided by the directors regarding other professional activities or positions to which they had been proposed concluding that such obligations did not interfere with the dedication required as Bank´s directors and that they were not involved in potential conf icts of interest that could af ect the performance of their duties.
• **Board self-assessment process**	• In coordination with the executive chairman, the 2018 self-assessment was performed internally, without the assistance of an external expert. The scope of the assessment included the board and all its committees, as well as the executive chairman, the chief executive of cer, the lead director, the secretary and each director. See 'Self-assessment of the board' in section 4.3. • Updated and submitted the board skills and diversity matrix to the board of directors for approval. See section 4.2. 'Board skills and diversity matrix'.
Senior management	
• **Assessment of senior executive vice chairman and other key positions**	• The committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors: ◦ Mr Dirk Marzluf as the new head of the Group's Technology and Operations Division, replacing Mr Andreu Plaza. ◦ Mr Keiran Foad as the new chief risk of cer (CRO) replacing Mr José María Nus Badía. ◦ In addition, the committee reported favourably on the appointment of directors and members of senior management of the main subsidiaries of the Santander Group.
• **Simplif cation and homogenization of senior management positions**	• Informed favourably on and submitted to the board to replace the previous management titles ('director general', 'director general adjunto', 'subdirector general' and 'subdirector general adjunto') with new titles common throughout the Group, according to international standards and practices (at a corporate level: Group senior executive vice-president, Group executive vice-president and Group vice-president, and, at a subsidiary level: senior executive vice-president, executive vice-president and vice-president)
Internal Governance	
• **Oversee internal governance including Group subsidiary governance**	• Assessed the suitability of a number of appointments and/or re-elections to Group's subsidiaries subject to the Group's appointments and suitability procedure. • Reviewed and updated the key board policies in accordance with the EBA guidelines on Internal Governance such as: suitability, induction, knowledge and development, and conf ict of interest policies, and approval of an action plan for improvements. • The committee verif ed the monitoring of guidelines of the subsidiaries with the Group - subsidiary governance model in relation to the board and board committees of structure of the subsidiaries and their duties in line with best practices. • Proposed and approved the appointment of lead Group-nominated directors to ensure that those persons representing the signif cant shareholder on subsidiary boards are suitable and fully aware of their duties and responsibilities.
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the appointments committee.
• **Corporate documentation for 2017**	• Drafted the report of the committee for the year 2017, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulf lment of the functions entrusted to it, and the priorities for 2018 identif ed following the self-assessment carried out by our board and its committees.

Time devoted to each task

In 2018, the appointments committee held 13 meetings. Section 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately four hours per meeting, with the chairman estimated to have spent double that time per meeting.



Annual assessment of the functioning and performance of the committee and fulf lment of the goals set for 2018

The committee's ef ectiveness during 2018 was considered as part of the overall internal assessment of board ef ectiveness carried out internally this year. The committee considered the f ndings and suggested actions resulting from the review and related to the appointments committee.

In 2018, the committee successfully addressed all the challenges put forward for the year and identif ed in the 2017 activities report. In particular, conf rmed its leadership role in the proper composition of the board of directors achieving a broader geographical diversity as a result of the incorporation of Mr Alvaro Cardoso de Souza in 2018 and reviewing also its own composition avoiding the identity of its members with those of the remuneration committee, in line with the best practices.

The self-assessment process positively rated both the composition of the committee and the very high degree of dedication among its members, as well as the chairman's leadership. The frequency and duration of its meetings were also found to be appropriate for its proper functioning and for the performance of their duties and that suf cient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

2019 priorities

- **Cultural transformation:** continue working on the Bank's cultural transformation, ensuring the attraction and retention of the appropriate talent to cover the future needs of the business.

- **Diversity:** continue working to strive towards gender balance and broader diversity in the Group board and the rest of the organisation.

- **Corporate and subsidiary governance:** driving the continuous improvement of corporate governance across the Group, focusing on the ef ective functioning of board of directors with the support of the board committees and the proper oversight and control of subsidiary transactions. Review trends, and best governance practices in corporate governance.

- **Succession planning:** regular review of succession plans of members of the board and senior management, relating to current and future strategy and potential challenges the business may face.

4.6 Remuneration committee activities for 2018

This section constitutes the remuneration committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report has been prepared by the remuneration committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

Composition

Composition		Category
Chairman	Mr Bruce Carnegie-Brown	Independent
Members	Mr Ignacio Benjumea Cabeza de Vaca	Other external (neither proprietary nor independent)
	Ms Sol Daurella Comadrán	Independent
	Mr Guillermo de la Dehesa Romero	Other external (neither proprietary nor independent)
	Ms Carlos Fernández González	Independent
Secretary	Mr Jaime Pérez Renovales	

Our board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in 4.2.

There have been no changes in the composition of the committee during 2018.

How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting suf ciently in advance of the meeting date, ensuring committee ef ectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee .

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources, fostering a f uid and ef cient relationship with the dif erent units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or f nancial advisers or other experts, at the Bank´s expense, to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

Duties and activities in 2018

This section contains a summary of the remuneration committee's activities in 2018, classif ed in accordance with the committee's basic functions.

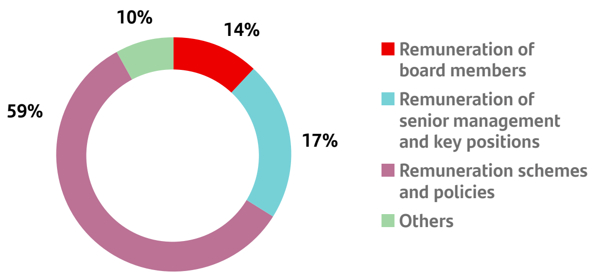
Duties	Action taken by the Remuneration Committee
Remuneration of directors	
• **Individual remuneration of directors in their capacity as such**	• Analysed the individual remuneration of directors in their capacity as such based on the positions held by the directors on the collective decision-making body, membership on and attendance at the various committees, and any other objective circumstances evaluated by the board. Submission of a proposal to the board for remuneration of the new members of the responsible banking, sustainability and culture and also to increase the remuneration of members of the board as members of the board (+2.5%) in 2018 and the annual amount for the chairman of the audit and risk committees (from EUR 50 thousand to EUR 70 thousand). The rest of the remuneration components remained unchanged.
• **Beneft scheme**	• The Remuneration Policy mentioned above provided for the elimination in 2018 of the supplemental benef t scheme for the contingencies of death and permanent disability while in of ce of serving directors provided for in the contracts of the chairman and the CEO, attributing to them an exceptional, non-cumulative supplement to the f xed remuneration. This change did not involve an increased cost to the Bank and eliminated the risk of the cost of this benef t rising in the future, completing the process of reducing risks from pension commitments (derisking).
• **Individual f xed remuneration for executive directors**	• Submitted a proposal to the board to maintain the same gross salary for the executive chairman and CEO in 2018 as in 2017, with an increase equivalent to the reduction of f xed pension contributions, without the total compensation being increased as a result of this change, as well as a proposal to increase the gross annual salary of Mr Rodrigo Echenique in consideration of the new responsibilities he assumed in relation to the integration of Banco Popular into the Santander Group. • Proposed to the board to maintain the gross annual salary for executive directors in 2019 as in the prior year.
• **Individual variable remuneration for executive directors**	• Submitted a proposal to the board, for subsequent submission to the 2018 AGM, for the approval of a maximum level of variable remuneration up to 200% of the f xed component for executive directors and persons belonging to categories of staf w hose professional activities (excluding control functions) have a material impact on the risk prof le of the Group (the 'Identif ed Staf ' or 'Material Risk Takers'). • Determined the annual variable remuneration for 2017 payable immediately and the deferred amounts, part of which are established as a maximum and are conditioned to compliance with long term objectives established for executive directors, to be approved by the board, taking into account the directors´ remuneration policy, based on the individual level of achievement of the annual performance targets and the weightings previously established by the board, and the application of the corresponding targets, scales and weightings. • As part of the directors´ remuneration policy, the committee submitted a proposal for the annual performance indicators and targets to be used for the calculation of the annual variable remuneration for 2019, to be approved by the board. In addition, for submission to the board, establishing the achievement scales for annual and multi-year performance targets and their associated weightings.
• **Share plans**	• Submitted a proposal to the board, for subsequent submission to the 2018 AGM regarding the approval of the application of remuneration plans involving the delivery of shares or share options (deferred multiyear targets variable remuneration plan, deferred and conditional variable remuneration plan, application of the Group's buy-out policy and plan for employees of Santander UK Group Holdings plc. and other companies of the Group in the UK).
• **Propose the directors´ remuneration policy to the board**	• A proposal was submitted to the board, for subsequent submission to a binding vote at the 2018 AGM, regarding the approval of the directors´ remuneration policy for 2018, 2019 and 2020, and the committee issued the required explanatory Report regarding the directors' remuneration policy.

Duties	Action taken by the Remuneration Committee
• **Propose the annual directors´ remuneration Report to the board**	• Submitted of a proposal to the board, for subsequent submission to a consultative vote at the 2018 AGM, regarding the annual directors' remuneration report. • The committee assisted the board of directors in supervising compliance with the director remuneration policy. • The committee was informed by the lead independent director about the contacts with key shareholders and proxy advisors on remuneration issues for executive directors. • Celebrated four joint sessions with the risk supervision, regulation and compliance committee in order to verify that the remuneration schemes factor in risk, capital and liquidity and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting and being compatible with adequate and effective risk management.
Remuneration of non-director members of senior management	
• **Remuneration policy for senior executive vice presidents and other members of senior management**	• Established the basic terms of the contracts and remuneration for members of senior management in terms of their f xed and variable annual remuneration, submitting to the board the corresponding proposals for approval. • Established the annual variable remuneration for 2017 payable immediately and the deferred remuneration of members of senior management to be approved by the board, based on the individual level of achievement of the annual performance targets and their weightings as previously established by the board, and the application of the corresponding targets, scales and weightings. • Established of the annual performance indicators to be used for the calculation of variable remuneration for 2019 to be approved by the board, and with the cooperation of the human resources committee, and establishment, for submission to the board, the achievement scales for the annual and multi-year performance targets and weightings.
Remuneration of other executives whose activities may have a signif cant impact on the Group's assumption of risks	
• **Remuneration for other executives who, although not members of senior management, are identif ed staf**	• Established the key elements of the remuneration of 'identif ed staf '. • Reviewed and updated the composition of the identif ed staf i n order to identify the persons within the Group who fall within the parameters established for being included in such group. • Submitted a proposal to the board, for subsequent submission to the 2018 AGM, regarding the approval of a maximum level of variable remuneration up to 200% of the f xed component for certain Group employees belonging to categories of staf w hose professional activities have a material impact on the risk prof le of the Bank or the Group.
• **Assist the board of directors in supervising compliance with director remuneration policies**	• Reviewed the remuneration programmes to ensure they are up-to-date, giving weight to their adaptation and performance; ensuring that directors' remuneration is appropriate taking into account the Bank's results, culture and risk appetite; and that no incentives are of ered to assume risk that exceeds the level tolerated by the Bank, therefore promoting adequate and being compatible with and ef ective risk management. • The committee informed the board of the content of the report issued by an external consultant assessing the remuneration policy, in application of the provisions of Law 10/2014, which establishes that the remuneration policy of credit institutions will be subject, at least once a year, to a central and independent internal evaluation, in order to verify whether the remuneration guidelines and procedures adopted by the board of directors in its supervisory function have been complied with. • Assisted the board in its supervision of the compliance with the remuneration policy for the directors and other members of the identif ed staf , as well as with any other Group's remuneration policies. • Monitored the gender pay reporting analysis and identif ed the areas for improvement. • Verif ed the independence of the external consultants contracted to assist the committee in the performance of its duties.
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the committee during 2017.
• **Corporate documentation for 2017**	• Drafted the report of the committee for the year 2017 an analysis and assessment of the fulf lment of the functions entrusted to it, and the priorities for 2018 identif ed following the self-assessment carried out by our board and its committees.

Time devoted to each task

In 2018, the remuneration committee held 11 meetings. Section 4.3, 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately four hours per meeting, with the chairman estimated to have spent, approximately, double that time per meeting.



Annual assessment of the functioning and performance of the committee and fulf lment of the goals set for 2018

The committee's ef ectiveness during 2018 was considered as part of the overall internal assessment of board ef ectiveness carried out internally this year. The committee considered the f ndings and suggested actions resulting from the review and related to the remuneration committee.

As a result of this assessment, it was concluded that the committee ef ectively performed its functions of supporting, informing, proposing and advising the board. This was demonstrated to holding an appropriate number of meetings, for which suf cient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

In 2018 the remuneration committee followed up on all organisational actions and improvements that were launched as a result of the ef ectiveness assessment carried out in 2017.

The committee has continued to monitor the gender pay reporting analysis and to identify areas of improvement. The committee is conscious that any unjustif ed gender imbalances that may be identif ed within the organization must be fought. In addition, the committee continued with its work in identifying areas for potential improvement in the various Group units.

The committee has celebrated joint sessions with the risk supervision, regulation and compliance committee in order to verify that the remuneration schemes factor in risk, capital and liquidity that do not incentivise assuming risks that exceed the level tolerated by the Bank and are consistent with the approved risk strategy of the Bank.

Report regarding the director remuneration policy

As provided for under section 2 of article 529 novodecies of the Spanish Companies Act, the remuneration committee issues this report regarding the director remuneration policy for 2019, 2020 and 2021 that the board of directors intends to submit to binding approval of the shareholders at the coming AGM as a separate item of the agenda and which is an integral part of this report. See section 6.4 'Director remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders'.

Considering the analysis made in the context of the elaboration of the 2018 annual report on director remuneration and its continuous supervision task in relation to remuneration policies, the remuneration committee is of the opinion that the director remuneration policy for 2019, 2020 and 2021, which is expected to be submitted to the shareholders vote and is included in section 6.4 below, conforms to the principles of the Bank's remuneration policy and to the by-law mandated remuneration system.

2019 Priorities

- **Intragroup coordination:** coordination with the remuneration committees of the Group subsidiaries is a priority, to monitor the adequate implementation and application of the corporate policies regarding remuneration.
- **Gender pay gap:** The committee will continue working in analysing pay gaps that may exist due to gender or other factors, adopting solutions for unjustif ed imbalances when detected.
- **Ef ective compensation:** ongoing focus on shaping compensation structures and schemes to ref ect the Bank's culture and continue driving these towards meritocracy and the corporate values. Review the Bank's remuneration policies to ensure that they are aligned with international best practices, and that they foster talent attraction and retention.

4.7 Risk supervision, regulation and compliance committee activities in 2018

This section constitutes the risk supervision, regulation and compliance committee report that in previous years was issued separately and that is now provided as part of the annual corporate governance report as discussed in 'Redesigned corporate governance report' in section 1. This report was prepared by the risk supervision, regulation and compliance committee on 25 February 2019 and approved by the board of directors on 26 February 2019.

Composition

Composition		Category
Chairman	Mr Álvaro Cardoso de Souza	Independent
Members[A]	Mr Ignacio Benjumea Cabeza de Vaca	Other external (neither proprietary nor independent)
	Ms Esther Giménez Salinas i Colomer	Independent
	Mr Ramiro Mato García-Ansorena	Independent
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

A. Mr Bruce Carnegie-Brown ceased as member of the committee on 1 January 2019.

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' in 4.2.

How the committee works

Our appointments committee holds its meetings in accordance with an annual calendar, which includes at least four meetings, and there is an annual work plan of issues to be discussed by the committee.

Meetings of the committee shall be validly held with the attendance, either present or represented, of more than half of its members, who may designate another member as proxy. Resolutions are passed by a majority vote of the attendees and the chairman has the casting vote in the event of a tie.

Committee members are provided with the relevant documentation for each meeting suf ciently in advance of the meeting date, thereby ensuring committee ef ectiveness.

The committee has the power to require executives to attend its meetings, by invitation from the chairman of the committee to attend under the terms established by the committee.

The post of secretary to the committee corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a f uid and ef cient relationship with the dif erent units that are expected to collaborate with, or provide information to, the committee.

The committee may contract legal, accounting or f nancial advisers or other experts, at the Bank´s expense to assist in the exercise of its functions.

Without prejudice to the fact that the committee chairman reports on the content of its meetings and its activities at each of the board of directors meetings held, all documentation distributed for its meetings and the minutes thereof are made available to all directors.

Duties and activities in 2018

This section contains a summary of the risk supervision, regulation and compliance committee's activities in 2018, classif ed in accordance with the committee's basic duties.

Duties	Actions taken by the Risk Supervision, Regulation and Compliance Committee
Risk	
• **Assist the board in (i) def ning the Group's risk policies, (ii) determining the risk appetite strategy and culture and (iii) supervising their alignment with the Group's corporate values**	• The committee carried out an overview of the Group's risks, and specif c analyses by unit and risk type, and assessed proposals, and assessed issues and projects relating to risk management and control. • Established and proposed to the board the approval of the risk appetite (risk appetite framework or RAF and the risk appetite statement), including proposals for new metrics. Reviewed on a quarterly basis the compliance with the limits. • Received information about matters relating to the proper management and control of risks within the Group, most notably the Risk Identif cation and Assessment (RIA), the Risk Control Self-Assessment (RCSA), one of the main tools for controlling these risks. • Received regular updates on the main risks af ecting the dif erent (e.g. Brexit, ring fencing, hyperinf ation and devaluation in Argentina) business units and subsidiaries. The chairmen of the committee and of the risk committees of the dif erent main global businesses and geographies of the Group held a risk convention to obtain a holistic view of the risks within the Group. • Monitored risks derived from technological obsolescence and related to cybersecurity, including data leakage, incident and vulnerability detection, patch management, network security and access control, amongst others. The committee was informed on the status of the main IT development and projects. Oversight was coordinated with the innovation and technology board committee, with which one joint session was held. • Supervised the dif erent risks associated with the main corporate transactions analysed by the Bank and the dif erent mitigating measures proposed to address them. In particular, it monitored the risks associated with the integration of Banco Popular in Spain and Portugal. • The Group chief f nancial of cer (CFO) submitted the 2018 Recovery Plan to the committee, assessing the Group's resilience in scenarios of severe stress. The plan was submitted to the board of directors for approval. • Supervised and submitted for approval to the board of directors the risk strategy. • Supervised the alignment of the risk strategy with the 3-year strategic f nancial plan, P-21 (from 2019 to 2021), which covers, in qualitative terms and for the entire Group, the priorities and projects for the next three years and, in quantitative terms, a f nancial plan for that period. • Joint meetings with board audit committee in order to share information regarding IFRS9, cybersecurity and obsolescence risk, whistleblowing,policy on outsourcing of services and other matters.

Duties	Actions taken by the Risk Supervision, Regulation and Compliance Committee
• **Assess the activity linked to Risk Management and Control**	• Ensured that the pricing policy for the assets, liabilities and services offered to customers fully takes into consideration the business model and appetite and risk strategy of the Bank. • Ascertained the risks resulting from the macroeconomic environment and economic cycles pertaining to the activities of the Bank and its Group. • Reviewed the main exposures of the Group with customers, economic sectors, geographical areas and types of risk. • Supported and assisted the board in conducting stress tests of the Bank. In particular, it assessed the scenarios and assumptions to be used in such tests, analysing the results and the measures proposed by the Risk function as a result.
• **Supervise the Risk function**	• Ensured the independence and efficacy of the Risk function and that material and human resources were duly provided. • Assessed the Risk function and the performance of the Chief risk officer (CRO) and shared its assessment to the remuneration committee and the board, in order to establish the variable remuneration payable to him.
• **Collaboration to establish rational remuneration policies and practices**	• Examined in conjunction with the remuneration committee whether the incentives policy envisaged in the remuneration scheme takes into account risk, capital, liquidity and the probability of profit. • Analysed in conjunction with the remuneration committee, the factors used to determine the ex-ante risk adjustment of the total variable remuneration assigned to the units, based on how previously assessed risks actually materialised.
Capital and liquidity	
• **Assist the board in approving the capital and liquidity strategies and supervise their implementation**	• Reviewed the annual capital self-assessment report (ICAAP) prepared by the Finance and Risks divisions in accordance with industry best practices and supervisory guidelines and submitted this report to the board for approval. Moreover, a capital plan was drawn up in accordance with the scenarios envisaged over a three-year time frame. • Endorsed the Pillar III disclosures report, which was submitted to and finally approved by the board. The report describes various aspects of the Group's management of capital and of risk and provides an overview of the function and management of capital; base capital and prescribed capital requirements; policies for managing the various risks undertaken by the Bank from the standpoint of capital consumption; composition of the Group's portfolio and its credit quality, measured in terms of capital and the roll-out of advanced internal models. • Assessed the liquidity plan (ILAAP), developed in the context of the Group's business model and submitted for approval by the board.
Compliance and conduct	
• **Supervise the Compliance and Conduct function**	• Monitored the implementation of the compliance programs and the Target Operating Model (TOM) across the Group. • The Group Chief compliance officer (CCO) attended to all committee sessions (thirteen) in 2018 to report on matters under her responsibility, including the four joint sessions held in 2018 with the audit committee, the remuneration committee and the innovation and technology committee. • Ensured the independence and efficacy of the Compliance function. • Assessed the Compliance function (including the analysis of the function's staffing to ensure that the function has the physical and human resources needed for the performance of its work) and the performance of the CCO and shared it with to the remuneration committee and the board in order to establish her variable remuneration.

Duties	Actions taken by the Risk Supervision, Regulation and Compliance Committee

• **Supervise the ef cacy of the Compliance policy, the General Code of Conduct, anti-money laundering and terrorist fn ancing manuals, and all other sector codes and rules**	• Assessed the operation of the corporate defence model and its ef cacy in preventing or mitigating criminal of ences.
	• Monitored the compliance with regulatory requirements regarding:
	  • The implementation of GDPR throughout the year within the Group; analysed the main risks and mitigation plans.
	  • The implementation of MiFID II throughout the year.
	• Monitored and assessed new regulations af ecting the Group´s activity in the dif erent jurisdictions.
	• Monitored key strategies and initiatives for enhancing AML management in the medium term through the application of innovative technologies.
	• Received an external expert's report in line with legal obligations on the prevention of money laundering in relation to Spain entities.
	• Regulatory compliance reported:
	  • Volcker's compliance programme and the results of the Group's certif cation.
	  • The global supervision model of market abuse at the Group, highlighting its maturity, endorsed by Internal Audit.
	  • The Bank's treasury share trading, which complied with the applicable regulations.

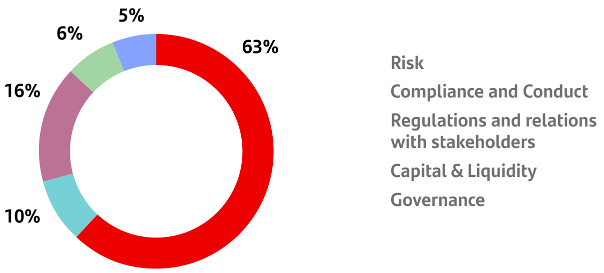
• **Product governance and consumer protection**	• Reviewed and submitted to the board the annual report from the Group's customer services department, explaining its activities in 2017. • Received information about the progress of the local action plans regarding internal sales force remuneration in the Group and an overview of an initial assessment of the external sales force regarding their potential conduct risk impact. • Received an update on the status of customers' complaints in the f rst half of 2018 and action plans in place to address any def ciencies and detriment to customers identif ed. • Received information on some of the conclusions reached from the activities carried out by the product governance and consumer protection unit.
• **Supervise the whistleblower channels**	• Supervised the activity of the whistleblowing channel that allows Group employees to conf dentially and anonymously report any breaches of external or internal rules, and submitted the conclusions achieved to the audit committee. • Reviewed and reported the measures taken in the dif erent countries to promote the use of whistleblower channels and their results, in accordance with the request by the board of directors. • The Culture and Regulatory Compliance functions developed a joint proposal to create a single channel model for reporting violations of the General Code of Conduct and behaviours contrary to the values of Simple, Personal and Fair.
• **Communications received from supervisors and regulators**	• Received monthly reports on the most relevant communications received from supervisory bodies in the area of compliance and conduct, and supervised the implementation of the associated actions and measures approved.
Governance	
• **Corporate governance and internal governance**	• The committee assessed the suitability of the Bank's corporate governance system, concluding that the board fulf ls its mission of promoting social interest and takes stakeholders' interests into account, thereby reporting favourably the content of the corporate governance report. • Received information on the meetings held with institutional investors to explain the main initiatives implemented by the board in the area of corporate governance. • Reported favourably on the corporate governance annual report. • Reported favourably on the proposed amendments to the Rules and regulations of the board prior to its approval by the board.

Duties	Actions taken by the Risk Supervision, Regulation and Compliance Committee
Regulations and relations with supervisors	
• **Regulation and relations with supervisors**	• Monitored reports on the main issues raised up by supervisors, the status of the action plans associated with these issues and those responsible for their implementation. • Received information about the priorities published by the European Central Bank that will guide the Single Supervisory Mechanism (SSM). Likewise, the committee was informed about the results of the Supervisory Review and Evaluation Process (SREP) carried out by the ECB and about other regulatory updates. • Received from periodic information about the macroeconomic environment and economic and political performance and the outlook in various countries, as well as with regard to the main regulatory principles, new regulations and matters being debated in the f nancial sector that could af ect the Group's activity, in addition to its position in connection with these. • The committee was informed about the updates in relation to the new interbank of ered rates (IBORS) based on alternative risk-free rates, which are being developed by the supervisors of the main jurisdictions.
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2018 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman at that moment, reported to the shareholders on the matters and activities within the purview of the appointments committee.
• **Corporate documentation for 2017**	• Drafted the activities report of the committee for the year 2017, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulf lment of the functions entrusted to it, and the priorities for 2018 identif ed following the self-assessment carried out by our board and its committees.

Time devoted to each task

In 2018, the risk, supervision regulation and compliance committee held 13 meetings. In section 4.3 'Board and committees attendance' provides information on the attendance of committee members at those meetings.

The average estimated time dedicated by each member of the committee to preparing for and participating in meetings held in 2018 was approximately 10 hours per meeting, with the chairman estimated to have spent double that time per meeting.



Annual assessment of the functioning and performance of the committee and fulf lment of the goals set for 2018

The committee's ef ectiveness was considered as part of the overall internal assessment of board ef ectiveness carried out internally in 2018. The committee considered the f ndings and suggested actions resulting from the review and related to the risk, supervision regulation and compliance committee.

As a result of this assessment, it was concluded that the committee ef ectively performed its functions of supporting and advising the board. This was demonstrated to holding an appropriate number of meetings, for which suf cient and accurate documentation was provided on the topics discussed, the proper presentation of which strengthened the quality of the debates among members and sound decision-making.

In 2018, our risk supervision, regulation and compliance committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2017:

- It continued its collaboration with the innovation and technology board committee, holding joint meetings to allow coordinated oversight of technology and cybersecurity risk, ensuring the provision of necessary resources.
- It consolidated its function of supporting and assisting to the board as a committee specialised in the control and supervision of the Risks and Compliance functions, increasing its collaboration with the audit committee in the supervision of internal audit activities; and;
- It strengthened its relationship with the risk supervision, regulation and compliance committees of the main subsidiaries of the Group, through continuous communication and sharing of best practices, among the chairman of these committees.

2019 Priorities

The committee has identif ed the following priorities for 2019:

- Ongoing focus on **material risks** and the potential impact of their outcomes and continuous analysis of the macroeconomic environment and early warning indicators.
- Ensuring the proper **coordination with other board committees,** including, among others, the responsible banking, sustainability and culture committee, the remuneration committee and the audit committee, and that they are aware of the work of the committee and how it relates to their respective responsibilities.
- Oversight of **transformational projects** (regulatory and non regulatory).

4.8 Related-party transactions and conf icts of interest

Related-party transactions

Directors, senior management and signif cant shareholders
This subsection includes the report on related-party transactions referred to in recommendation six of the Good Governance Code of Spanish Listed Companies.

In accordance with the Rules and regulations of the board, the board of directors shall examine any transactions that the Bank or Group companies carry out with directors, with shareholders that own, whether individually or together with others, a signif cant interest, including shareholders represented on the board of directors of the Bank or of other Group companies, or with persons related to them.

These transactions require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval corresponds to the GSM. Exceptionally, when so advised for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratif cation by the board.

Such transactions shall be evaluated in the light of the principle of equal treatment and in view of market conditions.

Authorisation of the board shall not be required, however, for transactions that simultaneously meet the following three conditions:

- They are carried out under contracts with basically standard terms that customarily apply to the customers contracting for the type of product or service in question.
- They are entered into prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics.
- The amount thereof does not exceed 1% of the Bank's annual income.

During 2018, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees therein, are directors, members of senior management or signif cant shareholders, to the best knowledge, has entered with the Bank into any signif cant transactions or under conditions which were not market conditions.

The audit committee has verif ed that all transactions completed with related parties during the year were fully compliant with the abovementioned conditions in order not to require approval from the governing bodies as mentioned in the audit committee activities report in section 4.4. 'Audit committee activities in 2 018'.

Group direct risks regarding the Bank's directors and members of senior management as of 31 December 2018 in the form of loans and credits and guarantees provided in the ordinary course of business, are shown in note 5.f of the 'consolidated f nancial statements'. Their conditions are equivalent to those made under market conditions or the corresponding remuneration in kind has been attributed.

In addition, the Bank also has a policy for the authorization of loans, credits, loans and guarantees to directors and members of senior management that contains the procedure established for the authorization and formalization of risk transactions of which they or their related parties are benef ciaries.

The policy includes general rules on maximum borrowing levels, interest rates and other conditions applicable in similar terms to those applicable to the rest of employees.

According to the mentioned policy and with the regulations applicable to credit institutions, the loans, credits or guarantees to be granted to directors and senior managers of the Bank need to be authorised by the board and subsequently by the ECB. There are two exceptions:

- Transactions subject to the conditions of a collective agreement agreed by the Bank and whose conditions are similar to the conditions of transactions granted to any Bank employee.
- Transactions carried out under contracts whose conditions are standardised and generally applied to a large number of customers, provided that the amount granted to the benef ciary or its related parties does not exceed the amount of EUR 200,000.

Intra-group transactions
With regard to intra-group transactions, identical rules, approval bodies and procedures apply as to transactions with customers, with mechanisms in place to monitor that such transactions are under market prices and conditions.

The amounts of the transactions with other Group entities (subsidiaries, associates and multigroup entities), as well as with directors, senior management and their related parties are included in note 53 ('Related parties') in the 'consolidated f nancial statements' and note 47 ('Related parties') in the individual fn ancial statements.

Conf icts of interests

The Bank has approved standards and procedures that establish the criteria for the prevention of conf icts of interest that may arise as a result of the various activities and functions carried out by the Bank, or between the Bank's interests and those of its directors and senior management.

In 2018, we have approved an internal policy on conf icts of interest that is a compilation of various binding documents that existed prior to that time, that provides the employees, directors and entities of the Group with criteria to prevent and manage any conf ict of interest that may arise as a result of their activities.

Directors and senior management
Our directors must adopt the measures that are necessary to prevent situations in which their interests, whether their own or through another party, may enter into conf ict with the corporate interest and their duties towards the Bank.

The duty to avoid conf icts of interest requires directors to fulf l certain obligations such as abstaining from using the Bank's name or their capacity as directors to unduly inf uence private transactions, using corporate assets, including the conf dential information of the Bank, for private purposes, taking advantage of business opportunities of the Bank, obtaining benef ts or remuneration from third parties in connection with the holding of their position, except for those received merely as a sign of courtesy, carrying out activities, on their own behalf or on behalf of others, which actually or potentially entail ef ective competition with the Bank or which otherwise place them in a situation of permanent conf ict with the interests of the Bank.

In any case, they must inform the board of any direct or indirect conf ict of interest between their own interests or those of their related parties and those of the Bank that will be disclosed in the fn ancial statements.

No director has communicated during the year 2018 any situation that places him in a conf ict of interest with the Group. However, in 2018, there were 60 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees. The breakdown of the 60 cases is as follows: on 26 occasions the abstention was due to proposals to appoint, re-elect or remove directors, and their appointment as members of board committees or as members of other boards at Santander Group companies; on 30 occasions the matter under consideration related to remuneration or the granting of loans or credits; on 1 occasion the matter concerned the discussion of a risk transaction involving a party related to a director; and on 3 occasions the abstention concerned the annual verif cation of the status and the suitability of directors.

Further, the mentioned policy of conf icts of interest and the Code of Conduct in Securities Markets to which both, the directors and the senior management of the Bank have adhered to, establishes mechanisms to detect and address conf icts of interest. These persons must present a statement to the Compliance function of the Bank detailing any relations they hold. This statement must be continuously updated. They must also notify the Compliance function of any situation in which a conf ict of interest could occur owing to their relations or due to any other reason or circumstance and they shall abstain from deciding, or where applicable, voting in situations where a conf ict exists and shall likewise inform about the conf ict to those who are to take the respective decision.

Conf icts of interest shall be resolved by the person holding the highest responsibility for the area involved. If several areas are af ected, the resolution shall be made by the most senior of cer in all such areas or if none of the foregoing rules are applicable, by the person appointed by the Compliance function. In the event of any doubt, the Compliance function should be consulted.

The control mechanisms and the bodies in charge of resolving this type of situations are described in the Code of Conduct in Securities Markets, which is available on the Group's corporate website. According to this code, and in relation to the Group's shares and securities, neither directors, the senior management nor their related parties may: (i) carry out counter-transactions on securities of the Group within 30 days following each acquisition or sale thereof; or (ii) carry out transactions on Group securities in the one month preceding the announcement of quarterly, six-monthly or annual results until they are published

Group companies

The Bank is the only Santander Group company listed in Spain, so it is not necessary to have mechanisms in place to resolve possible conf icts of interest with subsidiaries listed in Spain.

Notwithstanding, in case of conf icts of interest that may arise between a subsidiary and the Bank, the latter as the parent company must take into account the interests of all its subsidiaries and the way such interests contribute to the long term interest of the subsidiaries and the Group as a whole. Likewise, the entities of the Santander Group must take into account the interests of the Santander Group as a whole and, consequently, also examine how decisions adopted at the subsidiary level may af ect the Group.

The Bank, as the parent company of Santander Group, structures the governance of the Santander Group through a system as ruler 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 prof les of the Bank's senior management (other than the executive directors described in section 4.1 'Our directors') as of 31 December 2018.

Mr Rami Aboukhair	COUNTRY HEAD – SANTANDER SPAIN	Born in 1967. He joined the Group in 2008 as a director of Santander Insurance and head of Products and Marketing. He also served as managing director of products, marketing and customers in Banco Español de Crédito, S.A. (Banesto) and as managing director and head of Retail Banking in Santander UK. In 2015 he was appointed country head for Santander Spain and in 2017 he was named CEO of Banco Popular Español, S.A. until its merger with Banco Santander, S.A. He is currently senior executive vice president and country head of Santander Spain.
Mr Enrique Álvarez	HEAD OF STRATEGY, CORPORATE DEVELOPMENT AND NEW BUSINESSES DEVELOPMENT – SANTANDER UK	Born in 1978. He joined the Group in 2015 as deputy head of strategy. He is currently senior executive vice president, and until 15 February 2019 Group head of Chairman's Of ce and Strategy and global head of Insurance Network Banking and Responsible Banking. He is currently head of strategy corporate development and New Businesses Development in Santander UK. He is also a director of Open Digital Services, S.L., Santander Fintech Limited and Zurich Santander Insurance America, S.L. Previously he was a partner in McKinsey & Company.
Ms Lindsey Argalas	HEAD OF SANTANDER DIGITAL	Born in 1968. In 2017 she joined the Group as senior executive vice president and Group head of Santander Digital. She served as principal of The Boston Consulting Group (BCG) (1998-2008). She also served as senior vice president and chief of staf t o the CEO of Intuit Inc. (2008-2017).
Mr Juan Manuel Cendoya	GROUP HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH	Born in 1967. He joined the Bank in July 2001 as Group senior executive vice president and head of the Communications, Corporate Marketing and Research division. In 2016 he was appointed vice chairman of the board of directors of Santander Spain and head of Institutional and Media Relations of that unit, in addition to his function as Group head of Communications, Corporate Marketing and Research. He is also a member of the board of directors of Universia. Formerly, he was head of the legal and tax department of Bankinter, S.A. Juan Manuel Cendoya is a State Attorney. Positions held in other non-Group companies: He is currently a non-executive director at Arena Media Communications Network, S.L.
Mr José Doncel	GROUP HEAD OF ACCOUNTING AND FINANCIAL CONTROL	Born in 1961. He joined the Group in 1989 as head of accounting. He also served as head of accounting and f nancial management at Banco Español de Crédito, S.A. (Banesto) (1994-2013). In 2013 he was appointed senior executive vice president and head of the Internal Audit division. In 2014 he was appointed Group head of Accounting and Financial Control. Currently he serves as Group chief accounting of cer.

Mr Keiran Foad	GROUP CHIEF RISK OFFICER	Born in 1968. He joined the Group in 2012 as deputy chief risk of cer of Santander UK. He also served in various risk and corporate leadership roles at Barclays Bank, plc. (1985-2011) and as chief risk of cer at Northern Rock, plc. In 2016 he was appointed senior executive vice president and deputy chief risk of cer of the Bank until his appointment in 2018 as the Group chief risk of cer.
Mr José Antonio García Cantera	GROUP CHIEF FINANCIAL OFFICER	Born in 1966. He joined the Group in 2003 as senior executive vice president of global wholesale banking of Banco Español de Crédito, S.A. (Banesto). In 2006 he was appointed Banesto's chief executive of cer. Formerly, he was member of the executive committee of Citigroup EMEA and member of the board of directors of Citigroup Capital Markets Int, Ltd. and Citigroup Capital Markets UK. In 2012 he was appointed senior executive vice president of Global Corporate Banking. Currently he serves as Group chief f nancial of cer.
Mr Juan Guitard	GROUP CHIEF AUDIT EXECUTIVE	Born in 1960. He joined the Group in 1997 as head of human resources of Santander Investment, S.A. He was also General Counsel and Secretary of the board of Santander Investment, S.A. and Banco Santander de Negocios. In 2013 he was head of the Bank's Risk division. In November 2014 he was appointed head of the Internal Audit division. Currently, he serves as Group chief audit executive. Juan Guitard is a State Attorney.
Mr José María Linares	GLOBAL HEAD OF CORPORATE & INVESTMENT BANKING	Born in 1971. He served as an equity analyst in Morgan Stanley & Co. New York (1993-1994). He worked as senior vice president and senior Latin America telecom equity analyst at Oppenheimer & Co. New York (1994-1997). He also served as Director Senior Latin America TMT equity analyst at Société Générale, New York & São Paolo (1997-1999). In 1999 he joined J.P. Morgan and in 2011 was appointed as managing director and head of Global Corporate Banking at J.P. Morgan Chase & Co. (2011-2017). In 2017 he was appointed senior executive vice president of the Group and Global head of Corporate & Investment Banking.
Ms MnÃica López-Monís	GROUP CHIEF COMPLIANCE OFFICER	Born in 1969. She joined the Group in 2009 as general secretary and board secretary of Banco Español de Crédito, S.A. (Banesto). Formerly, she was general secretary of Aldeasa, S.A. She also served as general secretary of Bankinter, S.A. In 2015 she was appointed senior executive vice president of Santander and Group chief compliance of cer. Mónica López-Monís is a State Attorney.
Mr Javier Maldonado	GROUP HEAD OF COSTS	Born in 1962. He joined the Group in 1995 as head of the international legal division of Banco Santander de Negocios. He was in charge of several positions in Santander UK. He was appointed senior executive vice president of Santander and head of coordination and control of regulatory projects in 2014. He currently serves as Group senior executive vice president and head of Costs. Positions held in other non-Group companies: He is non-executive director of Alawwal Bank.

Mr Dirk Marzluf	GROUP HEAD OF TECHNOLOGY AND OPERATIONS	Born in 1970. He joined the Group in 2018 as Group senior executive vice president and Group head of IT and operations. Previously he held several positions in AXA Group, where he served as group CIO from 2013 leading the insurance group's technology and information security transformation and co-sponsor of its digital strategy. His global roles include previous work at Accenture, Daimler Chrysler and Winterthur Group.
Mr Víctor Matarranz	GLOBAL HEAD OF WEALTH MANAGEMENT	Born in 1976. He joined the Group in 2012 as head of strategy and innovation in Santander UK. In 2014 he was appointed senior executive vice president and head of executive chairman´s of ce and strategy. Previously, he held several positions in McKinsey & Company where he became partner. Currently, he serves as senior executive vice president and Global head of Wealth Management.
Mr José Luis de Mora	GROUP HEAD OF FINANCIAL PLANNING AND CORPORATE DEVELOPMENT	Born in 1966. He joined the Group in 2003. Since 2003, he has been in charge of developing the Group strategic plan and acquisitions. In 2015 he was appointed Group senior executive vice president and Group head of Financial Planning and Corporate Development. Since 15 February 2019, the strategy function has been integrated with the corporate development function.
Mr José María Nus	RISK ADVISER TO GROUP EXECUTIVE CHAIRMAN	Born in 1950. He joined the Group in 1996 as executive director and chief risk of cer of Banco Español de Crédito, S.A. (Banesto). In 2010 he was appointed executive director and chief risk of cer of Santander UK. He also served as Group chief risk of cer until June 2018. Formerly, he served as senior executive vice president in Argentaria and Bankinter. He currently serves as senior executive vice president and risk advisor to Group executive chairman.
Mr Jaime Pérez Renovales	GROUP HEAD OF GENERAL SECRETARIAT AND HUMAN RESOURCES	See prof le in section 4.1. 'Our directors'.
Ms Magda Salarich	HEAD OF SANTANDER CONSUMER FINANCE	Born in 1956. She joined the Group in 2008 as senior executive vice president and head of Santander Consumer Finance. Previously, she held several positions in the automobile industry, including the position of director and executive vice president of Citroën España and head of commerce and marketing for Europe of Citroën Automobiles.
Ms Jennifer Scardino	HEAD OF GLOBAL COMMUNICATIONS. GROUP DEPUTY HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH	Born in 1967. She joined the Group in 2011 as head of corporate communications, public policy and corporate social responsibility for Santander UK. She also held several positions in the US Securities and Exchange Commission (1993-2000). She was appointed managing director of Citigroup (2000-2011). In 2016 she was appointed senior executive vice president and head of Global Communications and Group deputy head of Communications, Corporate Marketing and Research.

6. Remuneration

Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.7, 9.4 and 9.5 below constitute the annual report on directors´ remuneration that must be prepared and submitted to the consultative vote of thegeneral shareholders' meeting. This report was published in previous years separately while now it is published as part of this Corporate governance chapter, as indicated in its introduction, 'Redesigned corporate governance report'.

Pursuant to the previous paragraph, this annual report on remuneration of directors has been approved by the board of directors of the Bank, in its meeting held 26 February 2019. None of the directors voted against nor abstained in relation to the approval of this report.

The text of the remuneration policy for directors in force at the date of this report is available at our corporate website.

6.1 Principles of the remuneration policy

Remuneration of directors in their capacity as such

The individual remuneration of directors, both executive and otherwise, for the performance of supervisory and collective decision-making duties, is determined by the board of directors, within the amount set by the shareholders, based on the positions held by the directors on the collective decision-making body itself and their membership and attendance of the various committees, as well as any other objective circumstances that the board may take into account.

Remuneration of directors for the performance of executive duties

The most notable principles of the Bank's remuneration policy for the performance of executive duties are as follows:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with rigorous risk management and with the Bank's long-term strategy, values and interests.
2. Fixed remuneration must represent a signif cant proportion of total compensation.
3. Variable remuneration must compensate for performance in terms of the achievement of agreed goals of the individual and within the framework of prudent risk management.
4. The global remuneration package and the structure thereof must be competitive, in order to appeal to and retain professionals.
5. Conf icts of interest and discrimination must be avoided in decisions regarding remuneration.

The assistance of Willis Towers Watson was sought by the remuneration committee and the board for the following purposes:

- To compare the relevant data with that on the markets and comparable entities, given the size, characteristics and activities of the Group.
- To analyse and conf rm the compliance of certain quantitative metrics relevant to the assessment of certain objectives.
- To estimate the fair value of the variable remuneration linked to long-term objectives.

Banco Santander performs an annual comparative review of the total compensation of executive directors and senior executives. The 'peer group' in 2018 comprised the following banks: Itaú, JP Morgan Chase, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

6.2 Remuneration of directors for the performance of supervisory and collective decision-making duties: policy applied in 2018

A. Composition and limits

As set out in Banco Santander´s Bylaws, the remuneration remuneration of directors for their status as such now consists of a f xed annual amount determined at the general shareholders' meeting. This amount shall remain in ef ect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such a reduction appropriate. The remuneration established at the general shareholders' meeting for 2018 was EUR 6 million, with two components: (a) annual allotment and (b) attendance fees.

Bylaw-stipulated emoluments earned by the board in 2018 amounted to EUR 4.6 million, which is 23% less than the amount approved at the general shareholders' meeting.

In addition, the Bank contracts a civil liability insurance policy for its directors upon customary terms that are proportionate to the circumstances of the Bank. Directors are also entitled to receive shares, share options or share-linked compensation following the approval of the general shareholders´ meeting.

Directors are also entitled to receive other compensation following a proposal made by the remuneration committee and upon resolution by the board of directors, as may be deemed appropriate in consideration for the performance of other duties in the Bank, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

None of the non-executive directors has the right to receive any benef t on the occasion of their removal as such.

B. Annual allotment

The amounts received individually by the directors during the last two years based on the positions held on the board and their membership on the various board committees were as follows:

Amount per director in euros	2018	2017
Members of the board of directors	90,000	87,500
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance committee	40,000	40,000
Members of the responsible banking, sustainability and culture committee	15,000	-
Chairman of the audit committee	70,000	50,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk supervision, regulation and compliance committee	70,000	50,000
Chairman of the responsible banking, sustainability and culture committee	50,000	-
Lead director[A]	110,000	110,000
Non-executive vice chairmen	30,000	30,000

A. Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specif cally as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

C. Attendance fees

By resolution of the board, at the proposal of the remuneration committee, the amount of attendance fees applicable to meetings of the board and its committees (excluding the executive committee, for which no fees are provided) during the last two years was as follows:

Attendance fees per director per meeting in euros	2018 and 2017
Board of directors	2,600
Audit committee and risk supervision, regulation and compliance committee	1,700
Other committees (excluding executive committee)	1,500

D. Breakdown of bylaw-stipulated emoluments

The total amount accrued for bylaw-stipulated emoluments and attendance fees was EUR 4,6 million in 2018 (EUR 4,7 million in 2017). The individual amount accrued for each director for these items is as follows:

Directors	Executive	Non-executive	Amount in euros 2018 Annual allotment Board[G]	EC	AC	ASC	RC	RSRCC	RBSCC	Total	Board and committee attendance fees	Total bylaw-stipulated emoluments and attendance fees	2017
Ms Ana Botín-Sanz de Sautuola y O'Shea			90,000	170,000	-	-	-	-	8,000	268,000	39,000	307,000	301,000
Mr José Antonio Álvarez Álvarez			90,000	170,000	-	-	-	-	-	260,000	34,000	294,000	301,000
Mr Bruce Carnegie-Brown		I	383,000	170,000	-	25,000	25,000	40,000	-	643,000	89,000	732,000	731,400
Mr Rodrigo Echenique Gordillo			90,000	170,000	-	-	-	-	-	260,000	33,000	293,000	295,400
Mr Guillermo de la Dehesa Romero		N	120,000	170,000	-	25,000	25,000	20,000	-	360,000	81,000	441,000	472,700
Ms Homaira Akbari		I	90,000	-	40,000	-	-	-	8,000	138,000	61,000	199,000	159,156
Mr Ignacio Benjumea Cabeza de Vaca		N	90,000	170,000	-	13,000	25,000	40,000	8,000	346,000	86,000	432,000	444,400
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A]		N[B]	90,000	-	-	-	-	-	-	90,000	31,000	121,000	123,900
Ms Sol Daurella Comadrán		I	90,000	-	-	25,000	25,000	-	8,000	148,000	67,000	215,000	206,900
Mr Carlos Fernández González		I	90,000	-	40,000	25,000	25,000	-	-	180,000	86,000	266,000	285,000
Ms Esther Giménez-Salinas i Colomer		I	90,000	-	-	-	-	40,000	8,000	138,000	58,000	196,000	161,756
Ms Belén Romana García		I	160,000	85,000	40,000	-	-	40,000	8,000	268,000	81,000	414,000	297,300
Mr Juan Miguel Villar Mir[C]		I	90,000	-	-	-	-	-	-	90,000	18,000	108,000	170,388
Mr Ramiro Mato García-Ansorena[D]		I	115,000	170,000	40,000	-	-	40,000	8,000	373,000	39,000	450,000	36,001
Mr Alvaro Cardoso de Souza[E]		I	85,000	-	-		-	27,000	5,000	117,000	31,000	148,000	-
Mr Matías Rodríguez Inciarte[F]			-		-	-	-				-		275,511
Ms Isabel Tocino Biscarolasaga[F]		I	-		-	-	-				-		417,577
Total			**1,763,000**	**1,275,000**	**160,000**	**113,000**	**125,000**	**247,000**	**61,000**	**3,744,000**	**872,000**	**4,616,000**	**4,679,389**

A. All amounts received were reimbursed to Fundación Botín.

B. Mr Javier Botín-Sanz de Sautuola is non-external (neither propietary nor independent) since 13 February 2018 (propietary at the beginning of 2018).

C. Ceased to be a director on 1 January 2019.

D. Director since 28 November 2017.

E. Director since 23 March 2018.

F. Ceased to be a director on 28 November 2017.

G. Includes committees chairmanship and other role emoluments.

P: Proprietary I: Independent N: Non-external (neither proprietary nor independent).

EC: Executive committee AC: Audit committee ASC: Appointments committee RC: Remuneration committee RSRCC: Risk supervision, regulation and compliance committee. RBSCC: Responsible Banking, sustainability and culture committee.

6.3 Remuneration of directors for the performance of executive duties

The policy applied to the remuneration of directors in 2018 for the performance of executive duties was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 23 March 2018, with 94.22% of the votes in favour. The table below summarises the remuneration policy and its implementation.

Component	Type of component	Policy	Implementation in 2018
Gross annual salary	Fixed	• Paid in cash on a monthly basis. • Base salary for Ana Botín and José Antonio Alvarez reviewed in 2018 to reflect pension transformation (equivalent reduction of pension contribution). • Base salary for Rodrigo Echenique reviewed due to increased responsibilities.	• Ana Botin: EUR 3,176 thousand. • José Antonio Álvarez: EUR 2,541 thousand. • Rodrigo Echenique: EUR 1,800 thousand. • Pension transformation detailed in section 6.3 C.

Variable remuneration	Variable	• Individual benchmark reference.
		• Calculated against a set of annual quantitative metrics and a qualitative assessment with input of individual performance.
		• 50% of each payment is made in shares subject to a one-year retention. The number of shares is determined at the time of the award.
		• 40% paid in 2019; 60% deferred in five years.
		  • 24% paid in equal parts in 2020 and 2021.
		  • 36% paid in equal parts in 2022, 2023 and 2024 subject to the compliance with a set of long-term objectives (2018-2020).
			• See section 6.3 B ii) for details of annual metrics and assessment.
			• See section 6.3 B iv) for details of the long-term metrics.
			• See section 6.3 B iii) for details of the individual awards.

Benefit system	Fixed	• Annual contribution at 22% of base salary. • Mr Echenique´s current contract does not provide for any pension benefit, without prejudice to his pension rights before he was appointed executive director.	• Until 2017, the annual contribution was 55% of the fixed and variable pensionable bases. Salary and incentive benchmark reviewed in the amount reduced in pension, with no cost increase for the Bank. • Supplementary death and disability benefits eliminated. • See section 6.3 C for details of the annual contributions and pension balance.
	Variable	• Annual contribution at 22%of the 30% of the average of the last three-years variable remuneration.	
Other remuneration	Fixed	• Includes life and accident and medical insurance, including any tax due on benefits. • Includes a fixed remuneration supplement in cash (not salary nor pensionable) as part of the elimination of the death and disability supplementary benefits.	• Life and accident annuities has been increased as a result of the elimination of the supplementary death and disability benefits. • Implementation of the fixed remuneration supplement as supplementary benefits are eliminated. • See section 6.3 C for details on the pension transformation.
Shareholding policy	N/A	• 200% of the net tax amount of the annual gross basic salary. • Five years from 2016 to demonstrate the shareholding.	• No change from 2017.

A. Gross annual salary

The board resoled to maintain the same gross annual salary for Ms Ana Botín and Mr José Antonio Álvarez for 2018 as in 2017, although with an increase in the amount equivalent to the reduction of the fixed pension contributions in the terms described in section 6.3 C, and neither the total compensation nor the cost were increased. Until 2017, the annual fixed contributions were 55% of the gross annual salary. From 2018 onwards, the fixed contributions will be 22% of the gross annual salary.

The board approved an increase in the gross annual salary of Mr Rodrigo Echenique on consideration of his new responsibilities in relation with the integration of Banco Popular into the Santander Group. His annual gross salary is EUR 1,800 thousand from January 2018.

In summary, the executive directors' gross annual salary and fixed annual contribution to pension for 2018 and 2017 were as follows:

	2018			2017		
EUR thousand	Gross annual salary	Fixed annual pension contribution	Total	Gross annual salary	Fixed annual pension contribution	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	3,176	699	3,875	2,500	1,375	3,875
Mr José Antonio Álvarez Álvarez	2,541	559	3,100	2,000	1,100	3,100
Mr Rodrigo Echenique Gordillo	1,800		1,800	1,500	-	1,500
Mr Matías Rodríguez Inciarte[A]				1,568	-	1,568
Total	**7,517**	**1,258**	**8,775**	**7,568**	**2,475**	**10,043**

A. Ceased to be a director on 28 November 2017. Figure includes his gross annual salary until he ceased to be a director. The portion of gross annual salary for discharging his duties as senior executive vice president from 28 November 2017 is included in the corresponding section.

B. Variable remuneration

i) General policy for 2018

The board approved the variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, in consideration of the approved policy:

- The variable components[16] of the total remuneration of executive directors in 2018 amounts to less than 200% of the fixed components, as provided by agreement at the general shareholders' meeting of 23 March 2018.

- At the request of the remuneration committee, at the beginning of 2019 the board approved the final amount of the incentive for 2018, based on the individual benchmark variable remuneration figure in accordance with the following:

  - A group of short-term quantitative metrics measured against annual objectives.

  - A qualitative assessment which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.

  - Where applicable, an exceptional adjustment that will be supported by the substantiated evidence.

  - The final variable remuneration is adjusted based on the individual assessment of the executive director, which is carried out in accordance with the current model and taking into account their individual objectives, as well as how they are achieved, for which the management of employees, the adherence to the corporate behaviours and the development of initiatives in the communities in which the Bank operates.

Individual benchmark variable remuneration → Quantitavie metrics and qualitative assessment[A] → Individual performance → Final individual variable remuneration

A. Where applicable, an exceptional adjustment based on substantiated evidence

The quantitative metrics and the elements of the qualitative assessment are described below.

- The approved incentive is paid 50% in cash and 50% in shares[17], a portion in 2019 and portion deferred and linked to multi-year targets. 40% shall be paid immediately once the final amount has been determined, and the remaining 60% shall be deferred in equal parts over five years, as follows:

  - Payment of the amount deferred over the first two years (24% of the total), payable in 2020 and 2021, where applicable, shall be conditional on none of the malus clauses described below being triggered.

  - The amount deferred over the next three years (36% of the total), payable in 2022, 2023 and 2024, where applicable, shall be conditional not only on the malus clauses not being triggered but also on the achievement of the multi-year targets described below. These objectives can only decrease the amounts and the number of deferred shares.

  - When the deferred amount is paid in cash, the beneficiary may be paid the adjustment for inflation through the date of payment.

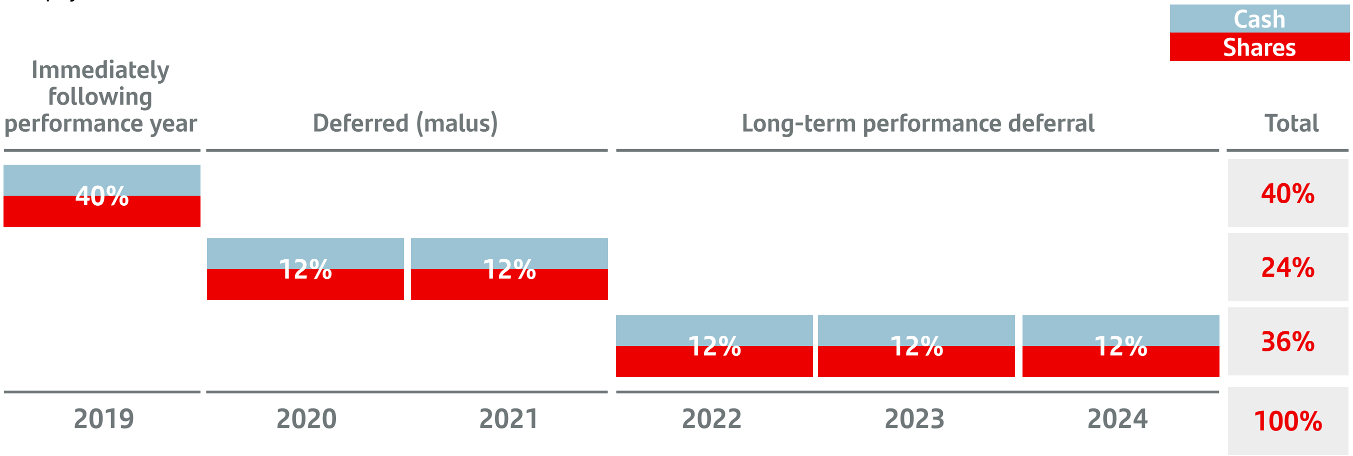
  - All payments in shares are subject to a one-year retention period after being delivered.

16. As stated in the initial table of this section 6.3, contributions to below of this section of the report, contributions to the benefits systems for two executive directors include both fixed components and variable components, which become part of the total variable remuneration.

17. Since variable remuneration involves the delivery of shares of the Bank, the board of directors submitted to the shareholders at the 2018 annual general shareholders' meeting, which so approved, the application of the third cycle of the Deferred Variable Remuneration Plan Linked to Multi-Year Targets, through which the aforementioned variable remuneration for executive directors is instrumented.

- The hedging of Santander shares received during the retention and deferral periods is expressly prohibited. The sale of shares is also prohibited for one year from the receipt thereof.

The payment schedule of the incentive is illustrated below.



All deferred payments, whether or not subject to long-term objectives, are subject to malus.

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy.

ii) Quantitative metrics and qualitative assessment for 2018

The variable remuneration for executive directors in 2018 factored in the quantitative metrics and qualitative factors approved by the board at the beginning of 2018 at the proposal of the remuneration committee[18], which has taken into account the policy referred to in the paragraphs above and the work of the human resources committee[19]. The result of aggregating the quantitative and qualitative weighted results is as follows:

18. Before determining the variable remuneration of executive directors and other senior managers, the committee receives a joint report from the risk compliance, audit and financial control functions of the Group identifying material errors which occurred during the year and satisfying itself that this has been appropiately reflected in the compensation proposals for each of these executives. Downward adjustment were made to the compensation of 68 material risk takers across the Group due to material errors, none related to the performance of executive directors or senior managers.

19. This committee was aided by members of senior management who are also responsible for different functions in the Group, including risk, internal audit, compliance, general secretariat and human resources, financial management, financial accounting and control. Their role in this committee consisted of analysing quantitative metrics information, undertaking a qualitative analysis, and considering whether or not to apply exceptional adjustments. This analysis included different matters related to risk, capital, liquidity, quality and recurrence of results, and other compliance and control matters.

Category and (weight)	Quantitative metrics			Qualitative		Total weighted score[B]
	Metrics	Assessment	Weighted assessment[A]	Component	Assessment	
Customers (20%)	Customer satisfaction Number of loyal customers	110.9% 100.1%	11.1% 10.0%	Effective compliance with the objectives of the rules on risk conduct in respect of customers.	+2.4% - Strengthened governance and management of commercialization conduct as part of Santander culture.	23.5%
Risks (10%)	Non-performing loans ratio Cost of lending ratio	102.7% 105.1%	5.1% 5.3%	Appropriate management of risk appetite and excesses recognised. Adequate management of operational risk.	+1.2% - Improving underlying controls. No material breaches of risk appetite.	11.6%
Capital (20%)	Capital ratio (CET1)	101.9%	20.4%	Efficient capital management.	+3.2% - Exceeded capital plan, through sustainable underlying actions.	23.6%
Return (50%)	Ordinary net profit (ONP)[C] RoRWA: return on risk weighted assets[D]	96.8% 102.2%	26.6% 23.0%	Suitability of business growth compared to the previous year, considering the market environment and competitors. Sustainability and solidity of results. Efficient cost management and achievement of efficiency goals.	0 % Results in line with expectations.	49.6%
Exceptional adjustment		Elements (non-exhaustive) under consideration: general control environment, compliance with internal and external regulations, prudent and efficient liquidity and capital planning management.		Based on strong business performance, specifically recognizing exceptional profit growth in a challenging international context, in particular in relation to macroeconomic conditions and monetary policy changes in 2018 in some of the main markets of the Group.		12.3%
TOTAL						**120.6%**

A. The weighted assessment is the result of multiplying the assessment of each objective by the weight of each objective. When there is more than one objective in the category and save for Note D below, the weight of each objective in the category is the same.

B. Result of adding or substracting the qualitative assessment to the weighted assessment.

C. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

D. The specific weight of ONP in the total scorecard is 27.5% and RoRWA is 22.5%.

The variable remuneration allocated to each executive director was determined by applying the aforementioned metrics to the sum of the benchmark variable remuneration of the executive directors, together with the level of compliance with individual goals and the market reference. The individual variable remuneration approved by the board are set out in the section below.

iii) Determination of the individual variable remuneration for executive directors in 2018

The board approved the variable remuneration of the Group executive chairman, the chief executive officer and the other executive directors, at the proposal of the remuneration committee, taking into account the policy referred to in the paragraphs above and the result of the quantitative metrics and qualitative assessment set out in the section above.

It was also verified that none of the following circumstances have occurred:

- The Group's ONP[20] for 2018 was not less than 50% of that for 2017. If this had occurred, the variable remuneration would not have been greater than 50% of the benchmark incentive.
- The Group's ONP has not been negative. If this had occurred, the incentive would have been zero.

The variable remuneration allocated to each executive director was determined by applying the aforementioned metrics to the sum of the benchmark variable remuneration of the executive directors, together with the level of compliance with individual goals, including people management, adherence to the corporate behaviours and the implementation of initiatives for communities.

20. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

For Ms Ana Botín and Mr José Antonio Álvarez the board resolved to maintain in 2018 the same benchmark incentive as in 2017 increased in the amount equivalent to the reduction of the variable pension contributions in the terms described in section 6.3 C, without the total compensation being increased as a result of this change. Until 2017, the annual variable contributions were 55% of the average of the last three variable remunerations amounts. From 2018, the variable contributions are 22% of the same pensionable base. This has resulted in a reduction of variable pension and an equivalent increase in the benchmark incentive of EUR 516 and 349 thousand for Ms Ana Botín and Mr José Antonio Álvarez, respectively.

As a result of the aforementioned process, the review of the benchmark variable remuneration and following a proposal by the remuneration committee, the board of directors approved the following amounts for variable remuneration payable immediately and the deferred amounts not linked to long-term metrics:

Immediately payable and deferred (not link to long-term objectives) variable remuneration

EUR thousand

	2018			2017		
	In cash	In shares[B]	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,368	2,368	4,736	2,192	2,192	4,384
Mr José Antonio Álvarez Álvarez	1,582	1,582	3,164	1,466	1,466	2,932
Mr Rodrigo Echenique Gordillo	1,256	1,256	2,512	1,142	1,142	2,284
Mr Matías Rodríguez Inciarte[A]	-	-	-	1,117	1,117	2,234
Total	**5,206**	**5,206**	**10,412**	**5,918**	**5,918**	**11,836**

A. Ceased to be a member of the board on 28 November 2017. Figure includes his deferred bonus payable immediately, not subject to long-term objectives, until he ceases to be a director. The portion for discharging his duties from 28 November is included in the corresponding section.

B. The share amounts in the foregoing table correspond to a total of 1,211 thousand shares in Banco Santander (992 in 2017).

The deferred portion of the variable remuneration, which will only be received, in 2022, 2023 and 2024, if the aforementioned long-term multi-year targets are met (see section 6.3 B iv)), on condition that the beneficiaries continue to be employed at the Group and provided malus and clawback clauses have not been triggered, is stated at its fair value as follows[21]:

Deferred and linked to long-term objectives variable remuneration

EUR thousand

	2018			2017		
	In cash	In shares[B]	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	932	932	1,864	863	863	1,726
Mr José Antonio Álvarez Álvarez	623	623	1,246	577	577	1,154
Mr Rodrigo Echenique Gordillo	495	495	990	450	450	900
Mr Matías Rodríguez Inciarte[A]	-	-	-	440	440	880
Total	**2,050**	**2,050**	**4,100**	**2,330**	**2,330**	**4,660**

A. Ceased to be a member of the board on 28 November 2017. Figure includes his bonus subject to long-term objectives for service until cessation as a director on 28 November 2017. The portion for discharging his duties from 28 November as senior executive vice president is included in the corresponding section.

B. The share amounts in the foregoing table correspond to a total of 477 thousand shares in Banco Santander (391 thousand shares in 2017).

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2018 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.

The maximum total number (without the fair value adjustment) of shares relating to the plan (1,893 thousand shares) is within the maximum limit of 2,676 shares authorised for executive directors by the shareholders at the general shareholders' meeting of 23 March 2018, and has been calculated on the basis of the average weighted daily volume of the average weighted listing prices of Santander shares for the 15 trading sessions prior to the Friday

21. Corresponding to the fair value of the maximum amount to be received over a total of 3 years, subject to continued service, with the exceptions envisaged, the non-applicability of malus clauses and compliance with the defined goals. Fair value was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

(not inclusive) before 29 January 2019 (the date on which the board approved the bonus for the executive directors for 2018), which was 4.298 euros per share.

iv) Multi-year targets linked to the payment of deferred amounts in 2022, 2023 and 2024

The multi-year targets linked to the payment of the deferred amounts payable in 2022, 2023 and 2024 are summarised as follows:

	Metrics	Weight	Target and compliance scales (metrics ratios)
A	Earnings per share (EPS) growth in 2020 vs 2017	33%	If EPS growth ≥ 25%, then metric ratio is 1 If EPS growth ≥ 0% but < 25%, then metric ratio is 0 – 1[C] If EPS growth < 0%, then metric ratio is 0
B	Relative Total Shareholder Return (TSR)[A] in 2018- 2020 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 2020	33%	If CET1 is ≥ 11,30%, then metric ratio is 1 If CET1 is ≥ 11% but < 11.30%, then metric ratio is 0 – 1[E] If CET1 is < 11%, then metric ratio is 0

A. For this purpose, TSR refers to the difference (expressed as a percentage) between the final value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2018 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2021 (exclusive) (to calculate the final value).

The peer group comprises the following entities: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

B. To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2020 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

C. Linear increase in the EPS ratio based on the specific percentage that EPS growth in 2020 represents with respect to 2017 EPS within this bracket of the scale.

D. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

E. Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2020 within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2022, 2023 and 2024, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment deriving from the malus clauses:

$$\text{Final annuity} = \text{Amt.} \times (1/3 \times A + 1/3 \times B + 1/3 \times C)$$

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e. Amt. will be 12% of the total variable remuneration set in early 2018).
- 'A' is the EPS ratio according to the scale in the table above, based on EPS growth in 2020 vs 2017.
- 'B' is the TSR ratio according to the scale in the table above, according to the relative performance of the Bank's TSR within its peer group in 2018-2020.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2020 described in the table above.

v) Vesting of the second cycle of the Performance Shares Plan

The annual general meeting held on 27 March 2015 approved the second cycle of the performance shares plan. The accrual of this long-term incentive plan (LTI) and its amount were conditional on the performance of certain metrics of Banco Santander between 2015 and 2017, as well as compliance with the remaining conditions of the plan until the end of the accrual period (31 December 2018). The maximum benchmark LTI for executive directors was set by the board, at the proposal of the remuneration committee, at an amount equal to 20% of the benchmark bonus in 2015. Based on that figure, an amount of LTI amount was set for each director (the 'approved LTI amount') taking into account the performance of two indicators in 2015: (1) the earnings per share (EPS) of Santander Group in 2015 compared to the target amount for such year; and (2) the return on tangible equity (RoTE) in 2015 compared to the target for that year. The application of the compliance scales associated to these metrics resulted in an approved LTI amount of 91.50% of the (maximum) established benchmark. The maximum number of shares are set out below as per this % of the approved LTI amount.

At year-end 2018, the corresponding amounts to be received by each exclusive director in relation to LTI (the accrued LTI amount) was established as follows:

Metric	Weighting	Target and compliance scale (metric ratio)	Result	Score	Total weighted score
Ranking of Santander's EPS growth for the 2015-2017 period compared to a peer group of 17 credit institutions (the peer group)[A]	25%	From 1st to 5th: 1 6th: 0.875 7th: 0.75 8th: 0.625 9th 0.50 From 10th to 18th: 0	Position 11 in ranking	0%	0%
RoTE in 2017 (%)	25%	≥ 12%:1 > 11% but < 12% 0,75 – 1[B] ≤ 11% 0	11.83%	95.69%	23.92%
Number of principal markets[B] in which Santander is in the Top 3 of the best banks to work for in 2017	20%	6 or more: 1 5 or fewer: 0	7 markets	100%	20%
Number of principal markets[C] in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017	15%	10: 1 Between 6 and 9: 0.2 – 0.8[B] 5 or fewer: 0	8 markets	60%	9%
Retail loyal customers (million) at 31 December 2017	7.5%	≥ 17: 1 > 15 but < 17: 0.5 – 1[B] ≤ 15: 0	15.8 million	70%	5.25%
SME and corporate retail loyal customers (million) at 31 December 2017	7.5%	≥ 1.1: 1 > 1 but < 1.1: 0.5 – 1[B] ≤ 1: 0	1.5 million	100%	7.5%
Total	**100%**				**65.67%**

A. The peer group comprised the following entities: Wells Fargo, JP Morgan Chase, HSBC, Bank of America, Citigroup, BNP Paribas, Lloyds, UBS, BBVA, Barclays, Standard Chartered, ING, Deutsche Bank, Société Générale, Intesa San- Paolo, Itaú and Unicredito.

B. Straight-line increase in the ratio based on the results within the respective bracket of the scale of each metric.

C. For these purposes, the Santander Groups 'principal markets' are: Argentina, Brazil, Chile, Germany, Mexico, Poland, Portugal, Spain, the US and the UK.

As a result of the aforementioned process and following a proposal by the remuneration committee, the board of directors approved the following number of shares to be paid in 2019:

	Number of shares		
	Approved LTI amount[A]	Ratio	Final number of shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	187,080	65.67%	122,855
Mr José Antonio Álvarez Álvarez	126,279	65.67%	82,927
Mr Rodrigo Echenique Gordillo	93,540	65.67%	61,428
Total	**406,899**		**267,210**

A. 91.50% of the maximum established benchmark approved at the AGM on 27 March, 2015.

The shares to be delivered in 2019 to executive directors based on compliance with the related multiannual target were fully deferred at the time of the accrual until their delivery. The payment in shares is subject to a one-year retention period after being delivered.

vi) Malus and clawback

Accrual of the deferred amounts (whether or not linked to multi-year targets) is also conditional upon the beneficiary's continued service in the Group[22], and upon none of the circumstances arising, in the period prior to each payment, that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy. Similarly, the variable remuneration already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided. The variable remuneration corresponding to 2018 is subject to clawback until the beginning of 2025.

22. When the relationship with Banco Santander or another Santander Group entity is terminated due to retirement, early retirement or pre-retirement of the beneficiary, a dismissal considered by the courts to be improper, unilateral withdrawal for good cause by an employee (which includes, in any case, the situations set forth in article 10.3 of Royal Decree 1382/1985, of 1 August, governing the special relationship of senior management, for the persons subject to these rules), permanent disability or death, or as a result of an employer other than Banco Santander ceasing to belong to the Santander Group, as well as in those cases of mandatory redundancy, the right to receive shares and deferred amounts in cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash shall remain under the same conditions in force as if none of such circumstances had occurred.

In the case of death, the right shall pass to the successors of the beneficiary.

In cases of justified temporary leave due to temporary disability, suspension of the contract due to maternity or paternity leave, or leave to care for children or a relative, there shall be no change in the rights of the beneficiary.

If the beneficiary goes to another Santander Group company (including through international assignment and/or expatriation), there shall be no change in the rights thereof.

If the relationship is terminated by mutual agreement or because the beneficiary obtains a leave not referred to in any of the preceding paragraphs, the terms of the termination or temporary leave agreement shall apply.

None of the above circumstances shall give the right to receive the deferred amount in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred remuneration in shares and cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash, it shall be delivered within the periods and under the terms provided in the rules for the plans.

Malus and clawback clauses are triggered in situations in which there is poor financial performance of the Bank as a whole or a specific division or area thereof or of the exposure generated by staff, taking into account at least the following:

Category	Factors
Risk	Significant failures in risk management by the Bank, or by a business or risk control unit.
Capital	An increase in capital requirements at the Bank or one of its business units not planned at the time that exposure was generated.
Regulation and internal codes	Regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. Likewise, failure to comply with the Bank's internal codes of conduct.
Conduct	Improper conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

The application of malus or clawback clauses for executive directors shall be determined by the board of directors, at the proposal of the remuneration committee, and cannot be proposed once the retention period related to the final payment in shares in accordance with the plan has elapsed in the beginning of 2025. Consequently, the board of directors, at the proposal of the remuneration committee and depending on the level of compliance with the aforementioned conditions regarding malus clauses, shall determine the specific amount of the deferred incentive to be paid and, where applicable, the amount that could be subject to clawback.

C. Main features of the benefit plans

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its executive directors. In 2012 the contracts of the executive directors (and of other members of the Bank's senior management) with defined benefit pension commitments were amended to transform them into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement[23], 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, the executive directors other than Mr Rodrigo Echenique have the right to receive an annual allotment. In the case of Ms Ana Botín, this allotment is the sum of her fixed remuneration and the 30% of the average of the three remunerations as maximum. In the case of Mr José Antonio Álvarez, this allotment is the fixed remuneration as senior vice president.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system[24].

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement)[25].

Mr Rodrigo Echenique's contract does not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

In application of that set forth in remuneration regulations, the contributions calculated on the basis of variable remuneration are subject to the discretionary pension benefits scheme. Under this scheme, these contributions are subject to malus and clawback clauses in accordance with the policy in place at any given time and during the same period in which variable remuneration is deferred. Furthermore, they must be invested in shares of the Bank for a period of five years from the date of the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the event of termination other than as may be required by law, and, in the case of pre-retirement, to the aforementioned annual allotment.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director's remuneration policy approved at the 23 March 2018 general shareholder´s meeting, in 2018 the system has been changed with a focus on:

- Aligning the annual contributions with practices of comparable institutions.

23. As provided in the contracts of the executive directors prior to 2012, Mr Matías Rodríguez Inciarte exercised the option to receive accrued pensions (or similar amounts) in the form of capital, i.e., in a lump sum, which means that he ceased to accrue pensions from such time, with a fixed capital amount to be received, which shall be updated at the agreed interest rate.

24. In the case of Mr Matías Rodríguez Inciarte, the initial balance corresponded to the amount that was set when, as described above, he exercised the option to receive a lump sum, and includes the interest accrued on this amount from that date.

25. In the event of Mr José Antonio Alvarez´s pre-retirement, his pensionable base in case of pre-retirement will be his fixed remuneration as senior executive vicepresident.

- Reduce future liabilities (derisking) of the plan by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of serving directors.

- No increase in total costs for the Bank.

The changes to the system are the following:

	2017 system	2018 system
Pensionable base	Fixed contribution: 55% of annual gross salary. Variable contribution: 55% of 30% of the average of their last three variable remunerations amounts.	Contributions at 22% of the respective pensionable bases. The difference between contributions has been increased by the annual gross salary in the case of fixed contributions (see 6.3 A) and in the benchmark variable remuneration in the case of the variable contribution (see 6.3 B iii)).
Supplementary benefits	In case of death (death of spouse and death of parent) and permanent disability of Ms Ana Botín and Mr José Antonio Álvarez. Widow/widower and children under 25 entitlement to a pension supplemental to the pension which they would be entitled to receive from social security.	The supplementary benefits were eliminated since 1 April 2018, increasing the sum insured in the life accident insurance and setting a fixed remuneration supplement in cash reflected in 'Other remuneration'.

As a result of the aforementioned changes, the provisions recognised in 2018 and 2017 for retirement pensions and supplementary benefits (death of spouse, death of parent and permanent disability) amounted to EUR 2,284 thousand (EUR 5,163 thousand in 2017), as broken down below.

EUR thousand	2018	2017
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,234	2,707
Mr José Antonio Álvarez Álvarez	1,050	2,456
Mr Rodrigo Echenique Gordillo	-	-
Mr Matías Rodríguez Inciarte	-	-
Total	**2,284**	**5,163**

The balance in the benefits system corresponding to each of the executive directors at 31 December 2018 and 2017 is as follows:

EUR thousand	2018	2017
Ms Ana Botín-Sanz de Sautuola y O'Shea	46,093	45.798
Mr José Antonio Álvarez Álvarez	16,630	16.151
Mr Rodrigo Echenique Gordillo[A]	13,614	13.957
Total[A]	**76,337**	**75,906**

A. Mr Rodrigo Echenique does not participate in the defined pensions scheme described in the preceding paragraphs. However, as an executive director and for informational purposes, this year's table includes the rights to which he was entitled prior to his designation as such. The payments made to him in 2018 to him with respect to his participation in this plan amounted to EUR 0.9 million euros (EUR 0.9 million euros in 2017).

D. Other remuneration

In addition to the above, the Group has insurance policies for life, health and other contingencies for the executive directors of the Bank. This component includes the fixed supplement approved for Ms Ana Botín and Mr José Antonio Álvarez to replace the supplementary benefits in the benefit systems eliminated in 2018. It also includes the life insurance contracted so that, in case of death or disability whilst in active or at pre-retirement, the executive directors or whoever they appoint, will receive the amounts of the fixed remuneration supplement that were to be paid until their retirement date. Similarly, the executive directors are covered under the civil liability insurance policy contracted by the Bank. Note 5 of the Group´s consolidated financial statements provides more detailed information about other benefits received by the executive directors.

E. Holding shares

Following a proposal submitted by the remuneration committee, in 2016 the board of directors approved a share holding policy aimed at strengthening the alignment of executive directors with shareholders' long-term interests.

According to this policy, each executive director active on 1 January 2016 would have five years in which to demonstrate that their personal assets include an investment in the Bank's shares equivalent to twice the net tax amount of their gross annual salary at the same date.

The shareholding policy also reflects the executive directors' commitment to maintaining a significant personal investment in the Bank's shares while they are actively performing their duties within the Group.

F. Remuneration of board members as representatives of the Bank

By resolution of the executive committee, all remuneration received by the Bank's directors who represent the Bank on the boards of directors of companies in which it has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The directors of the Bank received no remuneration from this type of representation in 2018 or 2017, save for one of the Bank's directors, Mr Matías Rodríguez Inciarte, who received a total of EUR 42 thousand in 2017, in his role as a non-executive director of U.C.I., S.A.

G. Individual remuneration of directors for all items in 2018

The detail, by Bank director, of salary remuneration payable in the short term (or immediately) and of deferred remuneration not linked to long-term goals for 2018 and 2017 is provided below. The Note 5 to the consolidated financial statements contains disclosures on the shares delivered in 2018 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the related years.

EUR thousand

	2018									2017
	Bylaw-stipulated emoluments		Salary remuneration of executive directors							
Directors	Board and board committees annual allotment	Board and committee attendance fees	Fixed	Immediate payment (50% in shares)	Deferred payment (50% in shares)	Total	Pension contribution	Other remuneration[G]	Total	Total
Ms Ana Botín-Sanz de Sautuola y O´Shea	268	39	3,176	2,960	1,776	7,912	1,234	1,030	10,483	10,582
Mr José Antonio Álvarez Álvarez	260	34	2,541	1,978	1,186	5,705	1,050	1,596	8,645	8,893
Mr Bruce Carnegie-Brown	643	89	-	-	-	-	-	-	732	731
Mr Rodrigo Echenique Gordillo	260	33	1,800	1,570	942	4,312	-	225	4,830	4,281
Mr Guillermo de la Dehesa Romero	360	81	-	-	-	-	-	-	441	473
Ms Homaira Akbari	138	61	-	-	-	-	-	-	199	159
Mr Ignacio Benjumea Cabeza de Vaca	346	86	-	-	-	-	-	81	513	550
Mr Francisco Javier Botín-Sanz de Sautuola y O´Shea[A]	90	31	-	-	-	-	-	-	121	124
Ms Sol Daurella Comadrán	148	67	-	-	-	-	-	-	215	207
Mr Carlos Fernández González	180	86	-	-	-	-	-	-	266	285
Ms Esther Giménez-Salinas i Colomer	138	58	-	-	-	-	-	-	196	162
Ms Belén Romana García	333	81	-	-	-	-	-	-	414	297
Mr Juan Miguel Villar Mir[B]	90	18	-	-	-	-	-	-	108	170
Mr Ramiro Mato García-Ansorena[C]	373	77	-	-	-	-	-	-	450	36
Mr Álvaro Cardoso de Souza[D]	117	31	-	-	-	-	-	-	148	-
Mr Matías Rodríguez Inciarte[E]	-	-	-	-	-	-	-	-	-	4,266
Ms Isabel Tocino Biscarolasaga[F]	-	-	-	-	-	-	-	-	-	418
Total 2018	**3,744**	**872**	**7,517**	**6,508**	**3,904**	**17,929**	**2,284**	**2,932**	**27,761**	**-**
Total 2017	**3,708**	**973**	**7,568**	**7,396**	**4,438**	**19,402**	**5,164**	**2,387**	**-**	**31,634**

A. All amounts received were reimboursed to Fundación Botín.

B. Ceased to be a member of the board on 1 January 2019.

C. Appointed director with effect from 28 November 2017.

D. Appointed director with effect from 23 March 2018.

E. Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2018. The remuneration for discharging his duties as senior executive vice president from 28 November is included in the corresponding section.

F. Ceased to be a member of the board on 28 November 2017.

G. Includes fixed income supplement (see section 6.3 D).

In addition, the following table provides the individual detail of the salary remuneration of executive directors linked to multi-year targets, which will only be paid if the conditions of continued service at the Group, non-applicability of the malus clauses and compliance with the defined multi-year targets are fulfilled (or, as applicable, of the minimum thresholds of these, with the consequent reduction of the agreed amount at the end of the year).

	EUR thousand	
	2018 (50% in shares)[A]	2017 (50% in shares)
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,864	1,726
Mr José Antonio Álvarez Álvarez	1,246	1,154
Mr Rodrigo Echenique Gordillo	990	900
Mr Matías Rodríguez Inciarte[B]	-	880
Total	**4,100**	**4,660**

A Fair value of the maximum amount receivable over a total of 3 years (2022, 2023 and 2024), which was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

B. Ceased to be a member of the board on 28 November 2017 and senior executive vice president on 2 January 2018. Long-term salary remuneration between 28 November and 31 December 2017 is included in the relevant section.

H. Ratio of variable to fixed components of remuneration in 2018

Shareholders at the general shareholders' meeting of 23 March 2018 approved a maximum ratio between variable and fixed components of executive directors' remuneration of 200%.

The following table shows the percentage of the variable components of total remuneration compared to the fixed components for each executive director in 2018:

Executive directors	Variable components / fixed components (%)
Ms Ana Botín-Sanz de Sautuola y O'Shea	145%
Mr José Antonio Álvarez Álvarez	99%
Mr Rodrigo Echenique Gordillo	169%

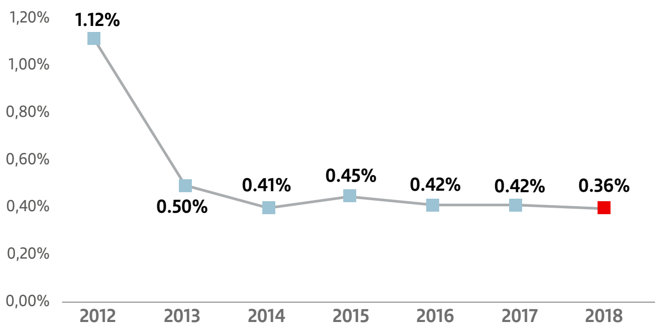
For these purposes:

- The variable components of remuneration includes all items of this nature, including the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director.
- The fixed components of remuneration includes the other items of remuneration that each director receives for the performance of executive duties, including contributions to the benefits systems calculated on the basis of fixed remuneration and other benefits, as well as all bylaw-stipulated emoluments that the director in question is entitled to receive in his or her capacity as such.

I. Summary of remuneration of executive directors and attributable net profit

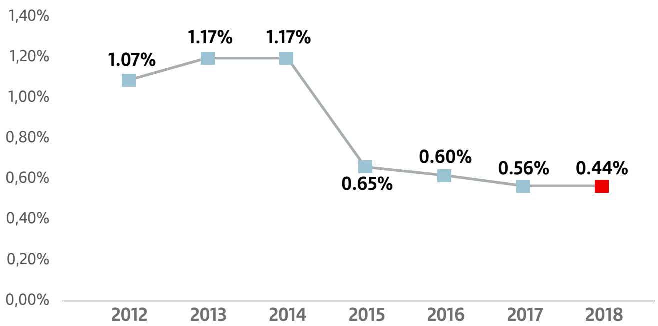
There following chart shows an overview of the compensation (short-term remuneration, deferred variable remuneration and/or deferred variable remuneration linked to multi-year targets) of the directors performing executive duties as compared with attributable net profit.

Executive directors' total remuneration as % of attributable netprofit



The variable remuneration received by the executive directors is also shown below as a percentage of the cash dividends paid.

Variable remuneration for all executives directors as % of cash dividends



J. Summary of link between risk, performance and reward

Banco Santander's remuneration policy and its implementation in 2018 promote sound and effective risk management while supporting the business objectives. They key elements of the remuneration policy for executive directors making for alignment between risk, performance and reward in 2018 were as follows:

Key words	Risk, performance and reward alignment element
Metrics balance	The balance of quantitative metrics and qualitative assessment, including customer, risk, capital and risk related profitability, used to determine the executive directors´ variable remuneration.
Financial thresholds	The adjustment to variable remuneration if certain financial thresholds are not reached, which may limit the variable remuneration to 50% of the previous year´s amount or lead to it not being awarded at all.
Long-term objectives	The long-term objectives linked to the last three portions of the deferred variable remuneration. These objectives are directly associated with the absolute return to shareholders, relative performance with the peer group and to maintaining a sound capital base.
Individual performance	The discretion of the board to consider the individual performance of the executive directors in the award of their individual variable remuneration.
Variable remuneration cap	200% of fixed remuneration.
Control functions involvement	The work done by the human resources committee aided by members of senior management leading control functions in relation with the analysis of quantitative metrics information and undertaking the qualitative analysis.
Malus and clawback	Malus can be made to unvested deferred awards and clawback can be applied to vested or paid awards in the conditions and situations set out in the Group´s remuneration policy.
Payment in shares	At least 50% of variable remuneration is paid in shares subject to a one-year retention period after delivery.

6.4 Directors remuneration policy for 2019, 2020 and 2021 that is submitted to a binding vote of the shareholders

Principles of the remuneration policy and remuneration system

A. Remuneration of directors in their capacity as such
The director remuneration system is regulated by article 58 of the Bylaws of Banco Santander and article 33 of the rules and regulations of the board. No changes in the principles or composition of the remuneration of directors for the performance of supervisory and collective decision-making duties are planned in 2019, 2020 and 2021 are planned with respect to those in 2018. They are set forth in sections 6.1 and 6.2.

B. Remuneration of executive directors
For the performance of executive duties, executive directors shall be entitled to receive remuneration (including, if applicable, salaries, incentives, bonuses, possible severance payments for early termination from such duties, and amounts to be paid by the Bank for insurance premiums or contributions to savings schemes) which, following a proposal from the remuneration committee and by resolution of the board of directors, is deemed to be appropriate, subject to the limits of applicable law. No changes in the principles of the remuneration of executive directors for the performance of executive duties are planned in 2019, 2020 and 2021, save for the change in the peer group indicated below, with respect to those in place in 2018. They are set forth in sections 6.1 and 6.3.

Banco Santander performs an annual comparative review of the total compensation of executive directors and other senior executives above. The 'peer group' will comprise in 2019 the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.

Remuneration of directors for 2019

A. Remuneration of directors in their capacity as such
In 2019, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to EUR 6 million as authorised by the shareholders at the 2018 annual general shareholders' meeting (and again subject to approval by the shareholders at the 2019 general shareholders' meeting), with two components:

- Annual allocation; and
- Attendance fees.

The specific amount payable for the above-mentioned items to each of the directors and the form of payment thereof shall be determined by the board of directors under the terms set forth in section 6.2 above.

In addition, as stated in the description of the director remuneration system, in 2019 the Bank will pay the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the Bank.

B. Remuneration of directors for the performance of executive duties

i) Fixed components of remuneration

A) Gross annual salary
At the proposal of the committee, the board resolved that Ms Ana Botín, Mr José Antonio Álvarez and Mr Rodrigo Echenique would maintain their same gross annual salaries in 2019 as in 2018.

B) Other fixed components of remuneration
- Benefits systems: defined contribution plans[26] as set out in section 'Pre-retirement and benefit plans'.

26.As stated in the section below, contributions to the benefits systems for two executive directors include both fixed components and variable components.

- Fixed salary supplement: the executive directors, other than Mr Rodrigo Echenique, will receive a fixed salary supplement approved in 2018 when the death and disability supplementary benefits systems was eliminated. Ms Ana Botín will receive EUR 525 thousand in 2019 for this component and Mr José Antonio Álvarez EUR 710 thousand in the same year.

- Social welfare benefits: executive directors will also receive certain social welfare benefits such as life insurance premiums, medical insurance and, if applicable, the allocation of remuneration for employee loans, in accordance with the customary policy established by the Bank for senior management. Additional information is included in section 'Pre-retirement and benefit plans'.

ii) Variable components of remuneration
The variable remuneration policy for executive directors for 2019, which was approved by the board at the proposal of the remuneration committee, is based on the principles of the remuneration policy described in section 6.3.

The variable remuneration of executive directors consists of a single incentive[27], linked to the achievement of short-and long-term goals, structured as follows:

- The final amount of the variable remuneration shall be determined at the start of the following year (2020) based on the benchmark amount and subject to compliance with the annual objectives described in section B) below.

- 40% of the incentive shall be paid immediately once the final amount has been determined and the remaining 60% shall be deferred in equal parts over five years, as follows:

  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2021 and 2022, shall be conditional on none of the malus clauses described in section 6.3 B vi) above being triggered.

  - The amount deferred over the next three years (36% of the total), payable in 2023, 2024 and 2025, shall be conditional not only on the malus clauses not being triggered but also on the executive achieving the long-term objectives described in section the D) below (deferred incentive subject to long-term performance objectives).

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy, to which section 6.3 B vi) above refers.

Exceptionally and as a result of the hiring of a new executive director, the variable remuneration of the new executive directors may include sign-on bonus and/or buyouts.

The variable components of the executive directors' total remuneration for 2019 must not exceed a limit of 200% of the fixed components, although the European regulation on remuneration allows certain variable components of an exceptional nature to be excluded.

A) Benchmark incentive
Variable remuneration for executive directors in 2019 shall be determined based on a standard benchmark incentive conditional upon compliance with 100% of the established targets. The board of directors, at the proposal of the remuneration committee and based on market and internal contribution criteria, may review the benchmark variable remuneration.

B) Setting the final incentive based on results for the year
Based on the aforementioned benchmark standard, the 2019 variable remuneration for executive directors shall be set on the basis of the following key factors:

- A group of short-term quantitative metrics measured against annual objectives.

- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards.

- An exceptional adjustment that must be supported by substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

27. Likewise, and as stated in section below, contributions to the benefits systems for the executive directors include both fixed components and variable components, which become part of the total variable remuneration.

The detailed quantitative metrics, qualitative assessment factors and weightings are indicated in the following scorecard:

Category and weighting		Quantitative metrics	Qualitative assessment
Customers (20%)		NPS/CSI[A] Number of loyal customers	Effective compliance with the objectives of the rules on risk conduct in respect of customers.
Shareholders (80%)	Risks (10%)	Non-performing loans ratio Cost of credit ratio (IFRS9)	Appropriate management of risk appetite and excesses recognised. Adequate management of operational risk.
	Capital (20%)	Capital ratio (CET1)[B]	Efficient capital management.
	Return (50%)	Ordinary net profit (ONP)[C] (20%) RoTE: return on tangible equity[B] (30%)	Suitability of business growth compared to the previous year, considering the market environment and competitors. Sustainability and solidity of results. Efficient cost management and achievement of efficiency goals.

A. Net promoter score / customer satisfaction index.

B. For this purpose, the capital ratio (CET1) and the RoTE will be adjusted upwards or downwards to reflect the adjustments made to the ONP pursuant to note C.

C. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

Lastly, and as additional conditions, in determining the incentive, it will be verified whether or not the following circumstances have occurred:

- If the Group's ONP for 2019 is less than 50% of the ONP for 2018, the incentive would in no case exceed 50% of the benchmark incentive for 2019.
- If the Group's ONP is negative, the incentive would be zero.

When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

C) Form of payment of the incentive

Variable remuneration is paid 50% in cash and 50% in shares, one portion in 2020 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the incentive is paid in 2020 net of taxes, half in cash and half in shares.

b) 60% is paid, if applicable, in five equal parts in 2021, 2022, 2023, 2024 and 2025, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section E) below.

The last three payments shall also be conditional upon the long-term objectives described in section D) below.

The portion paid in shares may not be sold until one year has elapsed from delivery thereof.

D) Deferred variable remuneration subject to long-term objectives

As indicated above, the amounts deferred in 2023, 2024 and 2025 shall be conditional upon, in addition to the terms described in section E) below, compliance with the Group's long-term objectives for 2019-2021. The long-term metrics are as follows:

(a) Compliance with the consolidated **EPS** growth target of Banco Santander in 2021 vs. 2018. The **EPS ratio** relating to this target is obtained as shown in the table below:

EPS growth in 2021 (% vs. 2018)	'EPS Ratio'
≥ 15%	1
≥ 10% but < 15%	0 – 1[A]
< 10%	0

A. Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2021 represents with respect to 2018 EPS within this bracket of the scale.

In addition, total or partial compliance of this objective requires that EPS growth in 2019 and 2020 is higher than 0%.

(b) Relative performance of the Bank's total shareholder return (**TSR**) in 2019-2021 compared to the weighted TSR of a peer group comprising 9 credit institutions, applying the appropriate TSR ratio according to the Bank's TSR within the peer group.

Ranking of Santander TSR	'TRS Ratio'
Above percentile 66	1
Between percentiles 33 and 66 (both inclusive)	0 – 1[A]
Below percentile 33	0

A. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

TSR[28] measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend programme) that shareholders may receive during the period in question.

28. TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2019 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2022 (exclusive) (to calculate the final value).

The peer group comprises the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotiabank y Unicredit.

(c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2021. The **CET1 ratio** relating to this target is obtained as described below:

CET1 in 2021	CET1 ratio
≥ 12%	1
≥ 11.50% but < 12%	0.5 – 1[A]
< 11.50%	0

A. Linear increase in the CET1 ratio based on the CET1 ratio for 2021 within this bracket of the scale.

To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio at 31 December 2021 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.

To determine the annual amount of the deferred variable remuneration tied to performance corresponding, if applicable, to each executive director in 2023, 2024 and 2025, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment deriving from the application of the malus policy described in section 6.3 B vi) above:

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e., Amt. will be 12% of the total incentive set in early 2020).
- 'A' is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2021 vs. 2018.
- 'B' is the TSR ratio according to the scale in section (b) above, according to the relative performance of the TSR within its peer group in 2019-2021.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2021 described in section (c) above.

The estimated maximum amount to be delivered in shares to executive directors is EUR 11.5 million.

E) Other terms of the incentive

Accrual of the deferred amounts, including amounts linked to long-term objectives, shall also be conditional upon the beneficiary's continued service in the Group and upon none of the circumstances arising that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy, all under terms similar to those indicated for 2018. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions therein provided.

The hedging of Santander shares received during the retention and deferral periods is expressly prohibited.

The effect of inflation on the deferred amounts in cash may be offset.

The sale of shares is also prohibited for at least one year from the receipt thereof.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors, such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies. These adjustments shall be described in detail in the corresponding report of the remuneration committee and in the annual report on director´s remuneration submitted each year to an advisory vote of the shareholders at the general shareholders' meeting.

iii) Holding shares

No changes in the holding shares policy are planned with respect to the terms in place for 2018 and set forth in section 6.3 E.

Remuneration of directors for 2020 and 2021

A. Remuneration of directors in their capacity as such

No changes to the remuneration of directors in their capacity as such for 2020 and 2021 with respect to the remuneration described for 2019 are expected, without prejudice to the fact that shareholders at the 2020 or 2021 annual general meeting may approve an amount higher than the six million euros currently in force, or that the board may determine, within such limit, a different distribution thereof among directors.

B. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2019, with the differences described below.

i) Fixed components of remuneration

A) Gross annual salary

The annual gross fixed remuneration may be revised each year depending on the criteria approved at any given time by the remuneration committee, whereby the maximum increase for 2020 and 2021 for each executive director may not exceed 5% of their annual gross salary for the previous year. Nonetheless, this increase 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, without these increases possibly leading to an increase in the total remuneration of these directors for this reason. Should these circumstances arise, they will be described in detail in the corresponding report of the remuneration committee and in the annual report on director's remuneration submitted each year to an advisory vote at the general shareholders' meeting.

B) Other fixed components of remuneration

No changes planned with respect to 2019.

ii)Variable components of remuneration

The policy on variable remuneration for executive directors for 2020 and 2021 will be based on much the same principles as in 2019, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

A) Setting the variable remuneration

Variable remuneration for 2020 and 2021 for executive directors shall be determined based on a benchmark incentive approved for each year which takes into account:

- A group of short-term quantitative metrics measured against annual objectives. These metrics shall be aligned with the Group strategic plan and include, at least, shareholder return targets, risk objectives, capital and customers. The metrics may be measured at Group level, and where applicable, at division level if the executive director is responsible for managing a specific business division. The results of each metric may be compared to both the budget established for the financial year as well as to growth compared to the prior year.

- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards. The qualitative assessment shall be performed on the same categories as the quantitative metrics, including shareholder returns, risk and capital management and customers.

- Potential exceptional adjustments that must be based on substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure that the main objectives are considered from the perspective of different stakeholders, and that the importance of risk and capital management is factored in.

Lastly, in determining the incentive it will be verified whether or not the following circumstances have occurred:

- If the quantitative metrics linked to profit do not reach a certain compliance threshold, the incentive may not be greater than 50% of the benchmark incentive for a given year.

- If the results of the metrics linked to profit are negative, the incentive shall be zero.

- When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

B) Form of payment of the incentive

No changes in form of payment are planned with respect to the terms in place for 2019.

C) Deferred variable remuneration subject to long-term objectives

The last three annual payments of the deferred amount of each variable remuneration shall be conditional upon, in addition to the terms described in section E) above, compliance with the Group's long-term objectives for at least a three-year period, compliance with which may only confirm or reduce the amounts and number of deferred shares.

Long-term metrics shall at least include objectives relating to value creation and return for shareholders and capital in a multi-year period of at least three years. These metrics shall be aligned with the Group's strategic plan and reflect its main priorities from its stakeholders' perspective.

These metrics may be measured at the level of the Group or of the country or business, when appropriate, and the performance thereof may be relatively compared to a peer group.

The portion paid in shares of the incentives may not be sold until at least one year has elapsed from delivery thereof.

D) Other terms of the incentive

No changes in form of payment are planned with respect to the continuity, malus and clawback terms terms in place for 2019 and that are described in section E) of the remuneration policy for 2019.

Likewise, no changes are planned to the hedging prohibition or the inflation-related adjustments on cash deferred amounts terms set out in the same section.

iii) Holding shares

The share holding policy approved in 2016 shall apply in 2020 and 2021, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any potential amendments would be described in detail in the corresponding remuneration committee report and in the annual report on director´s remuneration submitted each year to an advisory vote at the general shareholders' meeting.

Terms and conditions of executive directors' contracts

The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank, as approved by the board of directors.

The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration, are the following:

A. Exclusivity and non-competition

Executive directors may not enter into contracts to provide services to other companies or entities except where expressly authorised by the board of directors. In all cases, a duty of non-competition is established with respect to companies and activities similar in nature to those of the Bank and its consolidated Group.

Likewise, the contracts of the executive directors provide for certain prohibitions against competition and the poaching of clients, employees and suppliers that may be enforced for two years after the termination thereof for reasons other than retirement or a breach by the Bank. The compensation to be paid by the Bank for this duty of non-competition is 80% of the fixed remuneration, 40% payable on termination of the contract and 60% at the end of the two-year period for Ms Ana Botín and Mr José Antonio Álvarez. In the case of Mr Rodrigo Echenique, the compensation to be paid is two times his fixed salary, receiving 50% on termination of the contract and 50% at the beginning of the second year of the non-competition period.

B. Code of Conduct

There is an obligation to strictly observe the provisions of the Group's general code and of the code of conduct in securities markets, in particular with respect to rules of confidentiality, professional ethics and conflicts of interest.

C. Termination

The contracts are of indefinite duration and do not provide for any severance payment in the case of termination other than as may be required by law.

In the event of termination of her contract by the Bank, Ms Ana Botín-Sanz de Sautuola y O' Shea must remain available to the Bank for a period of four months to ensure a proper transition, during which period she would continue to receive her gross annual salary.

D. Pre-retirement and benefit plans

The contracts of the following executive directors acknowledge their right to pre-retire under the terms stated below when they have not yet reached retirement age:

- Ms Ana Botín-Sanz de Sautuola will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of her last variable remunerations, to a maximum of three. This allotment shall be reduced by 8% in the event of voluntary termination prior to the age of 60. This allotment is subject to the malus and clawback provisions in place for a period of five years.

- Mr José Antonio Álvarez Álvarez will be entitled to pre-retire in the event of leaving his post for reasons other than his own free will or breach of duty In that case, he will be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as a senior manager. This allotment is subject to the malus and clawback provisions in place for a period of five years.

The executive directors, other than Mr Rodrigo Echenique, participate in the defined contribution system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of the executive directors who participate in the benefit system. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during pre-retirement). The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president). The contributions will be 22% of the pensionable bases in all cases.

The pension amount corresponding to contributions linked to variable remuneration will be invested in Santander shares for a period of five years on the retirement date or, if earlier, the cessation date, and shall be paid in cash after five years have elapsed or, if subsequent, on the retirement date. Moreover, the malus and clawback clauses corresponding to contributions linked to variable remuneration shall be applied for the same period as the bonus or incentive upon which said contributions depend.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law, and, in the case of pre-retirement, the aforementioned annual allotment.

Mr Rodrigo Echenique's contract does not provide for any charge to the Bank´s regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

E. Insurance and other remuneration and benefits in kind

Ms Ana Botín and Mr José Antonio Álvarez will receive the fixed remuneration supplement approved as a result of the elimination of the supplementary benefits scheme in 2018. This supplement will be paid in the same amount in 2019, 2020 and 2021 and will continue to be paid until their retirement age, even if the director is then still active.

The Group has arranged life and health insurance policies for the directors.

The premiums for 2019 corresponding to this insurance amount to EUR 875 thousand, which includes the standard life insurance and, in the case of Ms Ana Botín and Mr José Antonio Alvarez, the life insurance coverage for the aforementioned fixed remuneration supplement. In 2020 and 2021, these premiums could vary in the event of a change in the fixed remuneration of directors or in their actuarial circumstances.

Similarly, executive directors are covered by the Bank's civil liability insurance policy.

Finally, executive directors may receive other benefits in kind (such as health insurance or employee loans) in accordance with the Bank's general policy and the corresponding tax treatment.

F. Confidentiality and return of documents

A strict duty of confidentiality is established during the relationship and following termination thereof, pursuant to which executive directors must return to the Bank the documents and items related to their activities that are in their possession.

G. Other terms and conditions

The advance notice periods contained in the contracts with the executive directors are as follows:

	By decision of the Bank (months)	By decision of the director (months)
Ms Ana Botín-Sanz de Sautuola y O'Shea	–	4
Mr José Antonio Álvarez Álvarez	–	–
Mr Rodrigo Echenique	–	–

Payment clauses in place of pre-notice periods are not contemplated.

Appointment of new executive directors

The components of remuneration and basic structure of the agreements described in this remunerations policy will apply to any new director that is given executive functions, notwithstanding the possibility of amending specific terms of agreements so that, overall, they contain conditions similar to those previously described.

In particular, the total remuneration of the director for performing executive duties may not be greater than the highest remuneration received by the current executive directors of the Bank pursuant to the remuneration policy approved by the shareholders. The same rules shall apply if a director assumes new duties that said director did not previously discharge or becomes an executive director.

If executive responsibilities are assumed with respect to a specific division or country, the board of directors, at the proposal of the remuneration committee, may adapt the metrics used for the establishment and accrual of the incentive in order to take into account not just the Group but also the respective division or country.

The remuneration of directors in their capacity as such, it shall be included within the maximum distributable amount set by the shareholders and to be distributed by the board of directors as described above.

Additionally, if the new director comes from an entity that is not part of the Santander Group, they could be the beneficiary of a buyout to offset the loss of variable remuneration corresponding to their prior post if they have not accepted a contract with the Group or of a sign-on bonus to attract them to join Banco Santander.

This compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders' meeting. Therefore, authorisation is expected to be sought at the next general shareholders' meeting to deliver a specified maximum number of shares as part of any hires to which the buyout regulation applies.

Sign-on bonuses can only be agreed once with the new executive directors, they can be paid in cash or shares and in each case will not exceed the maximum variable remuneration awarded for all executive directors the preceding year.

6.5 Preparatory work and decision-making process with a description of the participation of the remuneration committee

Section 4.6 Remuneration committee activities for 2018, details the following:

- Pursuant to the Bylaws and the Rules and regulations of the board of the Bank, the duties relating to the remuneration of the directors performed by the remuneration committee.
- The composition of the remuneration committee at the date of approving this report.
- The number of meetings with the risk supervision, regulation and compliance committee held in 2018, including those held jointly with the risk, compliance and regulation supervision committee.
- The date of the meeting when this report was approved.
- The 2017 annual report on directors´ remuneration was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 23 March 2018, with 94.42% of the votes in favour. The detail of vote was as follows:

	Number	% of total[A]
Votes cast	10,233,121,753	98.25%

	Number	% of total[A]
Votes against	389,585,931	3.74%
Votes in favour	9,834,835,228	94.42%
Abstentions	182,466,168	1.75%

A. Percentage on total valid votes and abstentions.

6.6 Remuneration of non-director members of senior management

At its meeting of 28 January 2019, the committee agreed to propose to the board of directors the approval of the variable remuneration for 2018 of members of senior management who are not directors. The committee's proposal was approved by the board at its meeting of 29 January 2019.

The Bank's general remuneration policy was applied in order to determine this variable remuneration, as well as the specificities corresponding to senior management. In general, their variable remuneration packages were calculated on the same balance of quantitative metrics and qualitative assessment used for executive directors described in section 6.3 B ii).

The contracts of certain senior managers have gone through changes similar to those set out in section 6.3 C for Ms Ana Botín and Mr José Antonio Álvarez. The changes aim to align the annual contributions with practices of comparable institutions and to reduce future liabilities (derisking) by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of certain with no increase in total costs for the Bank. The changes are the following:

- Contributions of the pensionable bases have been reduced. The difference between contributions has been increased in the same amount in the annual gross salary.
- The supplementary benefits have been eliminated since 1 January 2018.
- The sum insured of the life insurance have been improved.
- A fixed remuneration supplement reflected in the Other remuneration element of the table below was implemented for certain senior managers.

These changes have not meant an increase in total cost for the Bank.

The table below shows the amounts of short-term remuneration (immediately payable) and deferred remuneration (excluding that linked to multi-year targets) for members of senior management at 31 December 2018 and 2017, excluding remuneration corresponding to the executive directors shown previously:

EUR thousand

		Short-term and deferred salary remuneration					
Year	Number of people	Fixed	Immediately receivable variable remuneration (50% in shares)[A]	Deferred variable remuneration (50% in shares)[B]	Pension contributions	Other remuneration[C]	Total[D]
2018	18	22,475	16,748	7,582	6,193	7,263	60,261
2017	19	17,847	17,758	8,104	13,511	7,348	64,568

A. The amount of immediate payment in shares for 2018 is of 1,936 thousand Santander shares (1,430 thousand Santander shares and 226 thousand shares of Banco Santander (México) S.A. in 2017).

B. The amount of deferred shares for 2018 is of 877 thousand Santander shares.

C. Includes other items of remuneration such as life insurance premiums in the amount of EUR 1,641 thousand (692 thousand in 2017), health insurance and relocation packages.

D. In addition, as a result of the agreements for incorporation and offsetting of long-term remuneration and deferred losses in previous positions, compensation amounting to EUR 4,650 thousand and 649,000 shares of Banco Santander, S.A. was agreed in 2017. This compensation will be partially subject to deferral and/or recovery in certain cases.

The following table shows a breakdown of the salary remuneration linked to multi-year targets for members of senior management at 31 December 2018 and 2017. This remuneration will only be received if the terms of continued service, non-applicability of the malus clauses, and compliance with long-term goals are met in the corresponding deferral periods.

Thousands of euros

Year	Number of people	Deferred variable remuneration subject to long-term metrics[A] (50% in shares)[B]
2018	18	7,962
2017	19	8,510

A. In 2018, this corresponds to the fair value of the maximum annual payments for 2022, 2023 and 2024 of the third cycle of the deferred variable remuneration plan linked to multi-year targets. In 2017, this corresponds to the estimated fair value of the maximum annual payments for 2021, 2022 and 2023 of the second cycle of the deferred variable remuneration plan linked to multi-year targets. The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. Depending on the design of the plan for 2018 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. The amount of shares of the deferred variable remuneration subject to long-term metrics shown in the table above is of 921 thousand Santander shares in 2018.

The long-term goals are the same as those for executive directors. They are described in section 6.3 B iv).

Additionally, those senior executive vice presidents that ceased to carry out their duties in 2018 and who were not members of senior management at year-end, received salary remuneration and other remuneration relating to the cessation of their duties for a total amount of EUR 1,861 thousand during the year (EUR 5,237 thousand for those leaving their posts in 2017). Those leaving in 2017 also received long-term variable remuneration for a total of EUR 999 thousand (none in 2018).

In 2018, the ratio between the variable components of remuneration to the fixed components was 103% of the total for senior managers, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group's 2017 consolidated financial statements for further details.

6.7 Prudentially significant disclosures document

The board of directors is responsible for approving, at the proposal of the remuneration committee, the key elements of the remuneration of managers or employees who, while not belonging to senior management, take on risks, carry out control functions (i.e. internal audit, risk management and compliance) or who receive global remuneration that places them in the same remuneration bracket as senior management and employees who take on risk, and whose professional activities may have an important impact on the Group's risk profile (all of these together with the senior management and the Bank's board of directors form the so called identified staff or material risk takers).

Every year, the remuneration committee reviews and, if applicable, updates the composition of the identified staff in order to identify the persons in the organisation who fall within the aforementioned parameters. The Remuneration Policies chapter of the 2018 Pillar III disclosures report[29] describes the criteria used for identifying staff and the applicable regulation for the same purpose.

According to these criteria, at year-end 2018, this group comprised 1,384 executives across the Group (including executive directors and non-director senior managers) (1,255 in 2017), accounting for 0.68% of total staff (0.62% in 2017).

The directors that are identified staff other than executive directors are subject to the same remuneration standards applicable to the latter described in sections 6.1 and 6.3, except for:

- The various deferral percentages and terms that apply based on their category.
- The possibility that in 2018 the deferred part of the incentive of certain categories of managers is not conditional upon performance but only to the malus clause.
- As occurred with the bonuses in previous years, the variable remuneration amount that is paid or deferred in shares to the executives of the Group in Brazil, Chile, Mexico, Poland, and Santander Consumer US, is delivered in shares or similar instruments of their own listed entities.

In the financial year 2019, the board of directors will maintain its flexibility for agreeing total or partial payment in shares or similar instruments of Banco Santander and/or the respective subsidiary in the proportion it considers appropriate in each case (subject, in any event, to the maximum number of Santander shares to be delivered as agreed by shareholders at the general meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of the 2018 variable remuneration of identified staff, the amounts deferred in cash and in instruments and the ratio between the variable components of remuneration to the fixed components are detailed in the remuneration policies chapter of the 2018 Pillar III disclosures report mentioned above.

29. The 2018 Pillar III disclosures report is published at our corporate website.

7. Group structure and internal governance

The structure of the Santander Group is a model of legally independent subsidiaries whose parent is Banco Santander, S.A. The Group has registered address in the city of Santander (Cantabria, Spain) and its Corporate Centre in Boadilla del Monte (Madrid, Spain).

The Group has established a Group subsidiary governance model for its main subsidiaries. Any reference to subsidiaries in this section refers to the Bank's most signif cant subsidiaries.

The key features of the Group subsidiary governance model are as follows:

- The governing bodies of each subsidiary shall ensure that their company is managed rigorously and prudently, while ensuring their economic solvency and upholding the interests of their shareholders and other stakeholders.
- Management of the subsidiaries is a local matter carried out by local management teams which provide extensive knowledge and experience in relation to local customers and markets, while also benef ting from the synergies and advantages of belonging to the Santander Group.
- The subsidiaries are subject to the regulation and supervision of their respective local authorities, without prejudice to the global supervision of the Group by the ECB.
- Customer funds are secured by virtue of the deposit guarantee funds in place in the relevant country, in accordance to the applicable laws.

Subsidiaries f nance themselves autonomously when it comes to both capital and liquidity. The Group's capital and liquidity positions are coordinated by the corporate committees. Intragroup exposure is limited and transparent and any such transactions are invariably arranged under arm's length conditions. Moreover, the Group has listed subsidiaries in certain countries, in which it always retains a controlling stake.

The subsidiaries' autonomy limits the contagion risk between the Group's dif erent units, which reduces systemic risk. Each subsidiary has its own resolution plan.

7.1 Corporate Centre

The Group subsidiary governance model of Banco Santander is further complemented with a Corporate Centre that brings together Group control and support units tasked with functions relating to strategy, risks, auditing, technology, human resources, legal services, communications and marketing, among others. The Corporate Centre adds value to the Group by:

- Making its governance more robust, through corporate frameworks, models, policies and procedures that allow corporate expectations to be implemented and ensure ef ective supervision of the Group.
- Making the Group's units more ef cient by unlocking cost management synergies, economies of scale and achieving a common brand.
- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation.

7.2 Internal governance of the Group

Santander has an internal governance framework that takes the form of a governance model, establishing a set of principles that regulate relations and the interaction that must exist between the Group and its subsidiaries on three levels:

- On the governing bodies of the subsidiaries, where the Group has devised rules and procedures regulating the structure, composition, make-up and functioning of the boards and their committees (audit, appointments, remuneration and risks), in accordance with international standards and good governance practices. In addition, other rules and regulations concerning the appointment, remuneration and succession planning of members of governing bodies, in full compliance with the regulations and local supervisory criteria, are embedded.
- Between the CEOs (Chief executive of cers) and country heads of the subsidiaries and of the Group and between the of cers and teams deemed suitable to exercise key control functions within the Group and at the subsidiaries. These of cers and teams comprise the following: CRO (chief risk of cer); CCO (chief

compliance officer); CAE (chief audit executive); CFO (chief financial officer); CAO (chief accounting officer) and key support functions (IT, Operations, HR, General Secretary's Office, Legal Services, Marketing, Communications and Strategy) as well as business functions (SCIB, Wealth Management and Digital and Innovation).

In relation to CEOs, country heads and other significant office holders, the governance model establishes, among other aspects, the relevant rules and regulations to be followed in relation to their appointment, setting targets, assessment, and fixing of variable remuneration and succession planning. It also explains how Group officers and their counterparts at the subsidiaries should liaise and interact.

Santander also has thematic frameworks (corporate frameworks) for matters considered to be important due to their impact on the Group's risk profile, notable among which are risk, capital, liquidity, compliance, technology, auditing, accounting, finance, strategy, human resources, cybersecurity and communications and brand, and which specify:

- The way the Group exercises oversight and control over the subsidiaries.
- The Group's involvement in certain of the subsidiaries' important decisions, as well as the subsidiaries' involvement in the Group's decision-making processes.

The aforementioned governance model and corporate frameworks effectively make up the internal governance system and are approved by the board of directors of Banco Santander, S.A. for subsequent adherence to by the governing bodies of the subsidiaries, with due regard to any local requirements to which these subsidiaries may be subject. Both the model and the frameworks are maintained up to date on an ongoing basis through the recurring adoption of legislative changes and international best practices. They are subject to annual review by the Group board of directors.

Based on the corporate frameworks, the functions included in the governance model prepare internal regulatory documents (models, policies and procedures) that are given to the Group's subsidiaries as reference and development documentation, ensuring that they are effectively implemented and embedded at local level, and in full compliance with local law and local supervisory expectations. This approach also drives a consistency of application throughout the Group as a whole.

An Internal Governance Office at Group level, comprising Governance expertise, and the subsidiaries' General Secretaries are responsible for promoting the effective embedding of the Governance model and Corporate Frameworks. The extent and completeness of this activity is assessed by the Group on an annual basis with associated reporting to relevant Governing bodies.

8. Internal control over financial reporting (ICFR)

This section describes key aspects of the internal control and risk management systems in place at Santander Group with respect to the f nancial reporting process, specif cally addressing the following aspects:

- Control environment.
- Risk assessment in f nancial reporting.
- Control activities.
- Information and communication.
- Monitoring.
- External auditor report.

8.1 Control environment

Governance and responsible bodies

Our board of directors approves the f nancial information that, due to its status as a listed company, Banco Santander must periodically make public and is responsible for overseeing and guaranteeing the integrity of the internal information and control systems, as well as the accounting and f nancial information systems. This includes operational and f nancial control and compliance with applicable legislation.

Our board of directors has set up an audit committee that assists the board in supervising the f nancial reporting process and internal control systems.

According to the Rules and regulations of the board, our audit committee oversees the process of preparing and presenting the mandatory f nancial information relating to the Bank and the Group, and the adequate delimitation of the consolidation perimeter and the correct application of the accounting criteria, including the related non-f nancial information, in addition to its completeness; as well as the ef ectiveness of the internal control systems, so that the main risks are identif ed, managed and properly brought to light.

In addition, our audit committee discusses with the external auditor any signif cant def ciencies in the internal control system that may be detected in the course of the audit and ensures that the external auditor issues a report regarding the internal control system for f nancial information.

The existence of an adequate ICFR, prepared and coordinated by the non-f nancial risk control area, corresponds to the entire organisational structure with control relevance, through a direct scheme of individually assigned responsibilities. In addition, the f nancial accounting and management control units in each of the countries in which the Group operates -each led by a controller- have an important role in complying with the standard. Section below includes more information on the functions carried out by each organisational structure, the controllers and the non-f nancial risk control area.

Functions Responsible, Code of Conduct, whistleblowing channel and training

Functions Responsible

The Group, through the corporate organisation area and the organisational units for each country/entity or business, def nes, implements and maintains the organisational structures, catalogue of job positions and size of the units. Specif cally, the corporate organisation function def nes a reference managing and staf s tructure, which serves as a Manual across de Group.

The business and support areas channel any initiative related to their structure through these organisational units. These units are responsible for analysing, reviewing and, where appropriate, incorporating any structural modif cations into the corporate technology tools. The organisation units are responsible for identifying and def ning the main functions under the responsibility of each structural unit.

Based on this assignment, each of the business/support areas identif es and documents the necessary tasks and controls in its area within the Internal Control Model (ICM), based on its knowledge and understanding of its activities, processes and potential risks.

Each unit thus detects the potential risks associated with those processes, which are necessarily covered by the ICM. This detection takes place based on the knowledge and understanding that management has of the business and process.

It also has to establish those responsible for the various controls, tasks and functions of the documented processes, so that all the members of the division have clearly assigned responsibilities.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of ICFR.

With respect to the specif c process of preparing its f nancial information, the Group has def ned clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has f nancial accounting and control units in each of its operating markets; these are headed up by a controller whose duties include the following:

- Integrating the corporate policies def ned at the Group level into their management, adapting them to local requirements.
- Ensuring that the organisational structures in place are conducive to due performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specif c needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's f nancial accounting and control division.

In addition, to support the existence of adequate documentation for the Group's internal control model, the corporate non-f nancial risk control department is responsible for establishing and reporting the work method governing the process of documenting, evaluating and certifying the internal control model that covers the ICFR system, among other regulatory and legal requirements. It also handles maintaining documentation up-to-date to adapt it to organisational and regulatory changes and, together with the general controller and management control division and, if appropriate, the representatives of the divisions and/or companies concerned, present the conclusions of the internal control model evaluation process to the audit committee. There are similar functions at each unit that report to the corporate non-f nancial risk control department.

Code of Conduct
The Group's general Code of Conduct is approved by the Bank's board of directors, setting out behavioural guidelines of ethical principles and rules of conduct that govern the actions of all Santander Group employees and, therefore, constitutes the central pillar of the Group compliance function. It also establishes guidelines for conduct, among other matters, in relation to accounting obligations and f nancial information.

The code can be consulted on the corporate website (www.santander.com).

This code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A., who acknowledge as much when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specif c to the area or business in which they work.

The Group provides all its employees with e-learning courses on the aforementioned general code of conduct. Moreover, the compliance department is available to address any queries with respect to its application. The general code sets out the functions of the Group's governance bodies, units and areas required to implement the code, in addition to the compliance area.

The irregularities committee, consisting of representatives from various parts of the Group, is responsible for imposing disciplinary measures for any breaches of the general code and proposing corrective actions, which may lead to labour-of ence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such a breach.

Whistleblowing channel
Banco Santander has a whistleblowing channel, through which employees can report, conf dentially and anonymously, any allegedly unlawful acts or breaches of the general code of conduct that comes to their knowledge during the course of their professional activities.

In addition, through this whistleblowing channel, employees can conf dentially and anonymously report irregularities in accounting or auditing matters, in accordance with SOX. When reports concerning accounting or auditing matters are received, the compliance function will report to the audit committee to resolve the issue and adopt the appropriate measures.

To preserve the confidentiality of communications prior to their examination by the audit committee, the procedure does not require the inclusion of personal an contact data from the sender. In addition, only certain persons in the Compliance area review the content of the communication in order to determine whether it is related to accounting or auditing matters, and, if applicable, submit it to the audit committee.

Training
Group employees involved in preparing and reviewing its f nancial information participate in training programmes and regular refresher courses which are specif cally designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the management control and general audit division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and onsite sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

The training and periodic update programmes taught in 2018 have focused, among other subjects, on: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

59,636 employees from the Group's entities in the various countries in which it operates were involved in these training programmes, involving over 255,500 training hours at the Corporate Centre in Spain and remotely (e-learning). In addition, each country develops its own training programme based on that developed by the parent.

8.2 Risk assessment in financial reporting

Santander Group's ICM is defined as the process carried out by the board of directors, senior management and the rest of the Group's employees to provide reasonable assurance that their targets will be attained.

The Group's ICM complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organisations of the Tradeway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICM documentation is implemented at the main Group companies using standard and uniform methodology such that it ensures inclusion of the appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk (particularly those included in the recommendations issued by the Basel Risk Committee). Its scope is greater than all of the risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by the ICM is based on the knowledge and understanding that management have of the business and its operating processes, taking into account both criteria of relative importance and qualitative criteria associated with the type, complexity or the structure of the business itself.

In addition, the Bank ensures the existence of controls covering the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as of the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICM model are worth highlighting:

It is a corporate model involving the whole organisational structure through a direct scheme of responsibilities assigned individually.

The management of the ICM documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the non-financial risk control department, which issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control assessment tests, criteria for the classification of potential weaknesses and rule changes.

It is an extensive model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas which, while not generating a direct impact on the accounting process, could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/or fraud.

It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.

It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICM model.

All of the Group companies' ICM documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the financial accounting and control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over or is exposed to its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, the audit committee is responsible for supervising the Bank and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

8.3 Control activities

Procedures for reviewing and authorising the financial information

Our audit committee by mandate of the board oversees the process of preparing and presenting the mandatory financial information regarding the Bank and the Group, which includes the related non-financial information, as well as its completeness, and reviews compliance with regulatory requirements, the appropriate delimitation of the perimeter of consolidation and the correct application of accounting criteria, ensuring that this information is permanently updated on the Bank's website.

The process of creating, reviewing and authorising the financial information and the description of the ICFR is documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off transactions (stock trading, property deals, etc.) and aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the way of carrying out, reviewing and authorising procedures for generating financial information.

Our audit committee also has the duty to report to the board, prior to its adoption of the corresponding decisions, regarding the financial information that the Group must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices used to prepare the financial statements and is as reliable as these statements.

The most significant aspects of the accounting close process and the review of the material judgements, estimates, measurements and projections used are as follows:

- Impairment losses on certain assets;
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;
- The useful life of the tangible and intangible assets;
- The measurement of goodwill arising on consolidation;
- The calculation of provisions and the consideration of contingent liabilities;
- The fair value of certain unquoted assets and liabilities;
- The recoverability of tax assets;
- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations.

Our Group's chief accounting officer presents to be validated the Group's financial information to the audit committee on a quarterly basis, at least, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

To verify that the ICM is working properly and check the effectiveness of the defined functions, tasks and controls, the Group has in place an assessment and certification process that starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions drawn, the next step is to certify the tasks and functions related to the generation of financial information so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the chief accounting officer/controller certify the effectiveness of the ICM.

The annual process identifies and assesses the criticality of risks and the effectiveness of the controls identified in the Group.

The non-financial risk control unit prepares a report spelling out the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- Detail of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- The ICM design and operation tests performed by those responsible for its maintenance and/or independent experts.

This report also itemises the main deficiencies identified throughout the certification process by any of the parties involved, indicating whether these deficiencies have been properly resolved or, if not, what plans are in place to correct them in a satisfactory manner.

The conclusions of these evaluation processes are presented to the audit committee by the non-financial risk control department, together with Accounting and Management Control division and, if appropriate, the sponsors of the divisions and/or work companies concerned, after having been presented to the risk control committee.

Lastly, based on this report, the Group's chief accounting officer / controller (CAO), chief financial officer (CFO) and its chief executive officer (CEO) certify the effectiveness of the ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

In 2018, the Group has worked to strengthen the identification and documentation of the most relevant controls for the Group (special monitoring controls) in order to ensure an adequate internal control system over financial information. Further, in order to continue strengthening the Santander Group ICM, it has been decided that from 2019 onwards the internal audit function will perform independent tests on these controls as part of its audits.

Internal control policies and procedures for IT systems

The Technology and Operations division issues corporate IT policies.

For internal control purposes, the following policies are of particular importance.

The Group's IT systems which are directly or indirectly related to the f nancial statements are conf gured to ensure the correct preparation and publication of f nancial information at all times by means of a specif c internal control protocol.

To this end, the entity has internal policies and procedures, which are duly updated and distributed, relating to systems security and access to the IT applications and systems based on roles and in accordance with the duties and clearances assigned to each unit/ post so as to ensure proper separation of powers.

The Group's internal policies establish that access to all systems that store or process data shall be strictly controlled, and that the level of access control required is determined by potential impact on the business. Access rights are assigned by Group experts in this area (known as authorised signatures), by roles and functions. In addition, to ensure the compliance of processes related to control and maintenance of users and prof les, personnel in each area are tasked with ensuring that information is only accessed by persons who need it for their work.

The Group's methodology is designed to ensure that any new software developments and the updating and maintenance of existing programmes go through a def nition-development-testing cycle that guarantees that f nancial information is handled reliably.

In this way, once software developments have been completed on the basis of the def ned requirements (detailed documentation of the processes to be implemented), these developments are subjected to exhaustive testing by a specialist 'software lab'.

The Corporate Certif cation Of ce is then responsible for the complete testing cycle of the software in a pre-production environment, prior to its f nal implementation. The aforementioned of ce manages and coordinates this whole cycle, which includes: technical and functional testing, performance testing, user acceptance testing, and pilot and prototype testing as def ned by the entities, prior to making the applications available to all end users.

Underpinned by corporate methodology, the Group guarantees the existence of business continuity plans that ensure on-going performance of key functions in the event of disasters or other events that could halt or interrupt business operations.

These plans catalogue the measures, which translate into specif c initiatives, designed to mitigate the scale and severity of IT incidents and to ensure that operations are up and running again as quickly and with as little fallout as possible.

To this end, the Group has highly automated back-up systems to ensure the continuity of the most critical systems with little or no human intervention thanks to parallel redundant systems, high-availability systems and redundant communication lines.

In addition, there are specif c force majeure risk mitigation strategies in place, such as virtual data processing centres, back-up power suppliers and of site storage facilities.

Internal control policies and procedures over outsourced activities and valuation services from independent experts

The Group has established an action framework and specif c implementation policies and procedures to ensure the adequate coverage of the risks associated with subcontracting activities to third parties.

The relevant processes include:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support services not directly related to the generation of f nancial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the main processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels.

The Group assesses its estimates in-house. Whenever it considers it advisable to hire the services of a third party to help with specif c matters, it does so having verif ed their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group has signed service level agreements and put in place controls to ensure the integrity and quality of information for external suppliers providing signif cant services that might impact the f nancial statements.

8.4 Information and communication

Function in charge of accounting policies

The Financial Accounting and Control division includes the accounting policies area, the head of which reports directly to the controller and has the following exclusive responsibilities:

- Def ning the accounting treatment of the transactions that constitute the Bank's business in keeping with their economic substance and the regulations governing the f nancial system.

- Def ning and updating the Group's accounting policies and resolving any questions or conf icts deriving from their interpretation.

- Enhancing and standardising the Group's accounting practices.

- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Corporate Accounting, Financial Reporting and Management Framework sets out the principles, guidelines and procedures for accounting, f nancial reporting and management that apply to all entities of the Santander Group as a key underpinning of good governance. The structure of the Group calls for stipulating uniform principles, guidelines and procedures so that each Group entity can rely on ef ective consolidation methods and apply uniform accounting policies. The principles set out in this Framework are appropriately implemented and specif ed in the Group's accounting policies.

Accounting policies must be treated as a supplement to the f nancial and accounting standards that apply in the given jurisdiction, being their overarching objectives(i) f nancial statements and other f nancial information made available to management bodies, regulators and third parties must provide accurate and reliable information for decision-making relating to the Group, and (ii) all Group entities must be enabled to comply in a timely manner with legal duties and obligations and regulatory requirements. The Accounting Policies are subject to revision whenever the reference regulations are modif ed and, at least, once a year.

Additionally, on a monthly basis, the accounting policies area publishes internally a bulletin that contains any news in accounting matters, including both the new published regulations and the most relevant interpretations. These documents are stored in the accounting standards library (NIC-KEY), which is accessible to all Group units.

The Financial Accounting and Control division has put in place procedures to ensure it has all the information it needs to update the accounting plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and f uid dialogue with the f nancial regulation and accounting processes area and with the other areas of the management control unit.

Mechanisms for the preparation of fn ancial information

The Group's computer applications are conf gured into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply dif erent kinds of services, including:

- General information systems: these provide information to division/business unit heads.

- Management systems: these produce information for business monitoring and control purposes.

- Business systems: software encompassing the full product-contract-customer life cycle.

- Structural systems: these support the data shared and used by all the applications and services. These systems include all those related to the accounting and f nancial information.

All these systems are designed and developed in accordance with the following IT architecture:

- General software architecture, which def nes the design patterns and principles for all systems.

- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to and consultation of the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specif es the accounting entries and movements to be made for the said transaction. These accounting entries and movements are designed, authorised and maintained by the Financial Accounting and Control division.

The applications execute all the transactions performed in a given day across various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the 'daily transaction register' (DGO for its acronym in Spanish).

The DGO generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting infrastructure application.

This application carries out the other processes necessary to generate f nancial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for saving in the accounting system itself.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the def nition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verif cation system which performs a number of controls and tests.

This accounting infrastructure and the aforementioned structural systems generate the processes needed to generate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the Financial Accounting and Control division.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the Financial Accounting and Control division, while the second performs the consolidation proper on the basis of the information provided by the former.

Each month, all of the entities within the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems opportune for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The Financial Accounting and Control division also performs additional oversight and analytical controls.

8.5 Monitoring

2018 ICFR monitoring activities and results

Our board has approved a corporate internal audit framework for the Santander Group, defining the global function of internal audit and how it is to be carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances in regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit reports to the audit committee and to the board of directors on a regular basis and at least twice a year, as an independent unit, it has direct access to the board when it deems it appropriate.

The internal audit evaluates:

- The efficacy and efficiency of the processes and systems cited above;

- Compliance with applicable legislation and requirements of supervisory bodies;

- The reliability and integrity of financial and operating information; and

- The integrity of capital.

Internal audit is the third line of defence, independent of the other two.

The scope of its work encompasses:

- All Group entities over which it exercises effective control;

- Separate asset pools (for example, mutual funds) managed by the entities mentioned in the previous section; and

- All entities (or separate asset pools) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder, and in outsourced activities pursuant to the agreements reached in each case.

Our audit committee supervises the Group's internal audit function and, specifically, must: (i) propose the selection, appointment and withdrawal of the officer responsible for internal audit; (ii) ensure the independence and effectiveness of the internal audit function; (iii) ensure that the internal audit function has the physical and human resources needed for the performance of its work and propose the budget for this service; (iv) receive periodic information regarding the activities thereof and review the annual activities report; (v) annually assess the function of the internal audit unit and the performance of its leading officer, which shall be communicated to the remuneration committee and to the board to determine the variable remuneration thereof and (vi) verify that senior management and the board take into account the conclusions and recommendations set forth in its reports.

At year-end 2018, internal audit employed 1,210 people, all dedicated exclusively to this service. Of these, 266 were based at the Corporate Centre and 944 in local units situated in the principal geographic areas in which the Group is present, all of who work exclusively at those locations.

Each year, Internal Audit prepares an audit plan based on a self-assessment exercise of the risks to which the Group is exposed. Internal Audit is solely responsible for executing the plan. From the reviews carried out, audit recommendations may be prepared. These are prioritised according to their relative importance and are monitored continuously until their complete implementation.

At its meeting on 21 February 2019, the audit committee considered and approved the audit plan for 2019, which was submitted to, and approved by the board at the meeting held on 26 February 2019.

In 2018, the effectiveness and functioning of the main elements of the internal control system and controls on information systems in the units analysed were assessed.

The main objectives of the internal audit reviews were:

- Verify compliance with sections 302, 404, 406, 407 and 806 of the Sarbanes-Oxley Act.
- Check the existing governance on the information related to the internal control system over financial information.
- Review the functions performed by the internal control departments and other departments, areas or divisions involved in compliance with the SOX Act.
- Check that the SOX support documentation is updated.
- Verify the effectiveness of the controls documented in the process.
- Evaluate the rigour of the certifications carried out by the different units, especially their consistency with any observations and recommendations set forward by Internal Audit, the auditors of the statutory accounts or the supervisory bodies themselves within the framework of their reviews.
- Verify proper compliance with the recommendations made in previous audits.

In 2018, the audit committee and the board of directors were kept informed of the work carried out by the Internal Audit division on its annual plan and other issues related to the audit function. The audit committee assessed whether the work of internal audit was sufficient and the results of its activity and monitored the recommendations made, particularly the most important. It also reviewed the effects of the results of this work on the financial information. Finally, the committee monitored the corrective actions implemented, giving priority to the most important of these.

Detection and management of deficiencies

Our audit committee is officially tasked with overseeing the financial information process and the internal control systems. It deals with any control deficiencies that might affect the reliability and accuracy of the financial statements. To this end, it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

The audit committee, as part of its remit to oversee the financial reporting process and the internal control systems, is responsible for discussing with the external auditors any significant weaknesses detected in the course of the audit.

As part of its supervision work, our audit committee assesses the results of the work of the Internal Audit division, and can take action as necessary to correct any deficiencies identified in the financial information.

In 2018, our audit committee was informed about the evaluation and certification of the ICM corresponding to tax year 2017 and drew conclusions on the effectiveness of the Group's ICM, in compliance with CNMV ICFR and SEC Sarbanes-Oxley Law (SOX) and ICFR.

Internal audit has maintained the 2017 ICFR rating, identifying no material deficiencies in the control environment.

8.6 External auditor report

The external auditor has issued an independent reasonable assurance report on the design and effectiveness of the ICFR and the description on the ICFR that is provided in this section 8 of the annual corporate governance report.

This report is included in the next pages.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT REASONABLE ASSURANCE REPORT ON THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

To the Shareholders of Banco Santander, S.A.:

We have carried out a reasonable assurance report 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, 2018.

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.

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.

In this regard, it should be borne in mind that, given the inherent limitations of any 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, 2018, in all material respects, an effective system of Internal Control relating to the Financial Reporting included in the consolidated financial statements of the Group as at December 31, 2018, 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 addition, the attached description of the ICFR Report as at December 31, 2018, related to the Santander Group, has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 and Circular No 2/2018 dated June 12 of the CNMVfor the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit of accounts nor is it subject to the regulations governing the activity of the audit in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations. However, we have audited, in accordance with the regulations governing the audit activity in force in Spain, the consolidated financial statements of Santander Group prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting standards applicable to the Group, and our report dated February 28, 2019 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 28, 2019

9. Other corporate governance information

As indicated in the introduction of this chapter 'Redesigned corporate governance report', since 12 June 2018 (Circular 2/2018) CNMV has allowed the annual corporate governance and directors' remuneration reports mandatory for Spanish listed companies to be drafted in a free format. We have opted to use a free format for our 2018 corporate governance report and 2018 directors' remuneration report.

However, CNMV requires any issuer opting to use a free format to provide certain information in a format established by CNMV so that it can be aggregated for statistical purposes. This information is included (i) for corporate governance matters under section 9.2 'Statistical information on corporate governance required by CNMV' and also covers the section 'comply with the recommendations in the Spanish Corporate Governance Code for Listed Companies or explain' and (ii) for remuneration matters under section 9.5 'Statistical information on remuneration required by CNMV'.

In addition, since some shareholders or other stakeholders may be accustomed to the prescribed formats required by CNMV, section 9.1 'Reconciliation to CNMV's corporate governance report model' and section 9.4 'Reconciliation to CNMV's remuneration report model' include, for each section in the CNMV's prescribed formats for corporate governance and remuneration reports, prescribed formats, a cross reference to where this information may be found in the free format 2018 annual corporate governance report or in the other chapters of this annual report. Please note however that CNMV's prescribed formats have changed slightly in 2018 and therefore the content for each section varies from the previous year.

Moreover, we have traditionally filled in the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code for Listed Companies to establish where we comply and also the few instances where we do not comply or we comply partially. Therefore, have included in section 9.3 'Cross-reference table for comply or explain in corporate governance recommendations' a chart with cross-references showing where the information supporting each response can be found in this 2018 corporate governance chapter or elsewhere in this consolidated directors´report.

9.1 Reconciliation to CNMV's corporate governance report model

Section in CNMV model	Included in statistical report	Comments
A. OWNERSHIP STRUCTURE		
A.1	Yes	See section 2.1.
A.2	Yes	See section 2.3 where we explain there are no significant shareholders for its own acount.
A.3	Yes	See 'Tenure, committee membership and equity ownership' in section 4.2 and section 6.
A.4	No	See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply.
A.5	No	See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply.
A.6	No	See section 2.3 where we explain there are no significant shareholders for its own acount so this section does not apply.
A.7	Yes	See section 2.4.
A.8	Yes	Not applicable.
A.9	Yes	See section 2.5.
A.10	No	See section 2.5.
A.11	Yes	See section 2.1 and statistical information.
A.12	No	See section 3.2.
A.13	No	See section 3.2.
A.14	Yes	See section 2.6.

Section in CNMV model	Included in statistical report	Comments
B. GENERAL SHAREHOLDERS' MEETING		
B.1	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.2	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.3	No	See 'Quorum and majorities required for passing resolutions at the GSM' and 'Rules governing amendments to our Bylaws' in section 3.2.
B.4	Yes	None.
B.5	Yes	See section 3.4.
B.6	Yes	See 'Participation of shareholders at the GSM' in section 3.2.
B.7	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.8	No	See 'Corporate website' in section 3.2.
C. MANAGEMENT STRUCTURE		
C.1 Board of directors		
C.1.1	Yes	See 'Size' in section 4.2.
C.1.2	Yes	See 'Tenure, committee membership and equity ownership' in section 4.2.
C.1.3	Yes	See section 2.4, 4.1 and 'Executive directors', 'Independent non-executive directors', 'Other external directors' and 'Composition by type of director' in section 4.2.
C.1.4	Yes	See section 1.4 and'Diversity' in section 4.2.
C.1.5	No	See 'Diversity' in section 4.2 and section 4.5 and regarding top excecutive positions, see 'Responsible banking' chapter.
C.1.6	No	See 'Diversity' in section 4.2 and section 4.5.
C.1.7	No	See section 1.4 and 'Diversity' in section 4.2.
C.1.8	No	Not applicable.
C.1.9	No	See section 'Group executive chairman and chief executive officer' and 'Executive committee' in section 4.3.
C.1.10	No	See section 4.1.
C.1.11	Yes	See section 4.1.
C.1.12	Yes	See 'Board and committees attendance' in section 4.3.
C.1.13	Yes	See section 6 and, additionally, note 5 c) to our 'consolidated financial statements'.
C.1.14	Yes	See section 5 and 6.
C.1.15	Yes	See 'Rules and regulations of the board' in section 4.3.
C.1.16	No	See 'Election, refreshment and succession of directors' in section 4.2.
C.1.17	No	See 'Self-assessment of the board' in section 4.3 and section 4.5.
C.1.18	No	See 'Self-assessment of the board' in section 4.3.
C.1.19	No	See 'Election, refreshment and succession of directors' in section 4.2.
C.1.20	No	See 'Proceedings of the board' in section 4.3.
C.1.21	Yes	Not applicable.
C.1.22	No	See 'Diversity' in section 4.2.
C.1.23	Yes	See 'Election, refreshment and succession of directors' in section 4.2.
C.1.24	No	See section 4.3 'Board functioning and effectiveness'.
C.1.25	Yes	See section 4.3 'Board functioning and effectiveness' and sections 4.4, 4.5, 4.6 and 4.7.
C.1.26	Yes	See 'Board and committees attendance' in section 4.3.
C.1.27	Yes	See statistical information.
C.1.28	No	See 'Duties and activities in 2018' in section 4.4.
C.1.29	Yes	See 'Secretary of the board' in section 4.3.
C.1.30	No	See 3.1; 'Duties and activities in 2018' in section 4.4; and section 9.6.
C.1.31	Yes	See 'External auditor' in section 4.4.
C.1.32	Yes	See 'Duties and activities in 2018' in section 4.4.
C.1.33	Yes	Not applicable.

Section in CNMV model	Included in statistical report	Comments
C.1.34	Yes	See statistical information.
C.1.35	Yes	See 'Proceedings of the board' in section 4.3.
C.1.36	No	See 'Election, refreshment and succession of directors' in section 4.2.
C.1.37	No	Not applicable.
C.1.38	No	Not applicable.
C.1.39	Yes	See section 6.4. and 6.7.
C.2 Board committees		
C.2.1	Yes	See 'Board committees structure'; 'Executive committee'; 'Responsible banking, sustainability and culture committee' and 'Innovation and technology committee' in section 4.3 and sections 4.4, 4.5, 4.6 and 4.7.
C.2.2	Yes	See statistical information.
C.2.3	No	See 'Rules and regulations of the board' in section 4.3 and sections 4.4, 4.5, 4.6 and 4.7.
D. RELATED PARTY AND INTRAGROUP TRANSACTIONS		
D.1	No	See 'Related-party transactions' in section 4.8.
D.2	Yes	Not applicable.
D.3	Yes	Not applicable. See 'Related-party transactions' in section 4.8.
D.4	Yes	See statistical information.
D.5	Yes	Not applicable. See section 4.8 'Related-party transactions and conflicts of interest' .
D.6	No	See 'Related-party transactions and conflicts of interest' in section 4.8.
D.7	Yes	Not applicable.
E. CONTROL AND RISK MANAGEMENT SYSTEMS		
E.1	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 1 'Risk management and control model' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter.
E.2	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 1.1 'Risk governance' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter.
E.3	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile',and 'Responsible banking' chapter and for our capital needs, see also section 'Economic capital' in Economic and financial review chapter.
E.4	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 1.3 'Management processes and tools' and sections 'Risk culture' and 'Tax strategy' in the Responsible banking chapter.
E.5	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile', and sections 3 to 9 of such chapter for each risk. Additionally, see note 25e.i to our consolidated financial statements.
E.6	No	See chapter 'Risk management' of this consolidated directors´ report, in particular section 2 'Risk map and risk profile', and sections 3 to 9 of such chapter for each risk.
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'.
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.

9.2 Statistical information on corporate governance required by CNMV

Unless otherwise indicated all data as of 31 December 2018.

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
06/11/2018	8,118,286,971	16,236,573,942	16,236,573,942

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:

Name or corporate name of shareholder	% of voting rights attributed to shares		% of voting rights through financial instruments		Total % of voting rights
	Direct	Indirect	Direct	Indirect	
BlackRock Inc.	0	4.50%	0	1.10%	5.60%

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.	4.50%	1.10%	5.60%

A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	% of voting rights attributed to shares		% of voting rights through financial instruments		Total % of voting rights	% of voting rights that may be transferred through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Ms Ana Botín-Sanz de Sautuola y O'Shea	0.00	0.13	0.00	0.00	0.13	0.00	0.00
Mr José Antonio Álvarez Álvarez	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Mr Bruce Carnegie-Brown	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Rodrigo Echenique Gordillo	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Ms Homaira Akbari	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Ignacio Benjumea Cabeza de Vaca	0.02	0.00	0.00	0.00	0.02	0.00	0.00
Mr Javier Botín-Sanz de Sautuola y O'Shea	0.03	0.46	0.00	0.00	0.49	0.00	0.00
Mr Álvaro Cardoso de Souza	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ms Sol Daurella Comadrán	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Guillermo de la Dehesa Romero	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Carlos Fernández González	0.11	0.00	0.00	0.00	0.11	0.00	0.00
Ms Esther Giménez-Salinas i Colomer	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Ramiro Mato García Ansorena	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ms Belén Romana García	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Juan Miguel Villar Mir	0.00	0.00	0.00	0.00	0.00	0.00	0.00

% total voting rights held by the board of directors	0.77%

A.7 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Companies Act (LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes ☑ **No** ☐

Parties to the shareholders' agreement	% of share capital affected	Brief description of agreement	Expiry date, if applicable
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (directly and through Agropecuaria El Castaño, S.L.U.) Mr Emilio Botín-Sanz de Sautuola y O'Shea (directly and through Puente San Miguel, S.L.U.) Ms Ana Botín-Sanz de Sautuola y O'Shea (directly and through CRONJE, S.L.U.) Ms Carolina Botín-Sanz de Sautuola y O'Shea (through Nueva Azil, S.L.) Ms Paloma Botín-Sanz de Sautuola y O'Shea (directly and through Bright Sky 2012, S.L.) Ms Carmen Botín-Sanz de Sautuola y O'Shea Latimer Inversiones, S.L.	0.49%	Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the consolidated directors' report.	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
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (directly and through Agropecuaria El Castaño, S.L.U.) Mr Emilio Botín-Sanz de Sautuola y O'Shea (directly and through Puente San Miguel, S.L.U.) Ms Ana Botín-Sanz de Sautuola y O'Shea (directly and through CRONJE, S.L.U.) Ms Carolina Botín-Sanz de Sautuola y O'Shea (through Nueva Azil, S.L.) Ms Paloma Botín-Sanz de Sautuola y O'Shea (directly and through Bright Sky 2012, S.L.) Ms Carmen Botín-Sanz de Sautuola y O'Shea Latimer Inversiones, S.L.	0.49%	Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the consolidated directors' report.	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	12,249,652	0.07%

(*)Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	11,400,000
Banco Santander Río, S.A.	849,652
Total:	12,249,652

A.11 Estimated free float:

	%
Estimated free float	93.59%

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☑ **No** ☐

B. GENERAL SHAREHOLDERS' MEETING

B.4 Indicate the attendance figures for the general shareholders' meetings held during the fiscal year to which this report relates and in the two preceding fiscal years:

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
18/03/2016	0 .86%	43.46%	0.27%	13.04%	57.63%
of which free float:	0.19%	43.46%	0.27%	13.04%	56.96%

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
07/04/2017	0.90%	47.48%	0.37%	15.27%	64.02%
of which free float:	0.26%	47.48%	0.37%	15.27%	63.38%

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
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%

B.5 Indicate whether in the general shareholders' meetings held during the fiscal year to which this report relate there has been any matter submitted to them which, for any reason, has not been approved by the shareholders.

Yes ☐ **No** ☑

B.6 Indicate whether the bylaws require a minimum holding of shares to attend to or to vote remotely in the general shareholders' meeting:

Yes ☐ **No** ☑

C. MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 Maximum and minimum number of directors provided for in the Bylaws:

Maximum number of directors	17
Minimum number of directors	12
Number of directors fixed by GSM	15

C.1.2 Complete the following table with the directors' details:

Name or corporate name of director	Representative	Category of director	Position in the board	Date of first appointment	Date of last appointment	Election procedure
Ms Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04/02/1989	07/04/2017	Vote in general shareholders' meeting
Mr José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25/11/2014	07/04/2017	Vote in general shareholders' meeting
Mr Bruce Carnegie-Brown	N/A	Non-executive independent	Lead independent director	25/11/2014	18/03/2016	Vote in general shareholders' meeting
Mr Rodrigo Echenique Gordillo	N/A	Executive	Vice chairman	07/10/1988	07/04/2017	Vote in general shareholders' meeting
Ms Homaira Akbari	N/A	Non-executive independent	Director	27/09/2016	23/03/2018	Vote in general shareholders' meeting
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Other external (neither independent nor proprietary)	Director	30/06/2015	23/03/2018	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Other external (neither independent nor proprietary	Director	25/07/2004	18/03/2016	Vote in general shareholders' meeting
Mr Álvaro Cardoso de Souza	N/A	Non-executive independent	Director	23/03/2018	23/03/2018	Vote in general shareholders' meeting
Ms Sol Daurella Comadrán	N/A	Non-executive independent	Director	25/11/2014	23/03/2018	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Other external (neither independent nor proprietary)	Vice chairman	24/06/2002	23/03/2018	Vote in general shareholders' meeting
Mr Carlos Fernández González	N/A	Non-executive independent	Director	25/11/2014	23/03/2018	Vote in general shareholders' meeting
Ms Esther Giménez-Salinas i Colomer	N/A	Non-executive independent	Director	30/03/2012	07/04/2017	Vote in general shareholders' meeting
Mr Ramiro Mato García-Ansorena	N/A	Non-executive independent	Director	28/11/2017	23/03/2018	Vote in general Shareholders'meeting
Ms Belén Romana García	N/A	Non-executive independent	Director	22/12/2015	07/04/2018	Vote in general shareholders' meeting
Mr Juan Miguel Villar Mir	N/A	Non-executive independent	Director	07/05/2013	27/03/2015	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, removal or any other):

Name or corporate name of director	Category of director at the time he/her left	Date of last appointment	Date of leave	Board committees he or she was a member of	Indicate whether he or she has left before the expiry of his or her term
N/A	N/A	N/A	N/A	N/A	N/A

C.1.3 Complete the following tables for the directors in each relevant category:

Executive directors

Name or corporate name of director	Position held in the company	Profile
Ms Ana Botín-Sanz de Sautuola y O'Shea	Group executive chairman	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr José Antonio Álvarez Álvarez	CEO	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Rodrigo Echenique Gordillo	Vice chairman	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.

Total number of executive directors	3
% of the Board	20%

Proprietary non-executive directors

Name or corporate name of director	Name or corporate name of significant shareholder represented or having proposed his or her appointment	Profile
N/A	N/A	N/A

Total number of proprietary non-executive directors	0
% of the Board	0%

Independent non-executive directors

Name or corporate name of director	Profile
Mr Bruce Carnegie-Brown	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Ms Homaira Akbari	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Álvaro Cardoso de Souza	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Ms Sol Daurella Comadrán	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Carlos Fernández González	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Ms Esther Giménez-Salinas i Colomer	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Ramiro Mato García-Ansorena	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Ms Belén Romana García	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Juan Miguel Villar Mir	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.

Total number of independent directors	9
% of the Board	60%

Identify any independent director who receives from the company or its group any amount or perk other than his or her director remuneration or who maintain or have maintained during the fiscal year covered in this report a business relationship with the company or any group company, either in his or her own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained such a business relationship.

In such a case, a reasoned statement from the Board on why the relevant director(s) is able to carry on their duties as independent director (s) shall be included.

Name or corporate name of director	Description of the relationship	Reasoned statement
Sol Daurella Comadrán	Financing	When assessing the annual verification of independent directors the appointments committee has verified whether there are significant business relationships between Santander Group and the companies in which these directors are or have previously been significant shareholders or directors, with regard to the financing granted by the Santander Group to these companies. In all cases, the committee concluded that the existing relations did not have the condition of significant among other reasons, as the business relationships: (i) do not generate a situation of economic dependence in the relevant companies in view of the substitutability of this financing for other sources of funding, either bank-based financing or other, (ii) are aligned with the market share of Santander Group within the relevant market, and (iii) have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. NYSE, Nasdaq and Canada's Bank Act.
Juan Miguel Villar Mir	Financing	

Other non-executive directors

Identify all other non-executive directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons for not qualifying under other category	Entity, executive or shareholder with whom it maintains a relationship	Profile
Mr Guillermo de la Dehesa Romero	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 consolidated directors' report.
Mr Ignacio Benjumea Cabeza de Vaca	As the required period has not lapsed since he ceased his professional relationship with the Bank (other tan that as a director of the Bank and of Santander Spain).	Banco Santander, S.A.	See section 4.1 'Our directors' in the Corporate governance chapter in the consolidated directors' report.
Mr Javier Botín-Sanz de Sautuola y O'Shea	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 consolidated directors' report.

Total number of other non-executive directors	3
% of the Board	20%

List any changes in the category of a director which have occurred during the period covered in this report.

Name or corporate name of director	Date of change	Previous category	Current category
Mr Javier Botín-Sanz de Sautuola y O'Shea	13/02/ 2018	Proprietary director	Other external director

C.1.4 Complete the following table on the number of female directors at the end of each the past four years and their category:

	Number of female directors				% of total directors of each category			
	FY 2018	FY 2017	FY 2016	FY 2015	FY 2018	FY 2017	FY 2016	FY 2015
Executive	1	1	1	1	33.33%	33.33%	25.00%	25.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	4	4	5	4	44.44%	50.00%	62.5%	50.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	5	5	6	5	33.33%	35.71%	40.00%	33.33%

C.1.11 Identify those directors (or individuals representing the director in the case of directors who are body corporates) who hold a directorship of other non-group companies that are listed on official securities markets (or who are the individuals representing a body corporate holding such a directorship), if communicated to the company:

Name or corporate name of director	Name of the listed company	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	Director
Mr Bruce Carnegie-Brown	Moneysupermarket.com Group plc.	Chairman
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Director
Mr Guillermo de la Dehesa Romero	Amadeus IT Group, S.A.	Vice Chairman
Ms Homaira Akbari	Veolia Environnment, S.A. Landstar System, Inc. Gemalto N.V.	Director Director Director
Ms Sol Daurella Comadrán	Coca-Cola European Partners plc.	Chairman
Mr Carlos Fernández González	Inmobiliaria Colonial, S.A. AmRest Holdings SE	Director Director
Ms Belén Romana García	Aviva plc.	Director

C.1.12 Indicate and, if applicable explain, if the company has established rules on the maximum number of directorships its directors may hold and, if so, where they are regulated:

Yes ☑ **No** ☐

This maximum 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)	28,910
Amount of accumulated pension rights of current directors (EUR thousand)	76,337
Amount of accumulated pension rights of former directors (EUR thousand)	70,169

C.1.14 Identify the members of the company's senior management who are non executive directors and indicate total remuneration they have accrued during the fiscal year:

Name or corporate name	Position (s)
Mr Rami Aboukhair Hurtado	Country head - Santander Spain
Mr Enrique Álvarez Labiano	Group head of Chairman's Office and Strategy. Global head of Insurance, Network Banking and Responsible Banking
Ms Lindsey Tyler Argalas	Head of Santander Digital
Mr Juan Manuel Cendoya Méndez de Vigo	Group head of Communications, Corporate Marketing and Research
Mr José Fransisco Doncel Razola	Group head of Accounting and Financial Control
Mr Keiran Paul Foad	Group Chief Risk Officer
Mr José Antonio García Cantera	Group Chief Financial Officer
Mr Juan Guitard Marín	Group Chief Audit Executive
Mr José María Linares Perou	Global head of Corporate & Investment Banking
Ms Mónica López-Monís Gallego	Group Chief Compliance Officer
Mr Javier Maldonado Trinchant	Group head of Costs
Mr Dirk Marzluf	Group head of Technology and Operations
Mr Víctor Matarranz Sanz de Madrid	Global head of Wealth Management
Mr José Luis de Mora Gil-Gallardo	Group head of Financial Planning and Corporate Development
Mr José María Nus Badía	Risk adviser to Group executive chairman
Mr Jaime Pérez Renovales	Group head of General Secretariat and Human Resources
Ms Magda Salarich Fernández de Valderrama	Head of Santander Consumer Finance
Ms Jennifer Scardino	Head of Global communications. Group deputy head of Communications, Corporate Marketing and Research

Total remuneration accrued by the senior management (EUR thousand)	62,478

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	12
Number of board meetings held without the chairman's attendance	0

Indicate the number of meetings held by the lead independent director with the rest of directors without the attendance or representation of any executive director.

Number of meetings	3

Indicate the number of meetings of the various board committees held during the fiscal year.

Number of meetings of the audit committee	13
Number of meetings of the responsible banking, sustainability and culture committee	2
Number of meetings of the innovation and technology committee	3
Number of meetings of the appointments committee	13
Number of meetings of the remuneration committee	11
Number of meetings of the risk supervision, regulation and compliance committee	13
Number of meetings of the executive committee	45

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	12
% of votes cast by members present over total votes in the fiscal year	98.27%
Number of board meetings with all directors being present (or represented having given specific instructions)	10
% of votes cast by members present at the meeting or represented with specific instructions over total votes in the fiscal year	100%

C.1.27 Indicate whether the company´s consolidated and individual financial statements are certified before they are submitted to the board for their formulation.

Yes ☑ **No** ☐

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their formulation by the board:

Name	Position
Mr José Francisco Doncel Razola	Group chief accounting officer

C.1.29 Is the secretary of the board also a director?

Yes ☐ **No** ☑

If the secretary of the board is not a director fill in the following table:

Name or corporate name of the secretary	Representative
Mr Jaime Pérez Renovales	N/A

C.1.31 Indicate whether the company has changed its external audit firm during the fiscal year. If so, identify the incoming audit firm and the outgoing audit firm:

Yes ☐ **No** ☑

C.1.32 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes ☑ **No** ☐

	Company	Group companies	Total
Amount of non-audit work (EUR thousand)	585	3,665	4,250
Amount of non-audit work as a % of amount of audit work	0.6%	3.6%	4.2%

C.1.33 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to the shareholders in the general shareholders meeting to explain the content and scope of those reservations or qualifications.

Yes ☐ **No** ☑

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Individual financial statements	Consolidated financial statements
Number of consecutive years	3	3

	Company	Group
Number of years audited by current audit firm/Number of years the company's or its Group financial statements have been audited (%)	8.11%	8.33%

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.

Número de beneficiarios	17
Tipo de beneficiario	**Descripción del acuerdo**
Empleados	El Banco no mantiene compromisos de pago de indemnizaciones a los consejeros. Un colectivo de empleados tienen derecho a percibir una indemnización equivalente a entre uno y dos años de salario base si son cesados por el Banco en los dos primeros años de vigencia de su contrato siempre que el cese no sea debido a su propia voluntad, jubilación, invalidez o incumplimiento grave de sus funciones. Por otra parte, algunos empleados tienen reconocida, a efectos de indemnizaciones legales en caso de cese, una antigüedad que incluye servicios prestados previamente a su contratación por el Banco, lo que determinaría el cobro de una indemnización superior a la que corresponde a su antigüedad efectiva en el Banco.

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:

	Consejo de administración	Junta general
Órgano que autoriza las cláusulas	√	

	SÍ	NO
¿Se informa a la junta general sobre las cláusulas?	√	

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.

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director (neither proprietary nor independent)
Mr Bruce Carnegie-Brown	Member	Independent non-executive director
Mr Guillermo de la Dehesa Romero	Member	Other external director (neither proprietary nor independent)
Mr Rodrigo Echenique Gordillo	Member	Executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Ms Belén Romana García	Member	Indenpendent non-executive director

% of executive directors	37.50%
% of proprietary directors	0%
% of independent directors	37.50%
% of other non-executive directors	25%

Audit committee

Name	Position	Type
Ms Belén Romana García	Chairman	Independent non-executive director
Ms Homaira Akbari	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other non-executive directors	0%

Identify those directors in the audit committee who have been appointed on the basis of their knowledge and experience in accounting, audit or both and indicate the date of appointment of the committee chairman.

Name of directors with accounting or audit experience	Ms Belén Romana García Ms Homaira Akbari Mr Carlos Fernández González Mr Ramiro Mato García-Ansorena
Date of appointment of the committee Chairman for that position	26 April 2016

Appointments committee

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-executive director
Mr Guillermo de la Dehesa Romero	Member	Other external director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	75.00%
% of other external directors	25.00%

Remuneration committee

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	Independent non-executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director (neither proprietary nor independent)
Mr Guillermo de la Dehesa Romero	Member	Other external director (neither proprietary nor independent)
Ms Sol Daurella Comadrán	Member	Independent non-executive director
Mr Carlos Fernández González	Member	Independent non-executive director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	60.00%
% of other external directors	40.00%

Risk supervision, regulation and compliance committee

Name	Position	Type
Mr Álvaro Cardoso de Souza	Chairman	Independent non-executive director
Mr Bruce Carnegie-Brown	Member	Independent non-executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director (neither proprietary nor independent)
Ms Esther Giménez-Salinas i Colomer	Member	Independent non-executive director
Mr Ramiro Mato García-Ansorena	Member	Independent non-executive director
Ms Belén Romana García	Member	Independent non-executive director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	83.33%
% of other external directors	16.67%

Responsible banking, sustainability and culture committee

Name	Position	Type
Mr Ramiro Mato García-Ansorena	Chairman	Independent non-executive director
Ms Ana Botín-Sanz de Sautuola y O'Shea	Member	Executive director
Ms Homaira Akbari	Member	Independent non-executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director (neither proprietary nor independent)
Mr Álvaro Cardoso de Souza	Member	Independent non-executive director
Ms Sol Daurella Comadrán	Member	Independent non-executive director
Ms Esther Giménez-Salinas i Colomer	Member	Independent non-executive director
Ms Belén Romana García	Member	Independent non-executive director

% of executive directors	12.50%
% of proprietary directors	0%
% of independent directors	75%
% of other external directors	12.50%

Innovation and technology committee

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	Independent non-executive director
Ms Homaira Akbari	Member	Independent non-executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director (neither proprietary nor independent)
Mr Guillermo de la Dehesa Romero	Member	Other external director (neither proprietary nor independent)
Ms Belén Romana García	Member	Independent non-executive director

% of executive directors	28.57%
% of proprietary directors	0%
% of independent directors	42.86%
% of other external directors	28.57%

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 2018		FY 2017		FY 2016		FY 2015	
	Number	%	Number	%	Number	%	Number	%
Audit committee	2	50%	2	50.0%	2	50.0%	1	25.0%
Responsible banking, sustainability and culture committee	5	62.5%	-	-	-	-	-	-
Innovation and technology committee	3	42.85%	4	44.4%	3	33.33%	2	25.0%
Appointments committee	1	25%	1	20.0%	1	20.0%	1	20.0%
Remuneration committee	1	20%	1	20.0%	2	40.0%	2	33.33%
Risk supervision, regulation and compliance committee	2	33.3%	2	33.3%	2	28.57%	1	14.29%
Executive committee	2	25%	1	14.29%	2	25.0%	2	25.0%

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 (Banco Santander, S.A.) at 31 December 2018 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 53 to the 2018 Consolidated financial statements for more information on off-shore entities. The amount shown on the right corresponds to positive results relating to contracting of derivatives (includes branches in New York and London of Banco Santander, S.A.) The referred derivatives had a net positive market value of EUR 96 million in the Company and covered the following transactions: • 104 Non Delivery Forwards. • 150 Swaps. • 134 Cross Currency Swaps. • 5 Options. • 62 Forex.	49,652
	The amount shown on the right corresponds to negative results relating to deposits with the New York branch of Banco Santander, S.A. (liability). These deposits had a principal of EUR 1,484 million at 31 December 2018.	32,155
	The amount shown on the right corresponds to positive results relating to deposits with the London branch of Banco Santander, S.A. (asset). These deposits had a principal of EUR 119 million at 31 December 2018.	6,605
	The amount shown on the right corresponds to positive results relating to fixed income securities – subordinated instruments (asset). This relates to the iinvestment 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 2,205 million as at 31 December 2018.	21,432
	The amount shown on the right corresponds to positive 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 21 million at 31 December 2018.	4

D.5 List any significant transactions, by virtue of their amount or relevance, between the company or its group and other related parties, not reported in the previous sections.

Not applicable.

D.7 Is more than one group company listed in Spain?

Yes ☐ **No** ☑

G. DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the good governance code for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies ☑ **Explain** ☐

2. When a parent company and a subsidiary are both listed, the two provide detailed disclosure on:

a) The activity they engage in and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☐ **Partially complies** ☐ **Explain** ☐
Not applicable ☑

3. During the AGM the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies ☑ **Partially complies** ☐ **Explain** ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies ☑ **Partially complies** ☐ **Explain** ☐

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

And that whenever the board of directors approves an issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable mercantile law.

Complies ☐ **Partially complies** ☑ **Explain** ☐

Our 2018 AGM, authorised our board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit applies to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET 1 ratio falls below a pre-established threshold).

The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the AGM, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Complies ☑ **Partially complies** ☐ **Explain** ☐

7. The company should broadcast its general meetings live on the corporate website.

Complies ☑ **Explain** ☐

8. The audit committee should strive to ensure that the board of directors can present the Company's accounts to the general meeting without limitations or qualifications in the auditor's

report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☑ **Partially complies** ☐ **Explain** ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☑ **Partially complies** ☐ **Explain** ☐

10. When a shareholder so entitled exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the standard attendance card or proxy appointment or remote voting form, duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies ☐ **Partially complies** ☐ **Explain** ☐
Not applicable ☑

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☑ **Partially complies** ☐ **Explain** ☐

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies ☑ **Explain** ☐

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favors a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should carry an annual verification on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☑ **Partially complies** ☐ **Explain** ☐

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies ☑ **Partially complies** ☐ **Explain** ☐

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies ☑ **Explain** ☐

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies ☑ **Explain** ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies ☑ **Partially complies** ☐ **Explain** ☐

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the number of the latter should be reduced accordingly.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☑ **Explain** ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies ☑ **Partially complies** ☐ **Explain** ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

24. Directors who leave before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board rules and regulations should lay down the maximum number of company boards on which directors can serve.

Complies ☑ **Partially complies** ☐ **Explain** ☐

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☑ **Partially complies** ☐ **Explain** ☐

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies ☑ **Partially complies** ☐ **Explain** ☐

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minutes book if the person expressing them so requests.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies ☑ **Partially complies** ☐ **Explain** ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies ☑ **Explain** ☐ **Not applicable** ☐

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or obtain the information they consider appropriate.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☑ **Partially complies** ☐ **Explain** ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies ☑ **Partially complies** ☐ **Explain** ☐

33. The chairman, as the person responsible for the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, of the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies ☑ **Partially complies** ☐ **Explain** ☐

34. When a lead independent director has been appointed, the bylaws or the Rules and regulations of the board of directors should grant him or her the following powers over and above those conferred by law: to chair the board of directors in the absence of the chairman or vice chairman; to give voice to the concerns of non-executive directors; to maintain contact with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and to coordinate the chairman's succession plan.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☑ **Explain** ☐

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competencies.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies ☑ **Partially complies** ☐ **Explain** ☐

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies ☐ **Partially complies** ☑ **Explain** ☐
Not applicable ☐

The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee.

38. The board should be kept fully informed of the matters discussed and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee seats should be held by independent directors.

Complies ☑ **Partially complies** ☐ **Explain** ☐

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies ☑ **Partially complies** ☐ **Explain** ☐

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information of the company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor, does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material fact, accompanied by a statement of any disagreements arising with the outgoing auditor and if applicablen, the contents thereof.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provisions of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☑ **Partially complies** ☐ **Explain** ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another manager.

Complies ☑ Partially complies ☐ Explain ☐

44. The audit committee should be informed of any structural changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies ☑ Partially complies ☐ Explain ☐
Not applicable ☐

45. The risk control and management policy should identify at least:

a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational risks), the company is exposed to, with the inclusion under financial or economic, risks of contingent liabilities and other off- balance-sheet risks.

b) The setting of the risk level that the company deems acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies ☑ Partially complies ☐ Explain ☐

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other specialised board committee. This internal department or unit should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies ☑ Partially complies ☐ Explain ☐

47. Members of the appointments and remuneration committee - or of the appointments committee and remuneration committee, if separately constituted - should be chosen procuring theyhave the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☑ Partially complies ☐ Explain ☐

48. Large cap companies should have formed separate appointments and remuneration committees.

Complies ☑ Explain ☐ Not applicable ☐

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies ☑ Partially complies ☐ Explain ☐

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☑ Partially complies ☐ Explain ☐

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☑ Partially complies ☐ Explain ☐

52. The rules regarding composition and functioning of supervision and control committees should be set out in the regulations of the board of directors and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a special committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of other stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in this respect.

f) Monitor and evaluate the company's interaction with its stakeholders.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☑ **Partially complies** ☐ **Explain** ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☑ **Partially complies** ☐ **Explain** ☐

55. The company should report on corporate social responsibility developments in its management's report or in a separate document, using an internationally accepted methodology.

Complies ☑ **Partially complies** ☐ **Explain** ☐

56. Director remuneration should be sufficient to attract and retain directors with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies ☑ **Explain** ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans, retirement accounts or any other retirement plan should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ **Partially complies** ☐ **Explain** ☐

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the achivement of short, medium and long-term targets, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one off, occasional or extraordinary events.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration, and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☑ **Partially complies** ☐ **Explain** ☐
Not applicable ☐

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes ☐ **No** ☑

I declare that the information included in this statistical annex are the same and are consistent with the descriptions and information included in the annual corporate governance report published by the company.

9.3 Cross-reference table for comply or explain of corporate governance recommendations

Recommendation	Comply / Explain	Information
1	Comply	See section 3.2.
2	Not applicable	See 'Group companies' in section 4.8.
3	Comply	See section 3.1.
4	Comply	See section 3.1.
5	Partially comply	Our 2018 AGM, authorised our board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit applies to capital increases to convert bonds or other convertible securities, other than contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET 1 ratio falls below a pre-established threshold). The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation. See section 2.2.
6	Comply	See sections 4.4, 4.5, 4.6, 4.8 and 'Responsible Banking' chapter.
7	Comply	See section 3.5.
8	Comply	See section 4.4.
9	Comply	See 'Participation of shareholders at the GSM' in section 3.2.
10	Comply	See section 3.2.
11	Not applicable	See section 3.5.
12	Comply	See section 4.3.
13	Comply	See 'Size' in section 4.2.
14	Comply	See 'Election, refreshment and succession of directors' and 'Diversity' in section 4.2.
15	Comply	See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, refreshment and succession of directors' in section 4.2.
16	Comply	See 'Composition by type of director' in section 4.2.
17	Comply	See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, refreshment and succession of directors' in section 4.2.
18	Comply	See 'Corporate website' in section 3.2 and section 4.1.
19	Comply	See 'Composition by type of director' and 'Tenure, committee membership and equity ownership' in section 4.2.
20	Comply	See 'Election, refreshment and succession of directors' in section 4.2.
21	Comply	See 'Election, refreshment and succession of directors' in section 4.2.
22	Comply	See 'Election, refreshment and succession of directors' in section 4.2.
23	Comply	See 'Election, refreshment and succession of directors' in section 4.2.
24	Comply	See 'Election, refreshment and succession of directors' in section 4.2.
25	Comply	See 'Board and committees attendance' in section 4.3 and in section 4.5.
26	Comply	See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3.
27	Comply	See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3.
28	Comply	See 'Proceedings of the board' in section 4.3.
29	Comply	See 'Proceedings of the board' in section 4.3.
30	Comply	See 'Training of directors and induction programme for new directors' in section 4.3.
31	Comply	See 'Rules and regulations of the board' and 'Board and committees attendance' in section 4.3.
32	Comply	See section 3.1.
33	Comply	See 'Proceedings of the board', 'Training of director and induction program for new directors' and 'Self-assessment of the board' in section 4.3.
34	Comply	See 'Lead independent director' in section 4.3.
35	Comply	See 'Secretary of the board' in section 4.3.
36	Comply	See 'Self-assessment of the board' in section 4.3.
37	Partially comply	The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee. See 'Executive committee' in section 4.3.
38	Comply	See 'Executive committee' in section 4.3.
39	Comply	See 'Composition' and 'Duties and activities in 2018' in section 4.4.
40	Comply	See 'Duties and activities in 2018' in section 4.4.
41	Comply	See 'Duties and activities in 2018' in section 4.4.
42	Comply	See 'Duties and activities in 2018' in section 4.4.
43	Comply	See 'How the committee works' in section 4.4.

Recommendation	Comply / Explain	Information
44	Comply	See 'Duties and activities in 2018' in section 4.4.
45	Comply	See 'Duties and activities in 2018' in section 4.4 and 'Duties and activities in 2018' in section 4.7.
46	Comply	See 'Duties and activities in 2018' in section 4.4 and 'Duties and activities in 2018' in section 4.7.
47	Comply	See 'Composition' in section 4.5 and 'Composition' in section 4.6.
48	Comply	See 'Board committees structure' in section 4.3.
49	Comply	See 'Duties and activities in 2018' in section 4.5.
50	Comply	See 'Duties and activities in 2018' in section 4.6.
51	Comply	See 'Duties and activities in 2018' in section 4.6.
52	Comply	See 'Rules and regulations of the board' in section 4.3 and sections 4.4, and 4.7.
53	Comply	See 'Responsible banking, sustainability and culture committee' in section 4.3 and 'Duties and activities in 2018' in section 4.7.
54	Comply	See 'Responsible banking, sustainability and culture committee' in section 4.3.
55	Comply	See chapter 'Responsible banking'.
56	Comply	See sections 6.2 and 6.3.
57	Comply	See sections 6.2 and 6.3.
58	Comply	See section 6.3.
59	Comply	See section 6.3.
60	Comply	See section 6.3.
61	Comply	See section 6.3.
62	Comply	See section 6.3.
63	Comply	See section 6.3.
64	Comply	See sections 6.1 and 6.3.

9.4 Reconciliation to the CNMV's remuneration report model

Section in 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 4.6 and 6.5. • See 'Summary of link between risk, performance and reward' in section 6.3.
A.2	No	See peer group in 'Remuneration of executive directors' in section 6.4.
A.3	No	See section 6.4.
A.4	No	See section 6.3.
B. Overall summary of application of the remuneration policy over the last fiscal year		
B.1	No	See sections 6.1 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.
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	Not applicable.
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 4.6.

9.5 Statistical information on remuneration required by CNMV

B. OVERALL SUMMARY OF HOW REMUNERATION POLICY WAS APPLIED DURING THE YEAR ENDED

B.4 Report on the result of consultative vote at General Shareholders´ Meeting on annual report on remuneration from previous year, indicating the number of votes against, as the case may be.

	Number	% of total
Votes cast	10,406,887,327	99.91%

	Number	% of votes cast
Votes against	389,585,931	3.74%
Votes in favour	9,834,835,228	94.42%
Abstentions	182,466,168	1.75%

C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Name	Type	Period of accrual in year 2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive	From 01/01/2018 to 31/12/2018
Mr José Antonio Álvarez Álvarez	Executive	From 01/01/2018 to 31/12/2018
Mr Bruce Carnegie-Brown	Independent	From 01/01/2018 to 31/12/2018
Mr Rodrigo Echenique Gordillo	Executive	From 01/01/2018 to 31/12/2018
Mr Guillermo de la Dehesa Romero	Other external	From 01/01/2018 to 31/12/2018
Ms Homaira Akbari	Independent	From 01/01/2018 to 31/12/2018
Mr Ignacio Benjumea Cabeza de Vaca	Other external	From 01/01/2018 to 31/12/2018
Mr Javier Botín-Sanz de Sautuola y O'Shea	Other external	From 01/01/2018 to 31/12/2018
Ms Sol Daurella Comadrán	Independent	From 01/01/2018 to 31/12/2018
Mr Carlos Fernández González	Independent	From 01/01/2018 to 31/12/2018
Ms Esther Giménez-Salinas i Colomer	Independent	From 01/01/2018 to 31/12/2018
Ms Belén Romana García	Independent	From 01/01/2018 to 31/12/2018
Mr Juan Miguel Villar Mir	Independent	From 01/01/2018 to 31/12/2018
Mr Ramiro Mato García Ansorena	Independent	From 01/01/2018 to 31/12/2018
Mr Álvaro Cardoso de Souza	Independent	From 23/03/2018 to 31/12/2018

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 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 2018	Total year 2017
Ms Ana Botín-Sanz de Sautuola y O'Shea	90	39	178	3,176	2,368	-	-	394	6,245	5,683
Mr José Antonio Álvarez Álvarez	90	34	170	2,541	1,582	-	-	532	4,949	4,971
Mr Bruce Carnegie-Brown	90	89	553	-	-	-	-	-	732	732
Mr Rodrigo Echenique Gordillo	90	33	170	1,800	1,256	-	-	-	3,394	3,139
Mr Guillermo de la Dehesa Romero	90	81	270	-	-	-	-	-	441	473
Ms Homaira Akbari	90	61	48	-	-	-	-	-	199	160
Mr Ignacio Benjumea Cabeza de Vaca	90	86	256	-	-	-	-	81	513	551
Mr Javier Botín-Sanz de Sautuola y O'Shea	90	31	0	-	-	-	-	-	121	124
Ms Sol Daurella Comadrán	90	67	58	-	-	-	-	-	215	207
Mr Carlos Fernández González	90	86	90	-	-	-	-	-	266	286
Ms Esther Giménez-Salinas i Colomer	90	58	48	-	-	-	-	-	196	163
Ms Belén Romana García	90	81	243	-	-	-	-	-	414	298
Mr Juan Miguel Villar Mir	90	18	0	-	-	-	-	-	108	171
Mr Ramiro Mato García Ansorena	90	77	283	-	-	-	-	-	450	36
Mr Álvaro Cardoso de Souza	67	31	50	-	-	-	-	-	148	-
Mr Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	3,149
Ms Isabel Tocino Biscarolasaga	-	-	-	-	-	-	-	-	-	418

ii) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

Name	Name of Plan	Financial instruments at start of year 2018		Financial instruments granted at start of year 2018	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	2nd cycle of the performance shares plan (2015)	187,080	187,080	–	–
	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	216,308	216,308	–	–
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	206,775	206,775	–	–
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	-	–	860,865	860,865

Name	Name of Plan	Financial instruments at start of year 2018		Financial instruments granted at start of year 2018	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares
Mr José Antonio Álvarez Álvarez	2nd cycle of the performance shares plan (2015)	126,279	126,279	–	–
	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	145,998	145,998	–	–
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	138,283	138,283	–	–
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	-	–	575,268	575,268

Name	Name of Plan	Financial instruments at start of year 2018		Financial instruments granted at start of year 2018	
		No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares
Mr Rodrigo Echenique Gordillo	2nd cycle of the performance shares plan (2015)	93,540	93,540	–	–
	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	108,134	108,134	–	–
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	107,766	107,766	–	–
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	-	–	456,840	456,840

Financial instruments consolidated during 2018				Instruments matured but not exercised	Financial instruments at end of year 2018	
No. of instruments	No. of equivalent shares/ handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (EUR thousand)	No. of instruments	No. of shares	No. of equivalent shares
122,855	122,855	4,298	528	64,225	-	-
-	-		-	–	216,308	216,308
-	-		-	–	206,775	206,775
550,952	550,952	4,298	2,368	–	309,913	309,913

Financial instruments consolidated during 2018				Instruments matured but not exercised	Financial instruments at end of year 2018	
No. of instruments	No. of equivalent shares/ handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (EUR thousand)	No. of instruments	No. of shares	No. of equivalent shares
82,927	82,927	4,298	357	43,352	-	-
-	-		-	–	145,998	145,998
-	-		-	–	138,283	138,283
368,171	368,171	4,298	1,582	–	207,097	207,097

Financial instruments consolidated during 2018				Instruments matured but not exercised	Financial instruments at end of year 2018	
No. of instruments	No. of equivalent shares/ handed over	Price of the consolidated shares	Net profit from shares handed over or consolidated financial instruments (EUR thousand)	No. of instruments	No. of shares	No. of equivalent shares
61,428	61,428	4,298	264	32,112	-	-
-	-		-	–	108,134	108,134
-	-		-	–	107,766	107,766
292,376	292,376	4,298	1,257	–	164,464	164,464

iii) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,234
Mr José Antonio Álvarez Álvarez	1,050
Mr Rodrigo Echenique Gordillo	-

	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		2018		2017	
Name	2018	2017	2018	2017	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	1,234	2,707	-	-	46,093	-	45,798	-
Mr José Antonio Álvarez Álvarez	1,050	2,456	-	-	16,630	-	16,151	-
Mr Rodrigo Echenique Gordillo	-	-	-	-	13,614	-	13,957	-

iv) Details of other items (EUR thousand)

Name	Item	Amount remune rated
Ms Ana Botín-Sanz de Sautuola y O'Shea	Life and accident insurance	237
	Fixed remuneration supplement insurance	31
	Other remuneration	368

Name	Component	Amount remune rated
Mr José Antonio Álvarez Álvarez	Life and accident insurance	397
	Fixed remuneration supplement insurance	76
	Other remuneration	590

Name	Component	Amount remune rated
Mr Rodrigo Echenique Gordillo	Life and accident insurance	121
	Other remuneration	104

b) Remuneration of the company directors for seats on the boards of other group companies:

i) Remuneration in cash (EUR thousand)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total year 2018	Total year 2017
Mr Matías Rodríguez Inciarte	-	-	-	-	-	-	-	-	-	42

ii) Table of changes in share/based remunerations schemes and gross profit from consolidated shares or financial instruments

Not applicable

iii) Long term saving systems

Not applicable

iv) Detail of other items (EUR thousand)

Not applicable

c) Summary of remuneration (EUR thousand)

The summary should include the amounts corresponding to all the items of remuneration included in this report that have been accrued by the director, in thousand euros.

	Remuneration accrued in the company						Remuneration accrued in group companies					
Name	Total cash remuneration	Gross profit on consolidated chares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018	Total 2017	Total cash remuneration	Gross profit on consolidated chares or financial instruments	Gross profit from options exercised	Remuneration for other items	Total 2018	Total 2017
Ms Ana Botín-Sanz de Sautuola y O'Shea	6,245	2,896	1,234	636	11,011	10,582	-	-	-	-	-	-
Mr José Antonio Álvarez Álvarez	4,949	1,939	1,050	1,063	9,001	8,893	-	-	-	-	-	-
Mr Bruce Carnegie-Brown	732	-	-	-	732	731	-	-	-	-	-	-
Mr Rodrigo Echenique Gordillo	3,349	1,521	-	225	5,095	4,281	-	-	-	-	-	-
Mr Guillermo de la Dehesa Romero	441	-	-	-	441	473	-	-	-	-	-	-
Ms Homaira Akbari	199	-	-	-	199	159	-	-	-	-	-	-
Mr Ignacio Benjumea Cabeza de Vaca	513	-	-	-	513	550	-	-	-	-	-	-
Mr Javier Botín-Sanz de Sautuola y O'Shea	121	-	-	-	121	124	-	-	-	-	-	-
Ms Sol Daurella Comadrán	215	-	-	-	215	207	-	-	-	-	-	-
Mr Carlos Fernández González	266	-	-	-	266	285	-	-	-	-	-	-
Ms Esther Giménez-Salinas i Colomer	196	-	-	-	196	162	-	-	-	-	-	-
Ms Belén Romana García	414	-	-	-	414	297	-	-	-	-	-	-
Mr Juan Miguel Villar Mir	108	-	-	-	108	170	-	-	-	-	-	-
Mr Ramiro Mato García Ansorena	450	-	-	-	450	36	-	-	-	-	-	-
Mr Álvaro Cardoso de Souza	148	-	-	-	148	-	-	-	-	-	-	-
Mr Matías Rodríguez Inciarte	-	-	-	-	-	4,266	-	-	-	-	-	42
Ms Isabel Tocino Biscarolasaga	-	-	-	-	-	418	-	-	-	-	-	-
Total	**18,346**	**6,356**	**2,284**	**1,924**	**28,910**	**31,634**	**-**	**-**	**-**	**-**	**-**	**42**

This annual report on remuneration has been approved by the board of directors of the company, at its meeting on 26 February 2019.

State if any directors have voted against or abstained from approving this report.

Sí ☐ **No** ☑

9.6 Other information of interest

Since 2010, Banco Santander has adhered to the Code of Good Tax Practice approved by the Large Companies Forum, a body which involves large Spanish companies and the Spanish tax authority, and it complies with the contents thereof. As in previous years, and in accordance with its commitments under the aforementioned code, and in application of its compliance programme and the Group's general Code of Conduct, the head of the tax department has reported to the audit committee on the Group's fiscal policies.

On 3 November 2015, at the plenary session of the abovementioned Large Companies Forum, the introduction of an appendix to the Code of Best Tax Practices was agreed to strengthen the cooperation between the Spanish tax agency and those companies that adhere to this instrument of good tax governance, through a series of actions promoting transparency and legal security in compliance with tax obligations.

In the UK the Group adheres to the Code of Practice on Taxation for Banks, since its approval in 2010 by the tax authority of said country.

The Bank complies with the 'Guidelines for the release of privileged information to third parties' published by the National Securities Market Commission on 9 March 2009, which expressly indicates that financial institutions and rating agencies are recipients of that information. It also follows the 'Recommendations regarding informational meetings with analysts, institutional investors and other stock market professionals' published by the National Securities Market Commission on 22 December 2005.

Banco Santander has joined international sustainability initiatives such as, among others, the Principles of the United Nation's Global Compact (since 2002), the Equator Principles (since 2009), the Principles for Responsible Investment (since 2008), the Banking Environment Initiative (BEI) (since 2010), the World Business Council for Sustainable Development (since 2015), UNEP Finance Initiative (since 2008) and the CDP, formerly the Carbon Disclosure Project (since 2002).

On 26 November 2018 Banco Santander, together with 27 other banks throughout the world, have published the draft of the Principles for Responsible Banking, under the UN Environment Finance Initiative (UNEP FI), to be open discuss before being formally approved by the General Assembly of United Nations in September 2019.