Banco Santander, S.A.

Auditor's report,

Annual accounts and Directors' report for the year ended 31 December 2020

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Independent auditor's report on the annual accounts

To the shareholders of Banco Santander, S.A.,

Report on the annual accounts

Opinion

We have audited the annual accounts of Banco Santander, S.A. (the Bank), which comprise the balance sheet as at December 31, 2020, and the income statement, statement of recognised income and expense, statement of changes in total equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Bank as at December 31, 2020, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 1 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Estimation of impairment of financial assets at amortised cost - loans and advances to customers – for credit risk	
The complexity of the expected loss impairment calculation models has increased due to the adaptations made in the context of the covid-19 crisis by incorporating new estimates and judgments such as the consideration of certain flexibility measures applied to the operations subject to moratoriums, the consideration of government guarantees or the consideration of the adjustments to the models to determine the expected loss. These estimates require an elevated component of judgment by management and are one of the most significant and complex estimates in the preparation of the annual accounts as of December 31,2020, therefore it has been considered one of the key audit matters The main judgements and assumptions used by management are the following: • The estimation of the Probability of Default (PD) and Loss Given Default (LGD) parameters. • Identification and classification of the staging criteria of loans and advances to customers, including the criteria established in the context of covid-19 in the loans subject to either moratoriums or government guarantees. • The definition and evaluation of post model adjustments to adapt the parameters estimated by the models to the current conditions and environment derived from the covid-19 crisis. • The main assumptions used in the determination of provisions for risks estimated individually. The Bank's business is focused primarily on commercial banking products. In this context, the Bank uses internal models that allow it to estimate both the collective provisions and the provisions for risks estimated individually.	We have performed, in collaboration with our credit risk experts, an understanding of management's process to estimate the impairment of financial assets at amortised cost - loans and advances to costumers – over the estimation of impairment of financial assets assessed collectively and individually. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls for the following processes: • Calculation methodologies, calibrations, and monitoring and back-testing performed by management. • Compliance with internal policies and functionality of the internal models approved by management. • Reliability of the data sources used in the calculations and the suitability of the models taking into account the circumstances, placing special attention over the loan origination process subject to either moratoriums or government guarantees as a consequence of covid-19. • Periodic review process of borrower to determine proper staging criteria. • Review process over the calculation of the principal models and portfolios. • Review process of the post model adjustments made by management, placing special attention to those made as a consequence of covid-19. In addition, we performed the following tests of details: • Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology used for the estimation of the expected loss parameters; iii) data and main assumptions used, iv) staging criteria and v) scenario information and assumptions.

Key audit matter	How our audit addressed the key audit matter
As a result, during fiscal year 2020 the Bank has recognised an amount of 2,555 million euros of impairment of financial assets at amortised cost. Please refer to Notes 1, 2, 6 and 10 of the annual accounts as at December 31, 2020.	• For a sample of loans subject to either moratoriums or government guarantees, assess the documentation used in the origination process. • Reperformance of collective impairment losses based on the expected credit loss models parameters. • Evaluation of the post model adjustments made by management. • On a sample basis, evaluating individual credit files to determine the adequacy of their accounting and classification, discounted cash flows and, where appropriate, corresponding impairment. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
Recoverability of deferred tax assets	
Assessing the recoverability of deferred tax assets is an exercise that requires a high degree of judgment and estimation, therefore it has been considered one of the key audit matters Within the framework of the recoverability model defined by the Bank's management, in relation to the Consolidated Tax Group, on an annual basis, or whenever there is any indication of impairment, each business unit compiles the assumptions that support the business plans that are projected over the time horizon established for that business. As a result of the impact of covid-19 on the main hypotheses on which financial projections are based, mainly derived by the changes in the macroeconomic variables and the actual results as compared to budget, the Bank has evaluated the ability to generate future taxable profits in assessing the recoverability of the deferred tax assets recorded during fiscal year 2020. The process carried out during this period includes specific considerations that management considers in assessing the recoverability of deferred tax assets, placing special attention to the environment and uncertainty resulting from the pandemic.	In collaboration with our tax experts, we have obtained an understanding of the estimation process undertaken by management. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following processes: • Process on which the financial projections used to estimate future taxable profits are based for the recoverability model of deferred tax assets. • Calculation of deductible temporary difference, including the adequacy with the current tax regulation.

Key audit matter	How our audit addressed the key audit matter
The most significant considerations made by management in this respect are: • Assuring that the tax regulations of each country are applied correctly and the temporary differences that meet the consideration as deductibles are duly recognised. • Reviewing the projections that are part of the recoverability model of deferred tax assets which is in turn used to estimate the tax profits, used to assess the recoverability of the deferred tax assets that will be recoverable in future periods, are indeed achievable. • Applying the model and validating the calculations of this model to ensure that the valuation of tax assets, and that the conclusions drawn regarding their recoverability, are appropriate. As a result, during fiscal year 2020 the Bank has estimated that 1,632 million euros of deferred tax assets are not recoverable. Please refer to Notes 2 and 24 of the annual accounts as at December 31, 2020.	We also performed the following tests of details: • Evaluated the accuracy of the calculations and the reasonableness of the estimations made by management for deductible temporary differences. • Assessed the completeness and appropriateness of the assumptions used by management in their calculation of the deductible temporary differences. • Analysis of the key assumptions used by management in their estimation and monitoring of the recoverability of deferred tax assets, with special attention to the covid-19 impact, including: - Obtaining and analysing the financial projections carried out by the Bank and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis. - Analysis of the tax strategy planned by the Bank for the recoverability of the deferred tax assets. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
Litigation provisions and contingencies The Bank is party to a range of tax and legal proceedings - administrative and judicial – of tax and legal nature which primarily arose in the ordinary course of its operations. Also, there are other situations not yet subject to any judicial process that, however, have required the registration of provisions, such as aspects of conduct with clients and their compensation. These procedures generally take a long period of time to run their course, giving rise to complex processes in accordance with the applicable legislation, therefore it has been considered one of the key audit matters. The Bank's management decides when to recognise a provision for these contingent liabilities, based on an estimate calculated using certain procedures consistent with the nature of the uncertainty of the obligations.	We have obtained an understanding and evaluated the estimation process performed by management for litigation provisions and contingencies. With the respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following processes: • Additions, logs and updates over the completeness of the legal matters in the systems. • Accuracy of the key data, maintained in the systems, used in the calculation of the litigations provisions and contingencies.

Key audit matter	How our audit addressed the key audit matter
Among these provisions, some of the most significant are those for customer compensation for the sale of certain products; these estimates are based on the number of claims expected to be received, the number expected to be accepted, and the estimated average pay out per case. The amount of the litigation provisions and contingencies as of December 31, 2020 is 936 million euros. Please refer to Notes 2 and 23 of the annual accounts as at December 31, 2020.	• Assessment of the criteria used to estimate the expected losses from litigation provisions and contingencies and evaluation of the adequacy over the calculation of the provisions for regulatory, legal or tax procedures and their recognition. • Reconciliation between the minutes of the inspections and the amounts accounted for. In addition, we performed the following tests of details: • Analysis for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the tax obligations for all the years open to inspection, of the communications with the regulatory bodies, analysis of the ongoing regulatory inspections. • Obtaining confirmation letters from external and internal lawyers and external tax advisors who work with the Bank and performing alternative procedures. • Analysis of the recognition and reasonableness of the provisions recorded. In the procedures described above, no exceptions were identified outside of a reasonable range.
Impairment of investments in Company's subsidiaries As indicated in Note 13 of the accompanying annual accounts, Banco Santander, S.A. is the parent company of a group of entities, whose fundamental activities are in the financial services sector. The accounting value of the investments Company's subsidiaries as at December 31, 2020 is 81,560 million euros, as indicated in Note 13 of the related notes to the accompanying annual accounts.	We have obtained an understanding of the valuation process of the investment in the Company's subsidiaries. In addition, where the valuation of investment requires the use of significant judgment, we have relied on the assistance of our valuation experts. With respect to internal controls, we have focused on the design and operating effectiveness of the controls in the valuation process and over the methodology, inputs and relevant assumptions use by management for the year-end estimates, including the controls in place to supervise the process and the related approvals.

Key audit matter	How our audit addressed the key audit matter
Management performs an analysis of the potential losses in investments in the Company's subsidiaries that it has registered in its accounting records. This analysis is performed using different parameters such as the market price or the net equity adjusted for the unrealised gains existing at the valuation date, including goodwill net of its corresponding impairment. The valuation or analysis of the impairment of some of these investments require the use of significant judgments, principally for those investments measured using the net equity adjusted for the unrealised gains existing at the valuation date including its goodwill, including those measured using the net book value, therefore it has been considered one of the key audit matters. In this evaluation, the Bank's management is based on the analyses performed in the evaluation of goodwill, where using assumptions such as financial projections, discount rates, perpetual growth rates, market quotes (if available), market references (multiples). Such valuations, and some of these assumptions, are performed by management's experts. Management's assessment has considered the updated economic and business environment resulting from covid-19, the current market conditions and the existing economic uncertainty. As a result, during fiscal year 2020 the Bank has recognised an amount of 5,466 million euros of impairment of investments in Company's subsidiaries. Please refer to Note 13 of the annual accounts as at December 31, 2020.	Additionally, we have performed tests of details consisting of the following, with special attention to the covid-19 impact: • Verify the valuation performed by the Bank, using as a reference the recoverable balance of the investments in Company's subsidiaries. • Verify that management's valuation methodology is in line with the applicable accounting standards, market practice and the specific expectations of the sector. • For investments whose valuation is calculated including goodwill, we evaluated the reasonability of the discounted cash flow projections, including the validation of the key inputs with external data and performing a sensitivity analysis on them. We have not identified exceptions, outside a reasonable range, in the test described above.
Information systems	
The Bank's financial information is highly dependent on information technology (IT) systems, therefore an adequate control of these systems is crucial to ensuring correct data processing.	We have evaluated, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support the Bank's financial reporting. For this purpose, we have performed procedures over internal control and test of details related to: • The function of the IT governance framework.

Key audit matter	How our audit addressed the key audit matter
In this context, it is vital to evaluate aspects such as the organization of the Bank's Technology and Operations department, controls over software development and maintenance, physical and logical security controls, and controls over computer operations. In this respect, management continues working to reinforce the internal controls over IT systems, improving the access control and the cybersecurity model that support the Bank´s technology processes.	• Access and logical security controls over the applications, operating systems and databases that support the relevant financial information. • Application development and change management. • Maintenance of computer operations. In addition, considering the changes carried out by management to reinforce the internal controls over IT systems, our approach and audit plan focused on the following aspects: • Evaluation of the changes made as part of the enhancements implemented in the access control environment of the Bank. • Testing of the design and operating effectiveness of the controls implemented by management. In the procedures described above, no essential exceptions were identified related to this matter.

Other information: Director's report

Other information comprises only the management report for the 2020 financial year, the formulation of which is the responsibility of the Banks´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report, in accordance with legislation governing the audit practice, is to:

a) Verify only that the statement of non-financial information and certain information included in the Annual Corporate Governance Report, as referred to in the Auditing Act, has been provided in the manner required by applicable legislation and, if not, we are obliged to disclose that fact.

b) Evaluate and report on the consistency between the rest of the information included in the management report and the annual accounts as a result of our knowledge of the Bank obtained during the audit of the aforementioned financial statements, as well as to evaluate and report on whether the content and presentation of this part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above has been provided in the manner required by applicable legislation and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2020 financial year, and its content and presentation are in accordance with applicable regulations.

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

The Bank´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of the Bank, in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Bank´s directors are responsible for assessing the Bank´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

European single electronic format

We have examined the digital file of the European single electronic format (ESEF) of Banco Santander, S.A. for the 2020 financial year that comprises an XHTML file of the annual accounts for the financial year, which will form part of the annual financial report.

The directors of Banco Santander, S.A. are responsible for presenting the annual financial report for the 2020 financial year in accordance with the formatting and markup requirements established in the Delegated Regulation (EU) 2019/815 of 17 December 2018 of the European Commission (hereinafter the ESEF Regulation).

Our responsibility is to examine the digital files prepared by the Parent company's directors, in accordance with legislation governing the audit practice in Spain. This legislation requires that we plan and execute our audit procedures in order to verify whether the content of the annual accounts included in the aforementioned digital files completely agrees with that of the consolidated annual accounts that we have audited, and whether the format and markup of these accounts and of the aforementioned files has been effected, in all material respects, in accordance with the requirements established in the ESEF Regulation.

In our opinion, the digital file examined completely agrees with the audited annual accounts, and these are presented, in all material respects, in accordance with the requirements established in the ESEF Regulation.

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Bank's audit committee dated February 23, 2021.

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Appointment period

The General Ordinary Shareholders' Meeting held on April 3, 2020 appointed us as auditors for a period of one year, as from the year ended December 31,2020.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended December 31,2016.

Services provided

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

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal Elorrieta (19930)

February 23, 2021

Banco Santander, S.A.

Annual accounts and Directors' report for the year ended 31 December 2020

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

Banco Santander, S.A.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

ASSETS	Note	2020	2019*
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**67,561**	**32,471**
FINANCIAL ASSETS HELD FOR TRADING		**81,437**	**86,583**
Derivatives	9	53,362	55,694
Equity instruments	8	9,758	11,697
Debt instruments	7	18,243	19,094
Loans and advances		74	98
Central banks	6	—	—
Credit institutions	6	3	—
Customers	10	71	98
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*8,540*	*21,192*
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**2,225**	**2,619**
Equity instruments	8	305	231
Debt instruments	7	671	1,099
Loans and advances		1,249	1,289
Central banks	6	—	—
Credit institutions	6	—	—
Customers	10	1,249	1,289
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*329*	*224*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**33,899**	**49,859**
Debt instruments	7	—	—
Loans and advances		33,899	49,859
Central banks	6	482	138
Credit institutions	6	9,888	18,543
Customers	10	23,529	31,178
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*3,642*	*4,783*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**22,623**	**32,027**
Equity instruments	8 & 25	1,942	1,856
Debt instruments	7 & 25	15,146	26,306
Loans and advances		5,535	3,865
Central banks	6	—	—
Credit institutions	6	—	—
Customers	10	5,535	3,865
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*2,293*	*5,329*

ASSETS	Note	2020	2019*
FINANCIAL ASSETS AT AMORTIZED COST		**311,020**	**289,295**
Debt instruments	7	11,413	14,528
Loans and advances		299,607	274,767
Central banks	6	21	22
Credit institutions	6	34,159	34,747
Customers	10	265,427	239,998
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*2,607*	*2,640*
HEDGING DERIVATIVES	**32**	**3,137**	**2,226**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**32**	**206**	**248**
INVESTMENTS		**84,890**	**87,330**
Group entities	13	81,560	82,223
Joint venture entities		248	247
Associated entities	13	3,082	4,860
TANGIBLE ASSETS	**15**	**6,680**	**7,131**
Property, plant and equipment		6,462	6,904
For own use		*5,715*	*6,253*
Leased out under an operating lease		*747*	*651*
Investment property		218	227
Of which, Leased out under an operating lease		*218*	*227*
Memorandum items: acquired in financial leasing		*2,879*	*3,167*
INTANGIBLE ASSETS	**16**	**948**	**685**
Goodwill		458	521
Other intangible assets		490	164
TAX ASSETS	**24**	**9,282**	**12,331**
Current tax assets		721	2,215
Deferred tax assets		8,561	10,116
OTHER ASSETS		**4,174**	**5,947**
Insurance contracts linked to pensions	14, 17 & 23	423	511
Inventories	17	—	—
Other	17	3,751	5,436
NON-CURRENT ASSETS HELD FOR SALE	**12**	**1,287**	**1,164**
TOTAL ASSETS		**629,369**	**609,916**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

LIABILITIES	Note	2020	2019*
FINANCIAL LIABILITIES HELD FOR TRADING		**61,014**	**64,356**
Derivatives	9	50,676	56,068
Short positions	9	10,338	8,288
Deposits		—	—
Central banks	18	—	—
Credit institutions	18	—	—
Customers	19	—	—
Marketable debt securities	20	—	—
Other financial liabilities	22	—	—
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**16,890**	**24,264**
Deposits		16,890	24,264
Central banks	18	1,469	7,596
Credit institutions	18	4,496	6,152
Customers	19	10,925	10,516
Marketable debt securities	20	—	—
Other financial liabilities	22	—	—
Memorandum items: subordinated liabilities		—	—
FINANCIAL LIABILITIES AT AMORTIZED COST		**474,619**	**437,018**
Deposits		376,837	338,597
Central banks	18	60,372	36,896
Credit institutions	18	40,725	51,180
Customers	19	275,740	250,521
Marketable debt securities	20	87,902	87,567
Other financial liabilities	22	9,880	10,854
Memorandum items: subordinated liabilities	*20 & 21*	*17,124*	*15,352*
HEDGING DERIVATIVES	**32**	**1,780**	**2,044**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		**—**	**—**
PROVISIONS	**23**	**5,007**	**6,490**
Pensions and similar obligations		1,849	3,918
Other long term employee benefits		1,581	1,220
Taxes and other legal contingencies		496	501
Contingent liabilities and commitments		157	180
Other provisions		924	671
TAX LIABILITIES	**24**	**1,555**	**1,591**
Current tax liabilities		45	—
Deferred tax liabilities		1,510	1,591
OTHER LIABILITIES	**17**	**3,567**	**3,931**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**—**	**—**
TOTAL LIABILITIES		**564,432**	**539,694**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

EQUITY	Note	2020	2019*
SHAREHOLDERS' EQUITY	**26**	**66,498**	**70,562**
CAPITAL		**8,670**	**8,309**
Called up paid capital	27	8,670	8,309
Unpaid capital which has been called up		—	—
Memorandum items: uncalled up capital		—	—
SHARE PREMIUM	**28**	**52,013**	**52,446**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**30**	**627**	**598**
Equity component of compound financial instruments		—	—
Other equity instruments issued		627	598
OTHER EQUITY INSTRUMENTS	**30**	**157**	**144**
ACCUMULATED RETAINED EARNINGS	**29**	**9,683**	**7,814**
REVALUATION RESERVES		**—**	**—**
OTHER RESERVES	**29**	**(1,095)**	**(617)**
(-) OWN SHARES		**—**	**—**
RESULTS FOR THE PERIOD	**4**	**(3,557)**	**3,530**
(-) DIVIDENDS	**4**	**—**	**(1,662)**
OTHER COMPREHENSIVE INCOME OR LOSS		**(1,561)**	**(340)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**25**	**(1,882)**	**(1,024)**
Actuarial gains or - losses in defined benefit pension plans		(1,351)	(1,197)
Non-current assets and disposal groups that have been classified as held for sale		—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		(537)	171
Ineffectiveness of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income		—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income [hedged item]		154	44
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income [hedging instrument]		(154)	(44)
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		6	2
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**25**	**321**	**684**
Hedge of net investments in foreign operations [effective part]		—	—
Currency conversion		—	—
Hedging derivatives. Cash flow hedge reserve [effective part]		(189)	(45)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		510	729
Hedging instruments [non-designated items]		—	—
Non-current assets and disposal groups that have been classified as held for sale		—	—
TOTAL EQUITY		**64,937**	**70,222**
TOTAL LIABILITIES AND EQUITY		**629,369**	**609,916**
MEMORANDUM ITEMS			
Financial guarantees granted	31	96,959	9,474
Loan commitments granted	31	10,135	85,840
Other commitments granted	31	50,686	52,460

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the balance sheet as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

		(Debit) Credit	
	Note	2020	2019*
Interest income	34	6,528	7,566
Financial assets at fair value through other comprehensive income		*256*	*384*
Financial assets at amortized cost		*5,078*	*5,800*
Other interest income		*1,194*	*1,382*
Interest expense	*35*	*(3,160)*	*(4,107)*
Expenses for capital stock repayable on demand		—	—
Net interest income		**3,368**	**3,459**
Dividend income	36	5,642	6,402
Commission income	37	2,811	2,780
Commission expense	38	(494)	(516)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	578	891
Financial assets at amortized cost	*39*	*10*	*296*
Other financial assets and liabilities	*39*	*568*	*595*
Gains or losses on financial assets and liabilities held for trading, net	*39*	*(29)*	*(12)*
Reclassification of financial assets at fair value through other comprehensive income		—	—
Reclassification of financial assets at amortized cost		—	—
Other gains (losses)		*(29)*	*(12)*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	*39*	*(290)*	*35*
Reclassification of financial assets at fair value through other comprehensive income		—	—
Reclassification of financial assets at amortized cost		—	—
Other gains (losses)	*39*	*(290)*	*35*
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	4	(54)
Gains or losses from hedge accounting, net	39	10	(50)
Exchange differences, net	40	372	(455)
Other operating income	41	404	374
Other operating expenses	41	(785)	(616)
Gross income		**11,591**	**12,238**
Administrative expenses		(4,602)	(5,023)
Staff costs	*42*	*(2,586)*	*(2,874)*
Other general administrative expenses	*43*	*(2,016)*	*(2,149)*
Depreciation and amortisation cost	15 & 16	(625)	(637)
Provisions or reversal of provisions	23	(1,133)	(1,192)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	7 &10	(2,559)	(1,246)
Financial assets at fair value through other comprehensive income		*(4)*	*(5)*
Financial assets at amortized cost		*(2,555)*	*(1,241)*

	Note	(Debit) Credit 2020	2019*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	44	(5,921)	(434)
Impairment on non-financial assets, net		(63)	—
Tangible assets	*15*	*(62)*	—
Intangible assets	*16*	*(1)*	—
Others		—	—
Gains or losses on non-financial assets and investments, net	45	1,142	52
Negative goodwill recognized in results		—	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	12 & 46	(77)	(179)
Profit or loss before tax from continuing operations		**(2,247)**	**3,579**
Tax expense or income from continuing operations	24	(1,310)	(49)
Profit or loss of the year from continuing operations		**(3,557)**	**3,530**
Profit or loss after tax from discontinued operations		—	—
Profit or loss for the year		**(3,557)**	**3,530**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the income statement the year ended as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF RECOGNIZED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Note	2020	2019*
PROFIT OR LOSS FOR THE YEAR		**(3,557)**	**3,530**
OTHER RECOGNIZED INCOME AND EXPENSES	**23**	**(1,221)**	**119**
Items that will not be reclassified to profit or loss		**(858)**	**(302)**
Actuarial gains and losses on defined benefit pension plans		(77)	(327)
Other recognized income and expense of investments in subsidiaries, joint venture and associates		—	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income, net		(796)	(135)
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net		—	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		*4*	*44*
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged instrument)		*(4)*	*(44)*
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		4	2
Income tax relating to items that will not be reclassified to profit or loss	24	11	158
Items that may be reclassified to profit or loss		**(363)**	**421**
Hedges of net investments in foreign operations (Effective portion)		—	—
Revaluation gains (losses)		—	—
Amounts transferred to income statement		—	—
Other reclassifications		—	—
Exchanges differences		—	—
Revaluation gains (losses)		—	—
Amounts transferred to income statement		—	—
Other reclassifications		—	—
Cash flow hedges (Effective portion)		(206)	(117)
Revaluation gains or (losses)		*(239)*	*(205)*
Amounts transferred to income statement		*33*	*88*
Transferred to initial carrying amount of hedged items		—	—
Other reclassifications		—	—
Hedging instruments (items not designated)		—	—
Revaluation gains (losses)		—	—
Amounts transferred to income statement		—	—
Other reclassifications		—	—
Debt instruments at fair value with changes in other comprehensive income		(316)	723
Revaluation gains (losses)		*244*	*697*
Amounts transferred to income statement		*(560)*	*(592)*
Other reclassifications		—	*618*
Non-current assets held for sale		—	—
Revaluation gains (losses)		—	—
Amounts transferred to income statement		—	—
Other reclassifications		—	—
Income tax related to items that may be reclassified to profit or loss	24	159	(185)
Total recognized income and expenses for the year		**(4,778)**	**3,649**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of recognized income and expenses for the year ended as of 31 December 2020.

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

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance at 1 January 2020*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,557)**	**—**	**(1,221)**	**(4,778)**
Other changes in equity	**361**	**(433)**	**29**	**13**	**1,869**	**—**	**(478)**	**—**	**(3,530)**	**1,662**		**(507)**
Issuance of ordinary shares	361	(72)	—	—	—	—	70	—	—	—	—	359
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	(361)	—	—	—	—	—	—	—	—	—	(361)
Purchase of equity instruments	—	—	—	—	—	—	—	(615)	—	—	—	(615)
Disposal of equity instruments	—	—	—	—	—	—	—	615	—	—	—	615
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	(1)	1,869	—	—	—	(3,530)	1,662		—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	(53)	—	—	—	—	—	—	—	(53)
Others increases or (-) decreases of the equity	—	—	29	67	—	—	(548)	—	—	—	—	(452)
Of which, discretionary allocation to social funds (only savings banks and credit cooperatives)	—	—	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2020	**8,670**	**52,013**	**627**	**157**	**9,683**	**—**	**(1,095)**	**—**	**(3,557)**	**—**	**(1,561)**	**64,937**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of changes in total equity for the year ended as of 31 December 2020.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Capital	Share premium	Other instruments	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance at 31 December 2018*	**8,118**	**50,993**	**565**	**170**	**7,805**	**—**	**511**	**—**	**3,301**	**(2,237)**	**(459)**	**68,767**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	(391)	—	—	—	—	(391)
Opening balance at 1 January 2019*	**8,118**	**50,993**	**565**	**170**	**7,805**	**—**	**120**	**—**	**3,301**	**(2,237)**	**(459)**	**68,376**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**		**—**	**—**	**3,530**	**—**	**119**	**3,649**
Other changes in equity	**191**	**1,453**	**33**	**(26)**	**9**	**—**	**(737)**	**—**	**(3,301)**	**575**	**—**	**(1,803)**
Issuance of ordinary shares	191	1,453	—	—	—	—	28	—	—	—	—	1,672
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—		—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	(1,055)	—	—	—	—	(1,662)	—	(2,717)
Purchase of equity instruments	—	—	—	—	—	—	—	(829)	—	—	—	(829)
Disposal of equity instruments	—	—	—	—	—	—	—	829	—	—	—	829
Transfer from equity to liabilities	—	—	—	—	—		—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—		—	—	—	—	—	—
Transfers between equity items	—	—	—	—	1,064	—	—	—	(3,301)	2,237	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	(88)	—		—	—	—	—	—	(88)
Other increases or (-) decreases of the equity	—	—	33	62	—	—	(765)	—	—	—	—	(670)
Of which, discretionary allocation to social funds (only savings banks and credit cooperatives)	—	—	—	—	—		—	—	—	—	—	—
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**144**	**7,814**	**—**	**(617)**	**—**	**3,530**	**(1,662)**	**(340)**	**70,222**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2020..

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Note	2020	2019*
A. CASH FLOWS FROM OPERATING ACTIVITIES		**37,842**	**(6,846)**
Profit or loss for the year	**4**	**(3,557)**	**3,530**
Adjustments made to obtain the cash flows from operating activities		**12,938**	**2,206**
Depreciation and amortization cost	*15 & 16*	*625*	*637*
Other adjustments		*12,313*	*1,569*
Net increase/(decrease) in operating assets		**(7,513)**	**13,370**
Financial assets held-for-trading		*(5,146)*	*15,758*
Non-trading financial assets mandatorily at fair value through profit or loss		*(394)*	*(1,132)*
Financial assets designated at fair value through profit or loss		*(15,962)*	*8,533*
Financial assets at fair value through other comprehensive income		*(9,299)*	*(3,883)*
Financial assets at amortized cost		*26,903*	*(6,119)*
Other operating assets		*(3,615)*	*213*
Net increase/(decrease) in operating liabilities		**21,199**	**45**
Financial liabilities held-for-trading		*(3,341)*	*6,335*
Financial liabilities designated at fair value through profit or loss		*(7,374)*	*(10,815)*
Financial liabilities at amortized cost		*35,268*	*7,527*
Other operating liabilities		*(3,354)*	*(3,002)*
Income tax recovered/(paid)		**(251)**	**743**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(3,263)**	**(5,142)**
Payments		**8,001**	**7,094**
Tangible assets	*15*	*489*	*3,025*
Intangible assets	*16*	*73*	*73*
Investments	*13*	*7,439*	*3,996*
Subsidiaries and other business units		—	—
Non-current assets held for sale and associated liabilities		—	—
Other payments related to investing activities		—	—
Proceeds		**4,738**	**1,952**
Tangible assets	*15*	*118*	*178*
Intangible assets	*16*	—	—
Investments	*13*	*4,398*	*645*
Subsidiaries and other business units		—	—
Non-current assets held for sale and associated liabilities		*222*	*1,129*
Other proceeds related to investing activities		—	—
C. CASH FLOW FROM FINANCING ACTIVITIES		**1,087**	**(7,677)**
Payments		**3,250**	**9,562**
Dividends	*4*	—	*3,773*
Subordinated liabilities	*21*	*2,348*	*4,578*
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		*615*	*829*
Other payments related to financing activities		*287*	*382*
Proceeds		**4,337**	**1,885**
Subordinated liabilities	*21*	*3,722*	*1,056*
Issuance of own equity instruments		—	—
Disposal of own equity instruments		*615*	*829*
Other proceeds related to financing activities		—	—
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(576)**	**205**

	Note	2020	2019*
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**35,090**	**(19,460)**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**32,471**	**51,931**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**67,561**	**32,471**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash		*1,302*	*1,551*
Cash equivalents at central banks		*63,984*	*24,596*
Other financial assets		*2,275*	*6,324*
Less - Bank overdrafts refundable on demand			
TOTAL OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		**67,561**	**32,471**

* Presented for comparison purposes only (note 1.d).

The accompanying notes 1 to 49 and Appendices are an integral part of the statement of cash flows for the year ended as of 31 December 2020.

Santander

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to Banco Santander in Spain (see notes 1 and 49). In case of discrepancy, the Spanish version prevails.

Banco Santander, S.A.

Notes to the financial statements (annual accounts) for the year ended 31 December 2020.

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

a) Introduction

Banco Santander, S.A. ('the Bank' or 'Banco Santander') is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, where it was constituted and currently maintains its legal domicile, which is Paseo de Pereda, numbers 9 to 12 (39004, Santander, Spain).

The principal headquarters of Banco Santander are located in Ciudad Grupo Santander, avenida Cantabria s/n (28660, Boadilla del Monte, Madrid, Spain).

The corporate purpose of Banco Santander, S.A., mainly entails carrying out all kinds of activities, operations and services inherent to the banking business in general and permitted by current legislation, and the acquisition, holding, enjoyment and disposal of all kinds of securities.

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

Banco Santander annual accounts for the financial year 2019 were approved by Banco Santander general shareholders' meeting held on April 3, 2020. The Group's 2020 consolidated financial statements, the financial statements of Banco Santander and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, Banco Santander board of directors considers that the aforementioned financial statements will be approved without any significant changes.

Appendix IX includes the list of agents that assist the Bank on the performance of its business activities in Spain.

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

Banco Santander annual accounts for the financial year 2020 have been formulated by Banco Santander directors (at the meeting of the Board of Directors of 22 February 2021) in accordance with Bank of Spain's Circular 4/2017, and subsequent amendments, as well as the commercial regulations applicable to the Bank, applying the accounting principles, policies and measurement criteria described in note 2, which faithfully represents of Banco Santander´s assets and financial position as at 31 December 2020 and 2019 of the results of its operations, recognized revenue and expenditure, changes in its net worth and flows cash that occurred in the financial year 2020 and 2019. These annual accounts have been drawn up from the accounting records maintained by Banco Santander.

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

Adoption of new standards and interpretations issues

The following is a summary of the main applicable Bank of Spain Circulars issued and that came into force in the financial year 2020:

Bank of Spain Circular 1/2020 of 28 January, amending Circular 1/2013 of 24 May, on the Central for Risk Information. (Official Gazette of 5 February 2020)

On March 15, 2019, Law 5/2019, of 15 March, regulating real estate credit agreements, transposing into Spanish law Directive 2014/17/EU of the European Parliament and of the Council, of 4 February 2014, on credit agreements concluded with consumers for residential real estate. The Act amends, in its seventh final provision, Law 44/2002, of 22 November, on Financial System Reform Measures, with the aim of giving access to the Bank of Spain's Risk Information Central (CIR) to all real estate credit lenders. As a result of this amendment, the perimeter of reporting institutions is extended to include real estate lenders and credit institutions operating under the freedom to provide services and empowers real estate credit intermediaries to have access to reports on the risks of natural persons and legal entities registered with the CIR on an equal footing with the reporting entities. With regard to information on the declared data, the Banco de España is empowered to temporarily prevent a reporting entity from accessing CIR data when it fails to comply with its reporting obligations with the necessary quality and accuracy. In addition, Royal Decree 309/2019 of 26 April, which partially develops Law 5/2019, of 15 March, regulating real estate credit agreements and other financial measures are adopted, in its third additional provision, enables the Banco de España to establish technical standards regulating the form of access to the CIR which must be public, non-discriminatory and proportionate.

In addition, a certain period of time has elapsed since the entry into force of Regulation (EU) No 867/2016 of the European Central Bank of 18 May on the collection of granular credit and credit risk data (ECB/2016/13) (hereinafter Regulation (EU) 867/2016), and the amendment of Circular 1/2013 to collect through the CIR the information which the Bank of Spain has to request from the reporting entities in order to communicate it to the European Central Bank in accordance with that regulation, it has been considered necessary to make certain amendments to Circular 1/2013 in order to improve the consistency of the information collected through CIR with respect to that established under Regulation (EU) 867/2016.

Finally, with a view to updating the standard, some changes have been made to Circular 1/2013 to clarify the information to be submitted on certain operations, to reorganize the manner in which information is presented in some modules, and to introduce some additional dimension. In addition, some clarifications are provided with regard to the filing of claims to the CIR.

Therefore, this circular complies with the principles of necessity, effectiveness, proportionality, legal certainty, transparency and efficiency regulated in Article 129 of Law 39/2015, of 1 October, of the common administrative procedure of public administrations, given that it achieves the purposes pursued without impose unnecessary or ancillary burdens, regulating in a manner consistent with the rest of the system exclusively the essential aspects.

Bank of Spain Circular 2/2020 of 11 June, amending Circular 4/2017 of 27 November to credit institutions on public and reserved financial information rules and models of financial statements. (Official Gazette of 16 June 2020)

The main objective of this circular is to adapt Circular 4/2017, of 27 November, to credit institutions, on public and reserved financial information rules, and models of financial statements, to changes in the international order on information requirements for credit institutions.

This circular meets the principles of necessity, effectiveness, proportionality, legal certainty and efficiency required by Article 129.1 of Law 39/2015, of October 1, of the common administrative procedure of public administrations, since it undertakes changes necessary to maintain accounting regulations and requirements for financial information of credit institutions complete, integrated and harmonized with the rest of the legal system, both national and the European Union.

The principle of transparency is achieved through the prior public consultation of the potential affected, established by Article 133 of Law 39/2015, of 1 October, and the public hearing of interested parties, both forming part of the process of processing this circular.

The Bank of Spain's allotments to issue this circular are the same as those corresponding to the approval of Circular 4/2017, that is, those set out in the Order of 31 March 1989 empowering the Banco de España to establish and modify the accounting rules of credit institutions. In that regard, the Minister of Economy and Finance delegated to the Banco de España the entitlement to establish and modify the accounting standards and the models to which the financial statements, both individual and consolidated, of credit institutions must be subject.

Bank of Spain Circular 3/2020 of 11 June, amending Circular 4/2017 of 27 November to credit institutions on public and reserved financial information rules and models of financial statements. (Official Gazette of 16 June 2020).

The public health emergency created by the spread of covid-19 and the necessary containment measures are causing a major disruption for the Spanish economy, affecting businesses and households. Complementing extraordinary urgent measures to address the economic and social impact of covid-19, credit institutions need to continue to provide financial support to businesses and households adversely affected by this transitional and exceptional situation.

In this context, banking regulators and supervisors around the world are recommending adequate use of the flexibility implied in the regulatory framework, without prejudice to the proper identification of the deterioration of transactions and a reasonable estimate of their credit risk coverage. In particular, the European Banking Authority (EBA), in its Communication of 12 March 2020 on actions to mitigate the impact of COVID-19 on the banking sector of the European Union

(EU), recommends making full use of the flexibility implied in the regulatory framework and develops this recommendation on the aspects of the related to the accounting classification of credit risk transactions which are included, inter alia, in its Communication of 25 March 2020 on the implementation of the regulatory framework for default, restructuring or refinancing, and IFRS 9 in the light of covid-19 response measures.

Bank of Spain Circular 4/2020, of 26 June on advertising of banking products and services. (Official Gazette of 15 July 2020).

Advertising is a key element in the marketing of banking products and services. Generally, it is the first point of contact between an entity and its potential customer. Through advertising, entities disclose their offer of products and services, through the use of specialised techniques in order to encourage their contracting, so the information transmitted in advertising messages usually has a great impact on customer expectations and the consequent process of taking decisions. In this context, the regulation of financial advertising becomes an essential mechanism for the protection of banking clientele. It is therefore necessary to articulate regulatory and supervisory measures aimed at ensuring that advertising is clear, sufficient, objective and non-misleading, and that customer relations with their entities in the post-procurement stages are less conflicting.

Bank of Spain Circular 5/2020, of 25 November, to payment institutions and electronic money institutions, on public and reserved financial reporting rules and model financial statements, and amending Circular 6/2001 of 29 October on holders of currency exchange establishments and Circular 4/2017 of 27 November, to credit institutions, on public and reserved financial reporting rules, and model financial statements. (Official Gazette of 4 December 2020).

This circular lays down the accounting arrangements for payment institutions and electronic money institutions. This circular sets out the accounting documents that such entities and their groups have to draw up, including the model public and reserved financial statements. It also determines the rules for recognition, valuation, presentation, information to be included in the report and breakdown of information into the models of states to be applied in its preparation. This circular takes as the accounting regulations of credit institutions, either by setting criteria similar to those directly from credit institutions, or referring to the rules of Bank of Spain Circular 4/2017 of 27 November on credit rules on public and reserved financial information, and models of financial statements.

As a result of the application of the above-mentioned circulars, there have been no significant impact on the Bank's annual accounts.

c) Use of critical estimates

The results and the determination of equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of Banco Santander in preparing the financial statements.

The main accounting policies and measurement bases are set forth in note 2.

In the annual accounts for 2020, estimates made by Banco Santander senior management have occasionally been used to quantify some of the assets, liabilities, income, expenditure and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets: it applies to financial assets at fair value through other comprehensive income, financial assets at amortised cost, non-current assets held for sale, investments, tangible assets and intangible assets (see notes 6, 7, 8, 10, 12, 13, 15, 16 and 49).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see note 23).
- The useful life of the tangible and intangible assets (see notes 15 and 16).
- Assessment of the impairment of investments in subsidiaries, joint ventures and associates (see note 13).
- The measurement of goodwill (see note 16).
- The calculation of provisions and the consideration of contingent liabilities (see note 23).
- The fair value of certain unquoted assets and liabilities (see notes 6, 7, 8, 9, 10, 11, 18, 19 and 20).
- The recoverability of deferred tax assets and the income tax expense (see note 24).
- The fair value of identifiable assets acquired and liabilities assumed in business combinations (see note 3).

To update the estimates described above, Bank's Management has taken into account the current situation as a result of covid-19, classified as a pandemic by the World Health Organization, which significantly affects the economic activity worldwide and, as a result, Banco Santander operations and financial results, and which generates uncertainty in Banco Santander estimates. Therefore, the Bank's Management has made an assessment of the current situation according to the best information available to date, disclosing in the notes the main estimates made and the potential impacts of covid-19 on them for the period ended 31 December 2020 (see notes 16, 24 and 49).

Although these estimates have been made on the basis of the best information available at the end of the year 2020, and considering information updated at the date of preparation of these annual accounts, it is possible that events that may take place in the future may make it necessary to modify them (upwards or downwards) in the coming years, which would be done, if appropriate, in a prospective manner, recognising the effects of the change in estimate in the corresponding income statement.

d) Comparative information

The information contained in the 2020 annual accounts for the 2019 financial year is presented, solely and exclusively, for comparison with the information relating to 2020.

In addition to the above, the information in note 4.a relating to the shares outstanding in 2019 has been restated due to the capital increase described in note 27.a in accordance with IAS 33 Earnings per share.

e) Capital management

i. Regulatory and economic capital

The financial institutions must meet a set of minimum capital and liquidity requirements. These minimum requirements are regulated in the European capital requirements regulation, better known as CRR, and in the capital requirements directive, known as CRD. In June 2019 these regulations were significantly modified, so that CRR2 and CRDV will be understood as said regulations with the latest modifications incorporated.

Among the amendments to the CRR2, it is worth highlighting the introduction of the minimum requirement of TLAC (Total Loss Absorbing Capacity) applicable only to entities of global systemic importance (G-SIB). This requirement is a minimum requirement for own funds and eligible liabilities (currently 16% and, after the transitional period, 18%).

The CRDV, as a directive, must be transposed into the national legal system to be applicable in the member States. In Spain, the transposition is expected to be developed during 2021. The CRDV includes relevant amendments such as the regulation of Pillar 2 Guidance requirements.

Regarding to the Resolution regulations, the institutions must have an adequate financing structure that allows, in the event of financial difficulties, to recover their situation or to resolve it, ensuring the protection of depositors and the financial stability. The directive that regulates the aforementioned resolution framework is the Restructuring and Resolution Directive, BRRD. Like CRR2 and CRDV, BRRD was amended in June 2019, so BRRD2 refers to all of these amendments. The transposition of this directive in Spain is also planned for 2021.

The BRRD2 has introduced important modifications to the minimum requirement for own funds and eligible liabilities (MREL). Thus, for example, the aforementioned TLAC requirement is now considered a Pillar 1 resolution requirement for G-SIB. For large banks (which are defined as those whose total assets exceed EUR 100,000 million) or those that, without being large, the resolution authority considers that they may be systemic, the BRRD2 establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the exposure of the leverage ratio, whichever is higher. For the rest of the entities, the subordination requirement will be determined case by case by the resolution authority.

The severe economic disruption caused by the covid-19 pandemic in 2020 has revealed the importance of institutions' funding functions in contributing to recovery. The competent authorities (national, European and international) have acted by reducing the liquidity, capital and operational requirements so the financial institutions can continue to provide financing to the economy, while ensuring that institutions continue to act prudently because these can also be affected by the deterioration of the economic situation. As part of the measures of the European Central Bank, it was issued a recommendation in March 2020 urging European banks to refrain from paying dividends out of the 2019 and 2020 financial years. On 27 July, the ECB extended its recommendation until 1 January 2021.

The national governments have taken measures to address the economic and social impact of the vine population, in particular legislative moratoria that were aimed at containing NPLs and helping the population to meet liquidity needs. Throughout 2020, the EBA adopted a series of guidelines, including the Guidelines on legislative and non-legislative moratoria applied in the context of the covid-19 crisis on 2 April 2020 (EBA/GL/2020/08). These guidelines clarify the requirements for public and private moratoria to avoid classification of exposures affected by moratoria as forborne exposures.

Although these guidelines were initially going to apply to moratoria granted before 30 June 2020, the EBA decided on 2 December 2020 to reactivate the application of these guidelines (EBA/GL/2020/02) for moratoria requested before 31 March 2021.

Other measures adopted to provide flexibility in complying with the requirements have been the approval and entry into force of the 'quick fix' of the CRR (urgent and extraordinary regulatory measures aimed at making the regulatory framework more flexible in response to the covid-19), regulation by which modifies CRR2. Among the amendments introduced by the quick fix, it is worth highlighting the extension of the transitional period granted before the pandemic due to the entry into force of IFRS 9, due to the sudden and significant increase in provisions for expected credit losses that must be recognized. Additionally, the application of certain provisions of CRR2 has been delayed, such as those relating to the leverage ratio buffer (whose application date is postponed until 1 January 2023), and the possibility has been included to exclude from the calculation of said ratio exposures to central banks. In the same way, the date of application of other favourable provisions for entities such as the support factor for smes and the support factor for infrastructures has been brought forward, as well as the new treatment of software assets (applicable since the day following the publication of the Delegated Regulation where it is developed).

At 31 December 2020 Banco Santander met the minimum capital requirements established by current legislation (see note 49).

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

Banco Santander following the Group's policies, continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks. The commitment assumed before the supervisor still implies the adoption of advanced models within the ten key markets where Santander Group operates.

Accordingly, Banco Santander continued in 2020 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Banco Santander units , all in the context of the current supervisory focus on the robustness and correct adaptation of the available models, as well as the simplification strategy recently agreed with the ECB, of which a practical example carried out is the recent supervisory approval for the reversion to the standard of the sovereign model in foreign currency.

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

During 2020, the authorization of the Atacado portfolio in Brazil was achieved for the use of the AIRB method.

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

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

f) Environmental impact

In view of the business activities carried on by Banco Santander, does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results.

Therefore, no specific disclosures relating to environmental issues are included in these financial statements.

g) Customer Care Service Annual Report

As required by the Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on the services and departments of Customer Service and the Customer Ombudsmen of Financial Institutions, the annual report presented by the Head of the department to the board meeting held on March 2021 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

i. Deposit Guarantee Fund

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

The purpose of the FGD is to guarantee deposits with credit institutions up to the limit established in the mentioned Royal Decree-Law. The expense incurred by the contributions accrued to this organism in the year 2020 has amounted to EUR 239 million (EUR 234 in the year 2019), which are recorded under 'Other operating expenses' in the profit and loss account attached (see note 41).

ii. National Resolution Fund

Law 11/2015 regulates the creation of the National Resolution Fund, whose financial resources should reach, by 31 December 2024, at least 1% of the amount of secured deposits, through contributions from credit institutions and investment firms established in Spain. The details of the calculation of contributions to this Fund is regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and is calculated by the Orderly Banking Resolution Fund, on the basis of the information provided by each entity.

iii. Single Resolution Fund

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

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

The expenditure incurred by the contribution made to the National Fund and the Single Resolution Fund amounted to EUR 262 million in 2020 (EUR 187 million in the year 2019), which are recognised under 'Other operating expenses' in the accompanying income statement (see note 41).

i) Merger by absorption

i. Merger by absorption between Banco Santander, S.A. (absorbing company) and Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. (as absorbed companies)

On 30 June 2020, the directors of Banco Santander, S.A., the joint administrators of Santander Global Property, S.L.U. and the respective solidary administrators of Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. approved and signed the joint merger project between Banco Santander, S.A. (as an absorbing company) and Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. (as absorbed companies).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the said transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Act with regard to merger is incorporated into this report (Annex VIII).

Once obtained the mandatory authorization of the Ministry of Economic Affairs and Digital Transformation (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions) on December 23, 2020, the corresponding merger deed was granted and, registered in the Commercial Register of Cantabria, with effect from December 23, 2020, the extinction without liquidation of Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U., respectively, and the bulk transfer of all of their respective assets to Banco Santander, S.A., which acquired them by succession universal and without continuity solution. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2020.

Since the companies acquired were wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, Banco Santander did not increase capital. The merger with effect from 23 December 2020 became effective, all the shares of the companies absorbed were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, those included in the annual accounts for the financial year ended 31 December 2019, formulated by the board of directors of

Santander

each of the companies participating in the merger, were considered as merger balance sheets. The merger balance sheets of Banco Santander, S.A. and BPE Financiaciones, S.A.U. have been duly verified by their respective auditors. The merger balance sheets of the remaining companies absorbed have not been subject to auditor verification, as they were not required to audit their accounts.

In accordance with the provisions of the applicable accounting rules, for accounting purposes, the merger was fixed on 1 January 2020 as the date from which the transactions of the companies absorbed were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following are the balance sheets of companies absorbed as of December 31, 2019:

SANTANDER GLOBAL PROPERTY, S.L.U.

Balance at December 31, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	94	EQUITY	252,984
Deferred tax asset	94	SHAREHOLDERS EQUITY	252,984
		Capital	211,087
		Share premium	36,414
		Reserves	10,560
		Profit for previous periods	(5,071)
		Profit for the period	(6)
CURRENT ASSETS	252,893	CURRENT LIABILITIES	3
Other credits with Public Administrations	29	Short term debit	3
Investments in Group companies and Associates	2		
Cash and cash equivalent	252,862		
TOTAL ASSETS	**252,987**	**TOTAL EQUITY AND LIABILITIES**	**252,987**

INMOBILIARIA VIAGRACIA, S.A.U.

Balance at December 31, 2019

(EUR thousands)

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	37,295	EQUITY	92,554
Real Estate Investments	7,666	SHAREHOLDERS EQUITY	90,876
Long term investments in Group companies and Associates	26,634	Capital	4,688
Long term financial investments	2,990	Share premium	10,370
Deferred tax asset	5	Reserves	86,604
		Profit for previous periods	(12,237)
		Profit for the period	1,451
		ADJUSTMENTS FOR CHANGES IN VALUE	1,678
		Financial instruments HTC&S	1,678
		NON-CURRENT LIABILITIES	802
		Long term debts to Group companies and Associates	83
		Deferred tax liabilities	719
CURRENT ASSETS	56,513	CURRENT LIABILITIES	452
Cash and cash equivalent	56,513	Short term debts with Group companies and Associates	428
		Commercial creditors and other accounts payable	24
TOTAL ASSETS	**93,808**	**TOTAL EQUITY AND LIABILITIES**	**93,808**

BPE FINANCIACIONES, S.A.U.

Balance at December 31, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	—	EQUITY	880
		SHAREHOLDERS EQUITY	880
		Capital	100
		Reserves	840
		Profit for the period	(60)
CURRENT ASSETS	662,680	CURRENT LIABILITIES	661,800
Short term investments in Group companies and Associates	661,797	Short term debit	500,916
Cash and cash equivalent	883	Short term debts with Group companies and Associates	160,772
		Commercial creditors and other accounts payable	11
		Accruals in the short term	101
TOTAL ASSETS	**662,680**	**TOTAL EQUITY AND LIABILITIES**	**662,680**

Pursuant to the provisions of the applicable legislation, as a result of the accounting record of the above-mentioned merger by absorption by Banco Santander in the financial year 2020, Banco Santander's voluntary reserves have been reduced by EUR 1 million due to the decrease in the financial year participation of the absorbed companies (see note 29).

ii. Merger by absorption between Banco Santander, S.A. (absorbing company) and Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U., Popular Capital, S.A.U. and Popular Bolsa, Sociedad de Valores, S.A.U. (as absorbed companies)

On June 25, 2019, the directors of Banco Santander, S.A. and Popular Bolsa, Sociedad de Valores, S.A.U. and the sole managers of each of the remaining absorbed companies drafted, approved and signed the joint merger project between Banco Santander, S.A. (as an absorbing company) and Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U., Popular Capital, S.A.U. and Popular Stock Exchange, Sociedad de Valores, S.A.U. (as absorbed companies).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Law in respect of each of the two mergers is incorporated into this report (Appendix VIII).

After obtaining the mandatory authorization of the Ministry of Economy and Business (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions) on December 12, 2019, the corresponding merger deed was granted and, registered in the Mercantile Register of Cantabria, occurred , with effect from December 24, 2019, the extinction without liquidation of Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U., Popular Capital, S.A.U. and Popular Bolsa, Sociedad de Valores, S.A.U., respectively, and the transmission in bulk of their respective assets to Banco Santander, which acquired them by universal succession and without continuity solution. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2019.

Since the companies acquired were wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, Banco Santander did not increase capital. The merger with effect from 24 December 2019 became effective, all the shares of the companies absorbed were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, those included in the annual accounts for the financial year ended 31 December 2018, formulated by the management bodies of each of the companies participating in the merger, were considered as merger balance sheets. The merger balance sheets of Banco Santander and Popular Bolsa, Sociedad de Valores, S.A.U. have been duly verified by their respective auditors. The merger balance sheets of the remaining companies absorbed have not been subject to auditor verification, as they were not required to audit their accounts.

In accordance with the provisions of the applicable accounting rules, for accounting purposes, the merger was fixed on 1 January 2019 as the date from which the transactions of the companies absorbed were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following are the balance sheets of companies absorbed as of December 31, 2018:

MANBEROR, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	37,576	EQUITY	(90,057)
Deferred Tax Assets	37,576	SHAREHOLDERS EQUITY	(90,057)
		Capital	60
		Profit for previous periods	(90,061)
		Profit for the period	(56)
		NON-CURRENT LIABILITIES	126,998
		Long term debts	126,998
CURRENT ASSETS	65	CURRENT LIABILITIES	700
Cash and cash equivalent	65	Commercial creditors and other accounts payable	700
TOTAL ASSETS	**37,641**	**TOTAL EQUITY AND LIABILITIES**	**37,641**

POPULAR CAPITAL, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	—	EQUITY	(1,833)
		SHAREHOLDERS EQUITY	(1,833)
		Capital	90
		Reserves	452
		Profit for previous periods	(2,344)
		Profit for the period	(31)
		NON-CURRENT LIABILITIES	2,000
		Long term debt	2,000
CURRENT ASSETS	595	CURRENT LIABILITIES	428
Cash and cash equivalent	595	Commercial creditor and other accounts payable	428
TOTAL ASSETS	**595**	**TOTAL EQUITY AND LIABILITIES**	**595**

INVERSIONES INMOBILIARIAS GERCEBIO, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	—	EQUITY	(11,481)
		SHAREHOLDERS EQUITY	(11,481)
		Capital	60
		Reserves	5
		Profit for previous periods	(11,521)
		Profit for the period	(25)
		NON-CURRENT LIABILITIES	24,496
		Long term debt	24,496
CURRENT ASSETS	13,015	CURRENT LIABILITIES	—
Cash and cash equivalent	13,015	Commercial creditor and other accounts payable	—
TOTAL ASSETS	**13,015**	**TOTAL EQUITY AND LIABILITIES**	**13,015**

INVERSIONES INMOBILIARIAS CEDACEROS, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
NON-CURRENT ASSETS	282	EQUITY	(29,435)
Deferred tax asset	282	SHAREHOLDERS EQUITY	(29,435)
		Capital	38,000
		Reserves	(271)
		Profit for previous periods	(67,148)
		Profit for the period	(16)
		NON-CURRENT LIABILITIES	74,106
		Long term debt	74,106
CURRENT ASSETS	44,390	CURRENT LIABILITIES	1
Inventory	1	Commercial creditor and other accounts payable	1
Investments in group companies and associates	700		
Cash and cash equivalent	43,689		
TOTAL ASSETS	**44,672**	**TOTAL EQUITY AND LIABILITIES**	**44,672**

POPULAR BOLSA, SOCIEDAD DE VALORES, S.A. UNIPERSONAL

Balance at December 31, 2018

EUR thousands

ASSETS	2018	EQUITY AND LIABILITIES	2018
ASSETS	7,481	EQUITY	6,871
Financial assets HTC&S	1	SHAREHOLDERS EQUITY	6,871
Credit investments	7,358	Capital	4,515
Insurance contracts linked to pensions	67	Reserves	1,414
Tangible assets	2	Profit for the year	942
Intangible assets	18	LIABILITIES	610
Tax assets	12	Provisions	67
Other assets	23	Tax liabilities	408
		Other equity	135
TOTAL ASSETS	**7,481**	**TOTAL EQUITY AND LIABILITIES**	**7,481**

In application of the provisions of the applicable regulations, as a consequence of the accounting record of this aforementioned merger by absorption operation performed carried out by the Bank in 2019, has manifested an increase in the voluntary reserves of the Bank in that year of EUR 2 million for the cancellation of the participation of the absorbed companies (see note 29).

iii. Merger by absorption between Banco Santander, S.A. (absorbing company) and Sorlinda Investments, S.L. Unipersonal (as absorbed company)

On July 29, 2019, the directors of Banco Santander, S.A. and the solidary administrators of Sorlinda Investments, S.L.U. drafted, approved and signed the joint merger project between Banco Santander, S.A. (as an absorbing company) and Sorlinda Investments, S.L.U. (as an absorbed company).

Under Articles 49.1 and 51 of Law 3/2009 of 3 April on Structural Modifications of Commercial Companies ('LME'), approval of this merger was not required by the sole partner of the companies acquired, as it was entirely owned by Banco Santander, nor by the shareholders meeting of Banco Santander, to the not required by its shareholders in accordance with Article 51 of the LME.

Likewise, the said transaction constitutes a merger of those regulated in Article 76.1.c) of Law 27/2014, of 27 November, on Corporate Tax ('LIS'). The information required in Article 86.1 of the aforementioned Law in respect of each of the two mergers is incorporated into this report (Appendix VIII).

After obtaining the mandatory authorization of the Ministry of Economy and Business (additional provision twelfth Law 10/2014, of 26 June, on the management, supervision and solvency of credit institutions), the Corresponding merger deed was granted on 3 December 2019 and, registered in the Mercantile Register of Cantabria, it occurred, with effect on December 13, 2019, the extinction without liquidation of Sorlinda Investments, S.L.U. and the bulk transfer of all their respective assets to Banco Santander, which acquired them by universal succession and without a solution of continuity. It should be noted that the merger, for accounting purposes, was registered by Banco Santander, S.A. in the financial year 2019.

Since the company acquired was wholly owned by Banco Santander, in accordance with Article 49.1 in conjunction with Article 26 of the LME, the Bank did not increase capital. The merger with effect on 13 December 2019 became effective, the total shares of the company acquired were fully amortized, extinguished and cancelled.

For the purposes of Spanish legislation, the merger balance sheet was considered as the balance sheet corresponding to 30 June 2019, formulated by the management body of the absorbed company that was not subject to the obligation to audit its annual accounts.

In accordance with the applicable accounting regulations, for accounting purposes, the merger was fixed on 27 June 2019 as the date from which the transactions of the absorbed company were to be considered to be carried out by Banco Santander, S.A.

Furthermore, in accordance with Article 89.1 of the LIS, the merger was subject to the tax regime laid down in Title VII, Chapter VII and the second additional provision of the LIS, as well as Article 45, paragraph I.B.10 of the Consolidated Text of the Law on Tax on Property Transfers and Documented Legal Acts, approved by Royal Legislative Decree 1/1993 of 24 September.

The following is the balance sheet of the company absorbed as of 30 June 2019:

SORLINDA INVESTMENTS, S.L. UNIPERSONAL

Balance at June 30, 2019

EUR thousands

ASSETS	2019	EQUITY AND LIABILITIES	2019
NON-CURRENT ASSETS	—	EQUITY	(617)
		SHAREHOLDERS EQUITY	(617)
		Capital	3
		Profit for previous periods	(1)
		Profit for the period	(619)
CURRENT ASSETS	20,133	CURRENT LIABILITIES	20,750
Inventory	1	Short term debt	750
Commercial debtors	130	Debt to group companies and associates	20,000
Short term investments	20,000		
Cash and cash equivalent	2		
TOTAL ASSETS	**20,133**	**TOTAL EQUITY AND LIABILITIES**	**20,133**

Pursuant to the provisions of the applicable legislation, as a result of the accounting record of the aforementioned absorption merger operation carried out by Banco Santander in the financial year 2019, no change in the Bank's voluntary reserves in that year was disclosed due to the withdrawal of the participation in the company absorbed (see note 29).

j) Events after the reporting period

No significant events occurred from 1 January 2021 to the date on which these financial statements were authorized for issue.

k) Other information

The UK's withdrawal from the European Union could have a material adverse effect on our operations, financial condition and prospects

On 31 January 2020 the UK ceased to be a member of the EU, on withdrawal terms which established a transition period until 31 December 2020, during which the UK continued to be treated as an EU member state and applicable EU legislation continued to be in force. A trade deal was agreed between the UK and the EU prior to the end of the transition period and the new regulations came into force on 1 January 2021.

The trade deal, however, did not include agreements on certain areas, such as financial services and data adequacy, although a further transitional period has been agreed with respect to rules on the transfer of personal data between the EU and the UK until the end of June 2021. Without equivalence decisions or other agreements that provide market access on a stable and widespread basis, Santander UK has, and will continue to have, a limited ability to provide cross-border services to EU customers and to trade with EU counterparties. It is uncertain whether equivalence decisions will be granted or whether a trade agreement with respect to financial services between the EU and the UK will be reached. The impact of any such trade agreement, equivalence decisions or any other cooperation mechanisms on financial markets generally, the extent of legislative and regulatory convergence and regulatory cooperation that would be required between the UK and the EU member states, as well as the level of access that may be granted to financial services firms across EU and UK markets is uncertain. The wider impact of Brexit on financial markets through market fragmentation, reduced access to finance and funding, and lack of access to certain financial market infrastructure, may affect our operations, financial condition and prospects and those of our customers and clients.

Uncertainty also remains around the effect of the current trade deal on economic growth in the UK given that it does not address services. The effect of the additional non-tariff trade barriers imposed on products is equally unknown. It is likely that growth will initially be disrupted as businesses adapt to the new cross-border procedures and rules applicable in the UK and in the EU to their activities, products, customers and suppliers.

While the longer term effects of the UK's withdrawal from the EU are difficult to predict, there is ongoing political and economic uncertainty, which is likely to continue in the medium term and which could negatively impact Santander UK's customers and clients and counterparties.

There are also other potential longer term impacts resulting from Brexit which could impact the UK economy and Santander's business in the UK such as:

- Increased calls for a second referendum on Scottish independence from the UK; and
- Instability in Northern Ireland, if the current arrangements regarding the borders between the Republic of Ireland, Northern Ireland and Great Britain are called into further question.

If one or more of these risks were to materialise it could have a material adverse effect on our operations, financial condition and prospects.

Grupo and Banco Santander have considered these circumstances in the review of the deterioration of Santander UK's share during 2020 and 2019 (see note 13).

2. Accounting policies

The following accounting principles, policies and measurement criteria have been applied in the preparation of the annual accounts:

a) Foreign currency transactions

The functional currency of Banco Santander is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The balances in the financial statements whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.
- Income and expenses, at the average exchange rates for the year.
- Equity items, at the historical exchange rates.

In general, balances denominated in foreign currency, including those of branches in non-Monetary Union countries, have been converted to euros using the official average exchange rates of the Spanish spot currency market (through the US dollar's quotation on local markets, for non-monetary currencies. listed on the Spanish market) at the end of each financial year.

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under 'Exchange differences' in the income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under 'Other comprehensive income–Items that may be reclassified to profit or loss–Exchange differences' (except for exchange differences on equity instruments, where the option to irrevocably elect to be measured at fair value through changes in accumulated other comprehensive income, which are recognised in accumulated 'Other Comprehensive Income - Items not to be reclassified to profit or loss - Changes in fair value of equity instruments measured at fair value' through other comprehensive income (see note 25).

b) Investments in subsidiaries, joint ventures and associates

Subsidiaries are those over which Banco Santander has the capacity to exercise control; capacity which is generally but not only manifested by the direct or indirect ownership of at least 50% of the political rights of the investee entities, or even if this percentage is less or zero if, as in the case of agreements with shareholders thereof, Banco Santander is granted such control. Control means the power to direct the financial and operational policies, by statutory, statutory or agreement, of an entity for the purpose of obtaining profit from its activities.

Joint ventures are those which, not being dependent entities, are jointly controlled by two or more unrelated entities. This is evidenced by contractual agreements under which two or more entities (participants) participate in entities or carry out operations or maintain assets in a manner that any strategic financial or operational decision affecting them requires the unanimous consent of all stakeholders.

Associated entities are those over which Banco Santander has the capacity to exert significant influence, but not joint control or control. This capacity is usually manifested in a participation equal to or greater than 20% of the voting rights of the investee.

The shareholdings in group, multi-group and associated entities are presented on the balance sheet at their acquisition cost, net of any deterioration that, where appropriate, those shares may have suffered.

Where there is evidence of impairment of these shares, the amount of such impairment is equivalent to the difference between their recoverable amount and their book value. Impairment losses are recorded under the heading 'Impairment or reversal of impairment of investments in joint ventures or associates' in the profit and loss account.

Appendices I and II contain significant information on these companies. In addition, note 13 provides information on the most significant acquisitions and disposals in 2020 and 2019.

c) Definitions and classification of financial instruments

i. Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An equity instrument is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital (CCPSs) -perpetual shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into variable number of newly issued ordinary shares if the capital ratio of Banco Santander or its consolidated group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognized for accounting purposes by Banco Santander as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, Banco Santander estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

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

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

- Investments in associates and joint ventures (see note 13).
- Rights and obligations under employee benefit plans (see note 23).
- Rights and obligations under insurance contracts (see note 14).
- Contracts and obligations relating to employee remuneration based on own equity instruments (see note 30).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as 'Non-current assets held for sale' or they relate to 'Cash, cash balances at central banks and other deposits on demand', 'Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side)', 'Hedging derivatives and Investments', which are reported separately.

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

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

- How key management staff are assessed and reported on the performance of the business model and the financial assets held in the business model.
- The risks that affect the performance of the business model (and the financial assets held in the business model) and, specifically, the way in which these risks are managed.
- How business managers are remunerated.
- The frequency and volume of sales in previous years, as well as expectations of future sales.

The analysis of the characteristics of the contractual flows of financial assets requires an assessment of the congruence of these flows with a basic loan agreement.

Banco Santander contractual cash flows that are only principal payments and interest on the outstanding principal amount meet this requirement. Banco Santander determines if the contractual cash flows of its financial assets that are only principal and interest payments on the outstanding principal amount at the beginning of the transaction. This analysis takes into consideration four factors (performance, clauses, contractually linked products and currencies). Furthermore, among the most significant judgements used by Banco Santander in carrying out this analysis, the following ones are included:

- The return on the financial asset, in particular in cases of periodic interest rate adjustments where the term of the reference rate does not coincide with the frequency of the adjustment. In these cases, an assessment is made to determine whether or not the contractual cash flows differ significantly from the flows without this change in the time value of money, establishing a tolerance level of 2%.
- The contractual clauses that may modify the cash flows of the financial asset, for which the structure of the cash flows before and after the activation of such clauses is analysed.
- Financial assets whose cash flows have different priority for payment due to a contractual link to underlying assets (e.g. securitisations) require a look-through analysis by the Group so as to review that both the financial asset and the underlying assets are only principal and interest payments and that the exposure to credit risk of the set of underlying assets belonging to the tranche analysed is less than or equal to the exposure to credit risk of the set of underlying assets of the instrument.
- Depending on these factors, the asset can be measured at amortised cost, at fair value with changes in other comprehensive income, or at fair value with changes through profit and loss. Bank of Spain Circular 4/2017 also establishes an option to designate an instrument at fair value with changes in profit or loss, when doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'accounting asymmetry') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on different bases.

Banco Santander uses the following criteria for the classification of financial debt instruments:

- Amortised cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are considered to be those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a "basic financing agreement".
- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a "basic financing agreement".
- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a 'basic financing agreement'. In this section it can be enclosed the portfolios classified under 'Financial assets held for trading', 'Non-trading financial assets mandatorily at fair value through profit or loss' and 'Financial assets at fair value through profit or loss'. In this regard, the most of the financial assets presented in the category of 'Financial assets designated at value reasonable with change in results' are instruments financial services that, not being part of the portfolio of negotiation, are contracted jointly with other financial instruments that are recorded in the category of 'held for trading', and that by both are recorded at fair value with changes in results, so your record in any other category would produce accounting asymmetries.

Equity instruments will be classified at fair value under Bank of Spain Circular 4/2017, with changes in profit or loss, unless Banco Santander, decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) at initial recognition.

iii. Classification of financial assets for presentation purposes

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

- Cash, cash balances at Central Banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.
- Loans and advances: includes the debit balances of all credit and loans granted by the Bank, with the exception of securities, the copper right of financial leasing operations and other debtor balances of a financial nature in favour of Banco Santander other than those represented by securities, as well as

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

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

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

  – Customers: includes the remaining credit, including money market transactions through central counterparties.

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

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

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

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: Includes the fair value in favour of the Bank of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as 'Liabilities associated with non-current assets held for sale' or they relate to 'Hedging derivatives' or changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

Bank of Spain Circular 4/2017 and subsequent amendments stablish the classification and measurement criteria remains substantially unchanged (see note 2.c). In most cases, changes in the fair value of financial liabilities designated at fair value through profit or loss, caused by the entity's credit risk, are recognized in other comprehensive income.

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

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

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

  Liabilities may only be included in this portfolio at the date of issue or origination.

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

v. Classification of financial liabilities for presentation purposes

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

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

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

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

– Customer: includes the remaining deposits, including money market transactions through central counterparties.

On 6 June 2019 the European Central Bank announced a new programme of Targeted Longer-Term Refinancing Operations (TLTRO III), additionally, the conditions of the initial programme were amended on 30 April 2020, reducing the interest rate by 25 bp to -0.5% from June 2020 to June 2021 and providing that for banks meeting a certain eligible lending volume, the interest rate may be -1% for the period from June 2020 to June 2021. These conditions were extended on 10 December 2020 for operations contracted between 1 October 2020 and 31 December 2021, including the option to cancel or reduce the amount of financing before maturity in windows that coincide with the interest rate review and adjustment periods.

The accounting policy states that in recording amortized cost an entity "*shall use a shorter period when fees, basis points paid or received, transaction costs, premiums or discounts relate to it, which is the case when the variable to which the fees, basis points paid or received, transaction costs, discounts or premiums relate is adjusted to market rates before the expected maturity of the financial instrument. In this case, the appropriate amortisation period is the period to the next reset date*"

In this case, the applicable interest rate of -1% from June 2020 to June 2021 (arising from the March 2020 programme amendment) and from June 2021 to June 2022 (arising from the December 2020 programme amendment) corresponds to a specific period after which the funding is adjusted to market rates (namely the average rate applied in the Eurosystem's MROs) and should therefore be accrued until the next adjustment date. The early amortisation windows of this funding programme are substantive conditions, given that at that moment of adjustment of the cost of the funding to the market, the entity can choose to renew or cancel it and obtain new funding at more favourable conditions.

Banco Santander has opted to accrue interest in accordance with the specific periods of adjustment to market rates, so that interest for the period from June 2020 to June 2022 will be recorded in the income statement, the interest corresponding to that period, -1% assuming compliance with the threshold of eligible loans that gives rise to the extra rate, which takes as a reference the budget for 2021 and the entity's historical information.

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

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

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

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items (includes, among others, the balance of lease liabilities that have started to be recorded in 2019 as a result of the application of Bank of Spain Circular 2/2018 and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value of the Bank's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price.

The fair value of instruments not measured at fair value through profit and loss is adjusted by transaction costs. Subsequently, and on the occasion of each accounting close, they are valued in accordance with the following criteria:

i. Measurement of financial assets

Financial assets are measured at fair value are valued mainly at their fair value without deducting any transaction cost for their sale.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2020, there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

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

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

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

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

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

Equity instruments and contracts related with these instruments are measured at fair value. However, in certain circumstances the Bank estimates cost value as a suitable estimate of the fair value. This can happen if the recent event available information is not enough to measure the fair value or if there is a broad range of possible measures and the cost value represents the best estimates of fair value within this range.

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

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under 'Financial liabilities held for trading' and 'Financial liabilities designated at fair value through profit or loss' and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value. The changes in credit risk arising from financial liabilities designated at fair value through profit or loss are recognised in accumulated other comprehensive income, unless they generate or increase an accounting mismatch, in which case changes in the fair value of the financial liability in all respects are recognised in the income statement.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2020 and 2019 of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by Banco Santander S.A., to determine their fair value:

EUR million

	2020			2019		
	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total
Financial assets held for trading	27,514	53,923	81,437	30,858	55,725	86,583
Non-trading financial assets mandatorily at fair value through profit or loss	48	2,177	2,225	45	2,574	2,619
Financial assets designated at fair value through profit or loss	—	33,899	33,899	—	49,859	49,859
Financial assets at fair value through other comprehensive income	14,315	8,308	22,623	26,512	5,515	32,027
Hedging derivatives (assets)	—	3,137	3,137	—	2,226	2,226
Financial liabilities held for trading	10,562	50,452	61,014	9,190	55,166	64,356
Financial liabilities designated at fair value through profit or loss	—	16,890	16,890	—	24,264	24,264
Hedging derivatives (liabilities)	—	1,780	1,780	—	2,044	2,044

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

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

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

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

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

Fixed income and inflation

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

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

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

Equity and foreign exchange

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

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

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

Credit

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

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

Valuation adjustment for counterparty risk or default risk

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

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

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

- Severity: percentage of final loss assumed in a counterparty credit event/default.
- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.
- Discount factor curve.

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

The CVA at 31 December 2020 amounted to EUR 408 million (resulting in an increase of 49.8% compared to 31 December 2019) and DVA amounted to EUR 233 million (resulting in an increase of 36% compared to 31 December 2019). These impacts are due to the fact that credit spread levels are at levels above 25% compared to 2019 due to the covid-19 pandemic. During the last semester there has been a significant drop in spreads, however the markets continue to reflect levels higher than those existing prior to the start of the pandemic.

The CVA at 31 December 2019 amounted to EUR 272 million (decrease of 22.5% compared to 31 December 2018) and DVA amounted EUR 171 million (decrease of 34.6% compared to 31 December 2018). The decrease is mainly due to improvements in the credit quality of counterparties, which has led to reductions in credit spreads in percentages of around 40% in the most liquid maturities.

With regard to Banco Santander, S.A., at the end of December 2020, has recorded CVA adjustments of EUR 252 million (a reduction of 25.5% compared to 31 December 2019) and DVA adjustments of EUR 69 million (a reduction of 25.45% as at 31 December 2019). The variations are due to the reduction of credit spreads by percentages exceeding 25% in more liquid terms.

At the end of December 2019, CVA adjustment of EUR 200 million (a reduction of 22.5% compared to 31 December 2018) and DVA adjustment of EUR 55 million (a reduction of 34.6% compared to 31 December 2018) were recorded. Variations are due to the reduction of credit spreads by percentages exceeding 40% in more liquid terms.

In addition, the Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of 31 December 2020, and 2019.

Grupo Santander has not carried out significant reclassifications of financial instruments between levels other than those disclosed in level 3 movement table during 2020.

In 2019, Grupo Santander reclassified between levels 2 and 3 financial instruments for a net amount of EUR 708 million (mainly due to reclassifications to level 2 of positions, both derivatives as debt instruments, with maturities for that there were already observable assessment inputs or on which new sources of information have been recurring prices, and at level 3 certain bonds in Brazil that, based on the criteria of observability of the Group, did not meet the requirements to be considered as observable inputs).

The amount reclassified to Level 3 by Banco Santander, S.A., is EUR 523 million. They are mainly due to reclassifications to level 3 of loan positions for which there has been less access to price contributors and actual market transactions with which to demonstrate their observability, and to a lesser extent to certain debt instruments which, based on the Bank's criteria, do not qualify as observable instruments.

As of December 31, 2020, financial instruments classified in Level 3 in Banco Santander, S.A. amount to EUR 6,986 million.

Valuation adjustments due to model risk

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

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

- In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.
- In the stock markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option

payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

- For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.
- Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various Consumer Price Index (CPI) rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.
- The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.
- The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

The financial instruments at Grupo Santander at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2020 and 2019:

Santander

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**146,468**	**8,543**		
Financial assets held for trading	**67,826**	**740**		
Credit institutions	3	—	Present value method	Yield curves, FX market prices
Customers**	296	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	1,453	10	Present value method	Yield curves, FX market prices
Derivatives	66,074	730		
Swaps	*54,488*	*272*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*696*	*22*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,129*	*241*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*1,069*	—	Present value method	Yield curves, FX market prices
Index and securities options	*554*	*94*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*6,138*	*101*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**8,325**	**—**		
Swaps	*6,998*	—	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*25*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*1,302*	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,796**	**934**		
Equity instruments	984	505	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	555	134	Present value method	Yield curves
Loans and receivables**	257	295	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**45,559**	**649**		
Central banks	9,481	—	Present value method	Yield curves, FX market prices
Credit institutions	11,973	163	Present value method	Yield curves, FX market prices
Customers****	24,102	19	Present value method	Yield curves, FX market prices, HPI
Debt instruments	3	467	Present value method	Yield curves, FX market prices
Equity instruments	—	—		
Financial assets at fair value through other comprehensive income	**22,962**	**6,220**		
Equity instruments	75	1,223	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	18,410	206	Present value method	Yield curves, FX market prices
Loans and receivables	4,477	4,791	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**124,098**	**905**		
Financial liabilities held for trading	**71,009**	**295**		
Derivatives	63,920	295		
Swaps	*51,584*	*81*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Interest rate options	*4,226*	*49*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*456*	*97*	Black-Scholes Model	Yield curves, FX market prices
Exchange rate options	*724*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate and equity futures	*1,054*	*2*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*5,876*	*65*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	*7,089*	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,869**	**—**		
Swaps	*5,821*	—	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*13*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*1,035*	—	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**45,310**	**610**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**910**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

EUR million

	Fair values calculated using internal models at 2019*		
	Level 2	Level 3	Valuation techniques
ASSETS	**149,711**	**6,651**	
Financial assets held for trading	**63,051**	**598**	
Credit institutions	—	—	Present Value method
Customers**	355	—	Present Value method
Debt and equity instruments	760	65	Present Value method
Derivatives	61,936	533	
Swaps	*51,594*	*182*	Present Value method, Gaussian Copula***
Exchange rate options	*469*	*8*	Black-Scholes Model
Interest rate options	*3,073*	*177*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	*190*	—	Present Value method
Index and securities options	*1,164*	*95*	Black-Scholes Model
Other	*5,446*	*71*	Present Value method, Monte Carlo simulation and others
Hedging derivatives	**7,216**	**—**	
Swaps	*6,485*	—	Present Value method
Interest rate options	*25*	—	Black's Model
Other	*706*	—	N/A
Non-trading financial assets mandatorily at fair value through profit or loss	**1,780**	**1,601**	
Equity instruments	*1,272*	*550*	Present Value method
Debt securities issued	*498*	*675*	Present Value method
*Loans and receivables***	*10*	*376*	Present Value method, swap asset model & CDS
Financial assets designated at fair value through profit or loss	**58,833**	**664**	
Central banks	6,474	—	Present Value method
Credit institutions	21,598	50	Present Value method
Customers****	30,729	32	Present Value method
Debt instruments	32	582	Present Value method
Financial assets at fair value through other comprehensive income	**18,831**	**3,788**	
Equity instruments	98	407	Present Value method
Debt instruments	17,486	188	Present Value method
Loans and receivables	1,247	3,193	Present Value method

EUR million

	Fair values calculated using internal models at 2019*		
	Level 2	Level 3	Valuation techniques
LIABILITIES	**132,582**	**1,074**	
Financial liabilities held for trading	**67,068**	**290**	
Central banks	—	—	Present Value method
Credit institutions	—	—	Present Value method
Customers	—	—	Present Value method
Derivatives	61,789	290	
Swaps	*49,927*	*115*	Present Value method, Gaussian Copula***
Exchange rate options	*658*	*1*	Black-Scholes Model
Interest rate options	*4,291*	*34*	Black's Model, Heath-Jarrow- Morton Model
Index and securities options	*1,309*	*88*	Black-Scholes Model
Interest rate and equity futures	*20*	*2*	Present Value method
Other	*5,584*	*50*	Present Value method, Monte Carlo simulation and others
Short positions	5,279	—	Present Value method
Hedging derivatives	**6,048**	**—**	
Swaps	*4,737*	—	Present Value method
Interest rate options	*10*	—	Black's Model
Other	*1,301*	—	Present Value method, Advanced stochastic volatility models and other
Financial liabilities designated at fair value through profit or loss	**58,727**	**784**	Present Value method
Liabilities under insurance contracts	**739**	**—**	Present Value method with actuarial techniques

* Level 2 internal models use data based on observable market parameters, while level 3 internal models use significant non-observable inputs in market data.

** Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

**** Includes credit risk derivatives with a net fair value of EUR $-4 at 31 December 2020 (31 December 2019: net fair value of EUR 6 million). These assets and liabilities are measured using the Standard Gaussian Copula Model.

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

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

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**94,940**	**6,504**		
Financial assets held for trading	**53,331**	**592**		
Credit institutions	—	—	Present value method	Yield curves, FX market prices
Customers**	74	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	781	—	Present value method	Yield curves, FX market prices
Derivatives	52,476	592		
Swaps	*44,123*	*326*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*5,692*	*19*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*1,708*	*241*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*56*	—	Present value method	Yield curves, FX market prices
Index and securities options	*820*	*6*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*77*	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**3,137**	**—**		
Swaps	*2,429*	—	Present value method	Yield curves, FX market prices, Basis
Exchange rate options	*688*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*20*	—	Black´s Model	Yield curves, FX market prices, Volatility surfaces
Other	—	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX marketprices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,835**	**342**		
Equity instruments	82	185	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	530	131	Present value method	Yield curves
Loans and receivables**	1,223	26	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**33,736**	**163**		
Central banks	482	—	Present value method	Interest rates curves, FX market prices
Credit institutions	9,725	163	Present value method	Interest rates curves, FX market prices
Customers****	23,529	—	Present value method	Interest rates curves, FX market prices, HPI
Debt instruments	—	—	Present value method	Interest rates curves, FX market prices
Financial assets at fair value through other comprehensive income	**2,901**	**5,407**		
Equity instruments	—	1,002	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	1,771	—	Present value method	Yield curves, FX market prices
Loans and receivables	1,130	4,405	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2020*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**68,640**	**482**		
Financial liabilities held for trading	**50,258**	**194**		
Derivatives	50,258	194		
Swaps	*40,047*	*127*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*5,224*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,825*	*50*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*45*	*14*	Black-Scholes Model	Yield curves, FX market prices, Volatility surfaces, Liquidity
Interest rate and equity futures	*424*	*—*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Other	*693*	*2*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	—	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**1,780**	**—**		
Swaps	*1,051*	*—*	Present value method	Yield curves ,FX & EQ market prices, Basis
Exchange rate options	*386*	*—*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*81*	*—*	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*262*	*—*	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**16,602**	**288**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**—**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

EUR Million

	Fair values calculated using internal models at 2019*			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS	**111,852**	**4,047**		
Financial assets held for trading	**55,276**	**449**		
Credit institutions	—	—	Present value method	Yield curves, FX market prices
Customers**	98	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	833	36	Present value method	Yield curves, FX market prices
Derivatives	54,345	413		
Swaps	*46,932*	*404*	Present value method, Gaussian Copula***	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*4,476*	*5*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,160*	*2*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*52*	—	Present value method	Yield curves, FX market prices
Index and securities options	*619*	—	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*106*	*2*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**2,222**	**4**		
Swaps	*1,918*	*4*	Present value method	Yield curves, FX market prices, Basis
Exchange rate options	*254*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*10*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*40*	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,954**	**620**		
Equity instruments	62	137	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	629	457	Present value method	Yield curves
Loans and receivables**	1,263	26	Present value method, swap asset model & CDS	Yield curves and Credit curves
Financial assets designated at fair value through profit or loss	**49,809**	**50**		
Central banks	138	—	Present value method	Yield curves, FX market prices
Credit institutions	18,493	50	Present value method	Yield curves, FX market prices
Customers	31,178		Present value method	Yield curves, FX market prices, HPI
Debt instruments	—	—	Present value method	Yield curves, FX market prices
Financial assets at fair value through other comprehensive income	**2,591**	**2,924**		
Equity instruments	—	148	Present value method	Market price, Yield curves, Dividends and Others
Debt instruments	1,502	—	Present value method	Yield curves, FX market prices
Loans and receivables	1,089	2,776	Present value method	Yield curves, FX market prices and Credit curves

EUR Million

	Fair values calculated using internal models at 2019*			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**80,827**	**647**		
Financial liabilities held for trading	**54,811**	**355**		
Derivatives	54,811	355		
Swaps	*45,049*	*337*	Present value method, Gaussian Copula***	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*4,355*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,212*	*18*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*55*	—	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*570*	—	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*2,570*	—	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	—	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**2,040**	**4**		
Swaps	*907*	*4*	Present value method	Yield curves ,FX & EQ market prices, Basis
Exchange rate options	*766*	—	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*313*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*54*	—	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**23,976**	**288**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**—**	**—**	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

* Level 2 internal models use data based on observable market parameters, while level 3 internal models use significant non-observable inputs in market data.

** Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

*** Includes credit risk derivatives with a net fair value of EUR $-4 at 31 December 2020 (31 December 2019: net fair value of EUR 6 million). These assets and liabilities are measured using the Standard Gaussian Copula Model.

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

Financial Instruments (level 3)

Set forth below are Grupo and Banco Santander main financial instruments measured using unobservable market data as significant inputs of the internal models (level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.
  - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
  - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
  - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
  - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.
- Trading derivatives on interest rates, taking as an underlying asset titling and with the amortization rate (CPR, Conditional prepayment rate) as unobservable main entry.
- Derivatives from trading on inflation in Spain, where volatility is not observable in the market.
- Derivatives on volatility of long-term interest rates (more than 30 years) where volatility is not observable in the market at the indicated term.
- Equity volatility derivatives, specifically indices and equities, where volatility is not observable in the long term.
- Derivatives on long-term interest rate and FX in some Latam units (mainly Brazil), where for certain underlyings it is not possible to demonstrate observability to these terms.
- Debt instruments in Latam units linked to certain illiquid interest rates, for which there is no reasonable market observability.
- Illiquid equity in non-trading portfolios, classified at fair value through profit or loss and at fair value through equity.
- HTC&S (Hold to collect and sale) syndicated loans classified in the fair value category with changes in other comprehensive income, where the cost of liquidity is not directly observable in the market, as well as the prepayment option in favour of the borrower.

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

The net amount recorded in the 2020 financial year results derived from valuation models whose significant inputs are non-observable market data (level 3) amounts to EUR 186 million profit for Banco Santander (EUR 52 million profit in 2019).

The table below shows the effect, at 31 December 2020 on the fair value of the main financial instruments classified of Grupo Santander, as level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/ Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (EUR million) Unfavourable scenario	Favourable scenario
Financial assets held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	31.55%	(0.07)	0.05
CCS	Discounted Cash Flows	Interest rate	(0.30)% - 0.66%	0.66%	—	0.20
Convertibility curve - NDFs Offshore	Forward estimation	Price	0% - 2%	0.61%	(0.72)	0.31
EQ Options	EQ option pricing model	Volatility	7.86% - 93.67%	48.37%	(1.46)	1.81
FRAs	Asset Swap model	Interest rate	0% - 5%	2.22%	(0.78)	0.63
FX Forward	Discounted Cash Flows	Swap Rate	(0.02)% - 0.30%	0.11%	—	—
FX Options	FX option pricing model	Volatility	0% - 50%	32.14%	(0.39)	0.70
Inflation Derivatives	Asset Swap model	Inflation Swap Rate	(100)% - 50%	83.33%	(0.63)	0.31
Inflation Derivatives	Volatility option model	Volatility	0% - 50%	16.67%	(0.47)	0.23
IR Futures	Asset Swap model	Interest rate	0% - 15%	0.94%	(0.94)	0.06
IR Options	IR option pricing model	Volatility	0% - 100%	19.05%	(0.27)	0.06
IRS	Asset Swap model	Interest rate	(6)% - 12.50%	10%	(0.08)	0.13
IRS	Discounted Cash Flows	Swap Rate	5.90% - 6.31%	2.26%	(0.01)	0.02
IRS	Discounted Cash Flows	Credit spread	78.97bps - 202.37bps	9.82bps	(2.81)	1.29
IRS	Prepayment modelling	Prepayment rate	2.47% - 6.22%	0.06%	(0.12)	0.05
Property derivatives	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(17.82)	17.82
Swaptions	IR option pricing model	Volatility	0% - 50%	33.33%	(0.16)	0.31
Financial assets designated at fair value through profit or loss						
Loans and advances to customers						
Repos / Reverse repos	Asset Swap Repo Model	Long-term repo spread	n/a	n/a	(0.18)	0.23
Mortgage portfolio	Black Scholes model	HPI Forward growth rate	0% - 5%	2.50%	(2.23)	2.23
Other loans	Present value method	Credit spreads	0.07% - 1.55%	0.74%	(0.35)	0.35
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	0% - 10%	8.33%	(0.78)	3.91
Other debt securities	Price based	Market Price	90% - 110%	10%	(0.15)	0.15
Property securities	Probability weighting	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(7.24)	7.24
Non-trading financial assets mandatorily at fair value through profit or loss						
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(50.47)	50.47
Financial assets at fair value through other comprehensive income						
Loans and advances to customers						
Loans	Discounted Cash Flows	Credit spread	n/a	n/a	(6.72)	—
Loans	Discounted Cash Flows	Interest rate curve	(0.15)% - 0.15%	0.15%	(0.09)	0.09

Portfolio/ Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (EUR million) Unfavourable scenario	Favourable scenario
Other loans	Present value method	Credit spreads	0.15% - 0.53%	0.19%	(0.04)	0.04
Debt securities						
Government debt	Discounted Cash Flows	Interest rate	1.10% - 1.30%	0.10%	—	—
Equity instruments						
Equities	Price Based	Price	90% - 110%	10%	(122.14)	122.14
Financial liabilities held for trading						
Derivatives						
Cap&Floor	Volatility option model	Volatility	10% - 90%	34.61%	(0.02)	0.01
EQ Options	Option pricing model	HPI Forward growth rate and HPI Spot rate	0% - 5%	2.50%	(6.35)	6.35

Lastly, the changes in the financial instruments classified as Level 3, at Grupo Santander, in 2020:

	01/01/20	Changes						31/12/2020
EUR million	Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognized in profit or loss	Changes in fair value recognized in equity	Level reclassific ations	Other	Fair value calculated using internal models (level 3)
Financial assets held for trading	**598**	**52**	**(98)**	**330**	**—**	**(45)**	**(97)**	**740**
Debt instruments	65	7	(27)	1	—	—	(39)	7
Equity instruments	—	3	—	—	—	—	—	3
Trading derivatives	533	42	(71)	329	—	(45)	(58)	730
Swaps	*182*	—	*(8)*	*116*	—	*(8)*	*(10)*	*272*
Exchange rate options	*8*	—	—	*15*	—	—	*(1)*	*22*
Interest rate options	*177*	*15*	*(12)*	*61*	—	—	—	*241*
Index and securities options	*95*	*25*	*(43)*	*85*	—	*(38)*	*(30)*	*94*
Other	*71*	*2*	*(8)*	*52*	—	*1*	*(17)*	*101*
Financial assets at fair value through profit or loss	**664**	**280**	**(45)**	**17**	**—**	**(91)**	**(176)**	**649**
Credit entities	50	164	—	(1)	—	(50)	—	163
Loans and advances to customers	32	—	(15)	3	—	—	(1)	19
Debt instruments	582	116	(30)	15	—	(41)	(175)	467
Non-trading financial assets mandatorily at fair value through profit or loss	**1,601**	**120**	**(292)**	**(36)**	**—**	**(119)**	**(340)**	**934**
Loans and advances to customers	376	104	(136)	12	—	(30)	(31)	295
Debt instruments	675	—	(144)	(63)	—	2	(336)	134
Equity instruments	550	16	(12)	15	—	(91)	27	505
Financial assets at fair value through other comprehensive income	**3,788**	**8,795**	**(7,616)**	**—**	**(390)**	**571**	**1,072**	**6,220**
TOTAL ASSETS	**6,651**	**9,247**	**(8,051)**	**311**	**(390)**	**316**	**459**	**8,543**
Financial liabilities held for trading	**290**	**40**	**(14)**	**130**	**—**	**(96)**	**(55)**	**295**
Trading derivatives	290	40	(14)	130	—	(96)	(55)	295
Swaps	*115*	*8*	—	*(7)*	—	*(26)*	*(9)*	*81*
Exchange rate options	*1*	—	—	*2*	—	—	*(2)*	*1*
Interest rate options	*34*	*11*	*(2)*	*6*	—	—	—	*49*
Index and securities options	*88*	*21*	*(8)*	*95*	—	*(70)*	*(29)*	*97*
Securities and interest rate futures	*2*	—	—	—	—	—	—	*2*
Others	*50*	—	*(4)*	*34*	—	—	*(15)*	*65*
Financial liabilities designated at fair value through profit or loss	**784**	**4**	**(3)**	**(12)**	**—**	**(32)**	**(131)**	**610**
TOTAL LIABILITIES	**1,074**	**44**	**(17)**	**118**	**—**	**(128)**	**(186)**	**905**

Santander

The same information on the movement of financial instruments classified in Level 3, but referred to Banco Santander, S.A., is presented below:

	01/01/2020	Changes						31/12/2020
EUR million	Fair value calculated using internal models (level 3)	Purchases /Issuances	Sales/Settlements	Changes in fair value recognized in profit or loss	Changes in fair value recognized in equity	Level reclassifications	Other	Fair value calculated using internal models (level 3)
Financial assets held for trading	**449**	**21**	**(33)**	**200**	**—**	**11**	**(56)**	**592**
Debt instruments and equity instruments	36	7	(11)	—	—	—	(32)	—
Trading derivatives	413	14	(22)	200	—	11	(24)	592
Swaps	*209*	—	*(10)*	*123*	—	*8*	*(4)*	*326*
Exchange rate options	*5*	—	—	*15*	—	—	*(1)*	*19*
Interest rate options	*197*	*14*	*(12)*	*61*	—	—	*(19)*	*241*
Index and securities options	*2*	—	—	*1*	—	*3*	—	*6*
Other	—	—	—	—	—	—	—	—
Hedging derivatives (Assets)	**4**	**—**	**—**	**—**	**—**	**—**	**(4)**	**—**
Swaps	*4*	—	—	—	—	—	*(4)*	—
Financial assets at fair value through profit or loss	**50**	**164**	**—**	**(1)**	**—**	**(50)**	**—**	**163**
Credit entities	50	164	—	(1)	—	(50)	—	163
Loans and advances to customers	—	—	—	—	—	—	—	—
Debt instruments	—	—	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	**620**	**18**	**(13)**	**1**	**—**	**—**	**(284)**	**342**
Loans and advances to customers	26	2	(2)	—	—	—	—	26
Debt instruments	457	—	(9)	(2)	—	—	(315)	131
Equity instruments	137	16	(2)	3	—	—	31	185
Financial assets at fair value through other comprehensive income	**2,924**	**8,356**	**(7,280)**	**—**	**(378)**	**558**	**1,227**	**5,407**
TOTAL ASSETS	**4,047**	**8,559**	**(7,326)**	**200**	**(378)**	**519**	**883**	**6,504**
Financial liabilities held for trading	**355**	**19**	**(12)**	**13**	**—**	**4**	**(185)**	**194**
Trading derivatives	355	19	(12)	13	—	4	(185)	194
Swaps	*127*	*8*	*(2)*	*(3)*	—	*2*	*(5)*	*127*
Exchange rate options	*1*	—	—	*2*	—	—	*(2)*	*1*
Interest rate options	*218*	*11*	*(6)*	*6*	—	—	*(179)*	*50*
Index and securities options	*3*	—	*(1)*	*9*	—	*2*	*1*	*14*
Securities and interest rate futures	—	—	—	—	—	—	—	—
Others	*6*	—	*(3)*	*(1)*	—	—	—	*2*
Hedging derivatives (Liabilities)	**4**	**—**	**—**	**—**	**—**	**—**	**(4)**	**—**
Swaps	*4*	—	—	—	—	—	*(4)*	—
Financial liabilities designated at fair value through profit or loss	**287**	**2**	**(1)**	**1**	**—**	**—**	**(1)**	**288**
TOTAL LIABILITIES	**646**	**21**	**(13)**	**14**	**—**	**4**	**(190)**	**482**

iv. Recognition of fair value changes

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

Adjustments due to changes in fair value arising from:

- Financial assets at fair value with changes in other comprehensive income are recorded temporarily, in the case of debt instruments in 'Other comprehensive income - Elements that can be reclassified to profit or loss - Financial assets at fair value with changes in other comprehensive income', while in the case of equity instruments are recorded in 'other comprehensive income - Elements that will not be reclassified to line item - Changes in the fair value of equity instruments valued at fair value with changes in other comprehensive income'.
- Exchange differences on debt instruments measured at fair value with changes in other comprehensive income are recognised under 'Exchange Differences, net' of the income statement. Exchange differences on equity instruments, in which the irrevocable option of being measured at fair value with changes in other comprehensive income has been chosen, are recognised in 'Other comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income'.
- Items charged or credited to 'Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income' and 'Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity' remain in the Bank's equity until the asset giving rise to them is impaired or derecognized, at which time they are recognized in the income statement.
- Unrealised gains on Financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. Hedging transactions

Banco Santander use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Group entities' own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (derivatives).

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

    a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (fair value hedge).

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge).

    c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

    a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (prospective effectiveness).

    b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (retrospective effectiveness). To this end, Banco Santander checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

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

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

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

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

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

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

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

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

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

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

vi. Derivatives embedded in hybrid financial instruments

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

e) Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

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

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

Regarding contractual modifications of financial assets, Banco Santander has differentiated them into two main categories in relation to the conditions under which a modification leads to a derecognition or disposal of the financial asset (and the recognition of a new financial asset) and those under which the accounting of the original financial instrument with the modified terms is maintained:

- Contractual modifications for commercial or market reasons, which are generally carried out at the request of the debtor to apply current market conditions to the debt. The new contract is considered a new transaction and, consequently, it is necessary to derecognize the original financial asset and recognize a new financial asset subject to the classification and measurement requirements established by Bank of Spain Circular 4/2017 subsequent modifications. Also, the new financial asset will be recorded at fair value and, if applicable, the difference between the carrying amount of the asset derecognized and the fair value of the new asset will be recognized in profit or loss.

- Modifications due to refinancing or restructuring, in which the payment conditions are modified to allow a customer that is experiencing financial difficulties (current or foreseeable) to meet its payment obligations and that, if such modification had not been made, it would be reasonably certain that it would not be able to meet such payment obligations. In this case, the modification does not result in the derecognition of the financial asset, but rather the original financial asset is maintained and does not require a new assessment of its classification and measurement. When assessing credit impairment, the current credit risk (considering the modified cash flows) should be compared with the credit risk at initial recognition. Finally, the gross carrying amount of the financial asset (the present value of the renegotiated or modified contractual cash flows that are discounted at the original effective interest rate of the financial asset) should be recalculated, with a gain or loss recognized in profit or loss for the difference.

f) Offsetting of financial instruments

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

Following is the detail of financial assets and liabilities that were offset in the balance sheets as at 31 December 2020 and 2019:

	2020		
	EUR million		
Assets	Gross amount of financial assets	Gross amount of financial assets offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	114,555	(58,056)	56,499
Repos	39,935	(8,856)	31,079
	154,490	**(66,912)**	**87,578**

Assets	2019 EUR million Gross amount of financial assets	Gross amount of financial assets offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	111,629	(53,709)	57,920
Repos	49,047	(3,198)	45,849
	160,676	**(56,907)**	**103,769**

Liabilities	2020 EUR million Gross amount of financial liabilities	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	110,512	(58,056)	52,456
Repos	19,447	(8,856)	10,591
	129,959	**(66,912)**	**63,047**

Liabilities	2019 EUR million Gross amount of financial liabilities	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	111,821	(53,709)	58,112
Repos	20,084	(3,198)	16,886
	131,905	**(56,907)**	**74,998**

Also, most of the derivatives and temporary acquisition of assets not compensated in balance sheet are subject to netting and collateral agreements.

At December 31, 2020 the balance sheet amounts EUR 85.714 million on derivatives and temporary acquisition of assets and EUR 61.252 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements (EUR 91,250 million and EUR 66,501 million in 2019, respectively).

g) Impairment of financial assets

i. Definition

Banco Santander associates an impairment in the value to financial assets measured at amortised cost, debt instruments measured at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

The impairment for expected credit losses is recorded with a charge to the income statement for the period in which the impairment arises. In the event of occurrence, the recoveries of previously recognised impairment losses are recorded in the income statement for the period in which the impairment no longer exists or is reduced

In the case of purchased or originated credit-impaired assets, the Bank only recognizes at the reporting date the changes in the expected credit losses during the life of the asset since the initial recognition as a credit loss. In the case of assets measured at fair value with changes in other comprehensive income, the changes in the fair value due to expected credit losses are charged in the income statement of the year where the change happened, reflecting the rest of the valuation in other comprehensive income.

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

Depending on the classification of financial instruments, which is mentioned in the following sections, the expected credit losses may be along 12 months or during the life of the financial instrument:

- 12-month expected credit losses: arising from the potential default events, as defined in the following sections that are estimated to be likely to occur within the 12 months following the reporting date. These losses will be associated with financial assets classified as "normal risk" as defined in the following sections.
- Expected credit losses over the life of the financial instrument: arising from the potential default events that are estimated to be likely to occur throughout the life of the financial instruments. These losses are associated with financial assets classified as "normal risk under watchlist" or 'doubtful risk'.

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

The following constitute effective guarantees:

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

    i. Buildings and building elements, distinguishing among:

        - Houses.
        - Offices, stores and multi-purpose premises.
        - Rest of buildings such as non-multi-purpose premises and hotels.

    ii. Urban and developable ordered land.

    iii. Rest of properties that classify as: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.

b. Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.

c. Other types of real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.

d. Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the financial instruments and implying direct and joint liability to the entity of persons or other entities whose solvency is sufficiently proven to ensure the repayment of the loan on the agreed terms.

The different aspects that the Bank considers for the evaluation of effective guarantees are set out below in relation to the individual analysis.

ii. Financial instruments presentation

For the purposes of estimating the impairment amount, and in accordance with its internal policies, the Bank classifies its financial instruments (financial assets, commitments and guarantees) measured at amortised cost or fair value through other comprehensive income in one of the following categories:

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

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

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

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analyzed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into stage 2, each the Bank unit has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines ensuring a consistent interpretation in all units. Within the quantitative thresholds, two types are considered: A relative threshold is those that compare current credit quality with credit quality at the time of origination in percentage terms of change. In addition, an absolute threshold compares both references in total terms, calculating the difference between the two. These absolute/relative concepts are used homogeneously (with different values) in all geographies. The use of one type of threshold or another (or both) is determined in accordance with the process described in note 49, below, and is marked by the type of portfolio and characteristics such as the starting point of the average credit quality of the portfolio.
Qualitative criteria	In addition to the quantitative criteria indicated, various indicators are used that are aligned with those used by the Bank in the normal management of credit risk. Irregular positions of more than 30 days and renewals are common with the Bank. In addition, each unit can define other qualitative indicators, for each of its portfolios, according to the particularities and normal management practices in line with the policies currently in force (i.e. use of management alerts, etc.). The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.

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

- Doubtful Risk ('stage 3'): includes financial instruments, overdue or not, in which, without meeting the circumstances to classify them in the category of default risk, there are reasonable doubts about their total repayment (principal and interests) by the client in the terms contractually agreed. Likewise, off-balance-sheet exposures whose payment is probable and their recovery doubtful are considered in stage 3. Within this category, two situations are differentiated:

- Doubtful risk for non-performing loans: financial instruments, irrespective of the client and guarantee, with balances more than 90 days past due for principal, interest or expenses contractually agreed.

- This category also includes all loan balances for a client which overdue amount more than 90 days past due is greater than 20% of the loan receivable balance.

  These instruments may be reclassified to other categories if, as a result of the collection of part of the past due balances, the reasons for their classification in this category do not remain and the client does not have balances more than 90 days past due in other loans.

- Doubtful risk for reasons other than non-performing loans: this category includes doubtful recovery financial instruments that are not more than 90 days past due.

  Banco Santander considers that a financial instrument to be doubtful for reasons other than delinquency when one or more combined events have occurred with a negative impact on the estimated future cash flows of the financial instrument. To this end, the following indicators, among others, are considered:

  a) Negative net equity or decrease because of losses of the client's net equity by at least 50% during the last financial year.

  b) Continued losses or significant decrease in revenue or, in general, in the client's recurring cash flows.

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

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

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

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

These financial instruments may be reclassified to other categories if, as a result of an individualised study, reasonable doubts do not remain about the total repayment under the contractually agreed terms and the client does not have balances with more than 90 days past due.

In the case of forbearances, instruments classified as doubtful risk may be reclassified to the category of 'normal risk under watchlist' when the following circumstances are present: a minimum period of one year has elapsed from the forbearance date, the client has paid the accrued principal and interest amounts, and the client has no other loan balance with more than 90 days past due.

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

  In any event, except in the case of collateral transactions covering more than 10% of the amount of the transaction, Banco Santander generally considers as remote recovery: transactions of holders in the liquidation stage of the bankruptcy proceedings, doubtful transactions on account of delinquency which have an age in this category exceeding 4 years and doubtful transactions due to delinquency whose part not covered by collateral has been maintained with 100% credit risk coverage for more than two years.

  Balances relating to a financial asset are kept on balance sheet until they are considered as a 'failed risk', either the whole or part thereof, and is taken off on the balance sheet.

  In the case of transactions which have only been partially derogated from the asset, by reason of removal or because part of the total amount is considered irrecoverable, the remaining amount shall be classified entirely under the category of 'doubtful risk', subject to duly justified exceptions.

  Classification of a financial asset, or part thereof, as “failed risk” does not imply the interruption of negotiations and legal proceedings to recover its amount.

iii. Impairment valuation assessment

Banco Santander has policies, methods and procedures in place to hedge its credit risk, both due to the insolvency attributable to counterparties and its residence in a specific country.

These policies, methods and procedures are applied in the concession, study and documentation of financial assets, commitments and guarantees, as well as in the identification of their impairment and in the calculation of the amounts needed to cover their credit risk.

The asset impairment model in Bank of Spain Circular 4/2017 applies to financial instruments measured at amortized cost and fair value through other comprehensive income, to lease charges, as well as commitments and guarantees granted not measured at fair value.

The impairment represents the best estimation of the financial assets expected credit losses at the balance sheet date, assessed both individually and collectively.

- Individually: for the purposes of estimating the provisions for credit risk arising from the insolvency of a financial instrument, the Bank individually assesses impairment by estimating the expected credit losses on those financial instruments that are considered to be significant and with sufficient information to make such an estimate.

  Therefore, this classification mostly includes wholesale banking customers —Corporations, specialised financing— as well as some of the largest companies —Chartered and real estate developers— from retail banking. The determination of the perimeter in which the individualised estimate is applied is detailed in a later section.

  The individually assessed impairment estimate is equal to the difference between the gross carrying amount of the financial instrument and the estimated value of the expected cash flows receivable discounted using the original effective interest rate of the transaction. The estimate of these cash flows takes into account all available information on the financial asset and the effective guarantees associated with that asset. This estimation process is detailed below.

- Collectively: the Banco Santander also assesses impairment by estimating the expected credit losses collectively in cases where they are not assessed on an individual basis. This includes, for example, loans with individuals, sole proprietors or businesses in retail banking subject to a standardised risk management.

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

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

Banco Santander performs retrospective and monitoring tests to evaluate the reasonableness of the collective estimate.

On the other hand, the methodology required to estimate the expected credit loss due to credit events is based on an unbiased and weighted consideration by the probability of occurrence of a series of scenarios, considering a range of three to five possible future scenarios, depending on the characteristics of each unit, which could have an impact on the collection of contractual cash flows, always taking into account the time value of money, as well as all available and relevant information on past events, current conditions and forecasts of the evolution of macroeconomic factors that are shown to be relevant for the estimation of this amount (for example: GDP (Gross Domestic Product), housing price, unemployment rate, etc.).

The estimation of expected losses requires expert judgment and the support of historical, current and future information. The probability of loss is measured considering past events, the present situation and future trends of macroeconomic factors.

Banco Santander uses forward-looking information in both internal risk management and prudential regulation processes, so that for the calculation of the impairment loss allowance, various scenarios are incorporated that take advantage of the experience with such information, thus ensuring consistency in obtaining the expected loss.

The challenge of the exercise has focused on the uncertainty of the economic outlook caused by the covid-19 crisis, coupled with a complex environment for value creation.

Banco Santander has internally ensured the criteria to be followed for guarantees received from government bodies, both through credit lines and other public guarantees, so that when they are adequately reflected in each of the contracts, they are recognized as mitigating factors of the potential expected losses, and therefore of the provisions to be recognized, based on the provisions of the applicable standard. Furthermore, where applicable, these guarantees are appropriately reflected in the mitigation of the significant increase in risk, considering their nature as personal guarantees.

For the estimation of the parameters used in the estimation of impairment provisions -EAD (exposure at default), PD (probability of default), LGD (loss given default)-, the Group based its experience in developing internal models for the estimation of parameters both in the regulatory area and for management purposes, adapting the development of the impairment provision models under Bank of Spain Circular 4/2017.

- Exposure at default: is the amount of estimated risk incurred at the time of the counterparty's analysis.
- Probability of default: is the estimated probability that the counterparty will default on its principal and/or interest payment obligations.
- Loss given default: is the estimate of the severity of the loss incurred in the event of non-compliance. It depends mainly on the updating of the guarantees

associated with the operation and the future cash flows that are expected to be recovered.

In any case, when estimating the flows expected to be recovered, portfolio sales are included. It should be noted that due to the Bank's recovery policy and the experience observed in relation to the prices of past sales of assets classified as stage 3 and/or default risk, there is no substantial divergence between the flows obtained from recoveries after performing recovery management of the assets with those obtained from the sale of portfolios of assets discounting structural expenses and other costs incurred.

The definition of default implemented by the Bank for the purpose of calculating the impairment provision models is based on the definition in Article 178 of Regulation 575/2013 of the European Union (CRR), which is fully aligned with the requirements of Bank of Spain Circular 4/2017, which considers that a "default" exists in relation to a specific customer/contract when at least one of the following circumstances exists: the entity considers that there are reasonable doubts about the payment of all its credit obligations or that the customer/contract is in an irregular situation for more than 90 days with respect to any significant credit obligation.

In addition, Banco Santander considers the risk generated in all cross-border transactions due to circumstances other than the usual commercial risk of insolvency (sovereign risk, transfer risk or risks arising from international financial activity, such as wars, natural catastrophes, balance of payments crisis, etc.).

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

- Rebuttable presumption that the credit risk has increased significantly, when payments are more than 30 days past due: this threshold is used as an additional, but not primary, indicator of significant risk increase. Additionally, there may be cases in the Bank where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold. The volume rebutted does not exceed 0.1% of the Bank total exposure.
- Assets with low credit risk at the reporting date: the Bank assesses the existence of significant risk increase in all its financial instruments.

This information is provided in more detail in note 49 b. (Credit risk).

iv. Detail of individual estimate of impairment

For the individual estimate of the assessment for impairment of the financial asset, the Bank has a specific methodology to estimate the value of the cash flows expected to be collected:

- Recovery through the debtor's ordinary activities (going concern approach).
- Recovery through the execution and sale of the collateral guaranteeing the operations (going concern approach).

Going concern approach:

a. Evaluation of the effectiveness of guarantees

Banco Santander assesses the effectiveness of all the guarantees associated considering the following:

- The time required to execute these guarantees.
- The Bank's ability to enforce or assert these guarantees in its favour.
- The existence of limitations imposed by each local unit´s regulation on the foreclosure of collateral.

Under no circumstances the Bank considers that a guarantee is effective if its effectiveness depends substantially on the solvency of the debtor, as could be the case:

- Promises of shares or other securities of the debtor himself when their valuation may be significantly affected by a debtor's default.
- Personal cross-collateralisation: when the guarantor of a transaction is, at the same time, guaranteed by the holder of that transaction.

On the basis of the foregoing, the following types of guarantees are considered to be effective:

- Mortgage guarantees on properties, which are first charge, duly constituted and registered. Real estate includes:
  - Buildings and finished building elements.
  - Urban and developable land in order.
  - Other real estate, including buildings under construction, developments in progress or at a standstill, and other land, such as rural properties.
- Pledges on financial instruments such as cash deposits, debt securities of reputables issuers or equity instruments.
- Other types of security interests, including movable property received as security and second and subsequent mortgages on real state , provided that they are proven to be effective under particularly restrictive criteria.

- Personal guarantees, including new holders, covering the entire amount and involving direct and joint liability to the entity, from persons or entities whose equity solvency ensures repayment of the transaction under the agreed terms.

b. Valuation of guarantees

Banco Santander assesses the guarantees on the basis of their nature in accordance with the following:

- Mortgage guarantees on properties associated with financial instruments, using a complete individual valuations carried out by independent valuation experts and under generally accepted valuation standards. If this is not possible, alternative valuations are used with duly documented and approved internal valuation models.
- Personal guarantees are valued individually on the basis of the guarantor´s updated information.
- The rest of the guarantees are valued based of current market values.

c. Adjustments to the value of guarantees and estimation of future cash flow inflows and outflows.

Banco Santander, applies a series of adjustments to the value of the guarantees in order to improve the reference values:

- Adjustments based on the historical sales experience of local units for certain types of assets.
- Individual expert adjustments based on additional management information.

Likewise, to adjust the value of the guarantees, the time value of money is taken into account based on the historical experience of each of the units, estimating:

- Period of adjudication.
- Estimated time of sale of the asset.

In addition, the Banco Santander takes into account all those cash inflows and outflows linked to that guarantee until it is sold:

- Possible future income commitments in favour of the borrower which will available after the asset is awarded.
- Estimated foreclosure costs.
- Asset maintenance costs, taxes and community costs.
- Estimated marketing or sales costs.

Finally, since it is considered that the guarantee will be sold in the future, Banco Santander applies an additional adjustment ('index forward') in order to adjust the value of the guarantees to future valuation expectations.

v. Scope of application of the individual estimate of the assessment for impairment

Banco Santander determines the perimeter over which it makes an estimate of the assessment for impairment on an individual basis based on a relevance threshold set by each of the geographical areas and the stage in which the operations are located. In general, the Bank applies the individualised calculation of expected losses to the significant exposures classified in stage 3, although Banco Santander, S.A. has also extended its analyses to some of the exposures classified in stage 2.

It should be noted that, in any case and regardless of the stage in which their operations are located, a relational risk management model is applied for customers who do not receive standardised treatment and monitoring by the assigned risk analyst. Within this relational management model, in addition to wholesale customers (Santander Corporate & Investment Banking or SCIB) and large companies, other segments of smaller companies are also included for which there is information and ability to perform more personalised analysis and tracking. expert. As indicated in the Bank's wholesale credit model, the customer's individualised and personalised treatment facilitates the continuous updating of the customer's specific rating, which determines the appropriate parameters for the calculation of the expected loss, so that it is the rating itself that initially modulates the coverage necessary, adjusting the severity of the possible loss to any warranties and other mitigating that the customer may have. Additionally, if as a result of this individualised customer monitoring, the analyst finally considers that their coverage is not sufficient, he has the necessary mechanisms to adjust it under his expert judgment, always under the government.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the balance sheet as financing granted (received), based on the nature of the debtor (creditor), under 'Loans and advances with central banks', 'Loans and advances to credit institutions' or 'Loans and advances to customers' (Deposits from central banks, Deposits from credit institutions or Customer deposits).

Differences between the purchase and sale prices are recognised as interest over the contract term.

i) 'Non-current assets' and 'liabilities associated with non-current assets held for sale'

'Non-current assets held for sale' includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the recovery of the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be effected through the proceeds from their disposal.

Specifically, property or other non-current assets received as total or partial settlement of their debtors' payment obligations to them are deemed to be 'Non-current assets held for sale', unless Banco Santander have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Bank obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

Banco Santander has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which Banco Santander works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which Banco Santander worked in Spain in 2020 are as follows: Gloval Valuation, S.A.U.,Tinsa Tasaciones Inmobiliarias, S.A.U., Gesvalt Sociedad de Tasación, S.A. and Sociedad de tasación, S.A.

'Liabilities associated with non-current assets held for sale' includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

'Non-current assets and disposal groups of items that have been classified as held for sale' are generally recognised at the date of their allocation to this category and are subsequently valued at the lower of their fair value less costs to sell or its book value. Non-current assets and disposal groups of items that are classified as held for sale are not amortised as long as they remain in this category.

At 31 December 2020 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 198 million (EUR 151 million in 2019); however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The value of the portfolio is determined as the sum of the values of the individual elements that compose the portfolio, without considering any total or batch grouping in order to correct the individual values.

Banco Santander, in compliance with Bank of Spain Circular 4/2017, and further modifications, on public and private financial reporting standards and financial statement models, has developed a methodology that enables it to estimate the fair value and costs of sale of assets foreclosed or received in payment of debts. This methodology is based on the classification of the portfolio of foreclosed assets into different segments. Segmentation enables the intrinsic characteristics of Bank´s portfolio of foreclosed assets to be differentiated, so that assets with homogeneous characteristics are grouped by segment.
Thus, the portfolio is segmented into (i) finished assets of a residential and tertiary nature, (ii) developments in progress and (iii) land[1].

In determining the critical segments in the overall portfolio, assets are classified on the basis of the nature of the asset and its stage of development. This segmentation is made in order to seek the liquidation of the asset (which should be carried out in the shortest possible time).

When making decisions, the situation and/or characteristics of the asset are fundamentally taken into account, as well as the evaluation of all the determining factors that favour the recovery of the debt. For them, the following aspects are analyzed, among others:

- The time that has elapsed since the adjudication.
- The transferability and contingencies of the foreclosed asset.
- The economic viability from the real estate point of view with the necessary investment estimate.
- The expenses that may arise from the marketing process.
- The offers received, as well as the difficulties in finding buyers. In the case of real estate assets foreclosed, the valuation of the portfolio is carried out by applying the following models:
- Market Value Model used in the valuation of finished properties of a residential nature (mainly homes and car parks) and properties of a tertiary nature (offices, commercial premises and multipurpose buildings). For the valuation of finished assets whose availability for sale is immediate, a market sale value

[1] The assets in a situation of "stopped development" are included under "land".

provided by a third party external to Banco is considered, calculated under the AVM methodology by the comparable properties method adjusted by our experience in selling similar assets, given the term, price, volume, trend in the value of these assets and the time elapsing until their sale and discounting the estimated costs of sale.

The market value is determined on the basis of the definition established by the International Valuation Standards drawn up by the IVSC (International Valuation Standards Council), understood as the estimated amount for which an asset or a liability should be exchanged on the measurement date between a willing buyer and a willing seller, in an arm's length transaction, after appropriate marketing, and in which the parties have acted with sufficient information, prudently and without coercion.

The current market value of the properties is estimated on the basis of automated valuations obtained by taking comparable properties as a reference; simulating the procedure carried out by an appraiser in a physical valuation according to Order ECO 805/2003: selection of properties and obtaining the unit value by applying homogenisation adjustments. The selection of the properties is carried out by location within the same real estate cluster and according to the characteristics of the properties, filtering by type[2], surface area range and age. The model enables a distinction to be made within the municipality under study as to which areas are similar and comparable and therefore have a similar value in the property market, discriminating between which properties are good comparators and which are not.

Adjustments to homogenize the properties are made according to: (i) the age of the property according to the age of the property to be valued, (ii) the deviation of the built area from the common area with respect to the property to be valued and (iii) by age of the date of capture of the property according to the price evolution index of the real estate market.

In addition, for individually significant assets, complete individual valuations are carried out, including a visit to the asset, market analysis (data relating to supply, demand, current sale or rental price ranges and supply-demand and revaluation expectations) and an estimate of expected income and costs.

For this segmentation of assets, when they are completed, the real costs are known and the actual expenses for the marketing and sale of the asset must be taken into account. Therefore, the Bank uses the actual costs in its calculation engine or, failing that, those estimated on the basis of its observed experience.

- Market Value Model according to Evolution of Market Values used to update the valuation of developments in progress. The valuation model estimates the current market value of the properties based on complete individual valuations by third parties, calculated from the values of the feasibility studies and development costs of the promotion, as well as the selling costs, distinguishing by location, size and type of property. The inputs used in the valuation model for residential assets under construction are actual revenues and costs.

  For this purpose, in order to calculate the investment flows, the Bank considers, on the basis of the feasibility studies, the expenditure required for construction, the professional fees relating to the project and to project management, the premiums for mandatory building insurance, the developer's administrative expenses, licences, taxes on new construction and fees, and urban development charges.

  With respect to the calculation of income flows, Banco Santander takes into account the square metres built, the number of homes under construction and the estimated selling price over 1.5 years.

  The market value will be the result of the difference between the income flows and the investment flows estimated at each moment.

- Land Valuation model. The methodology followed by the Bank regarding land valuation consists of updating the individual reference valuation of each of the land on an annual basis, through updated valuation valuations carried out by independent professionals and following the methodology established in the OM (Ministerial Order) ECO/805/2003, of 27 March, whose main verifications in the case of land valuation, regardless of the degree of urbanisation of the land, correspond to:

  – Visual verification of the assessed property.

  – Registry description.

  – Urban planning.

  – Visible easements.

  – Visible easements.

  – Visible state of occupation, possession, use and exploitation.

  – Protection regime.

[2] Assets qualified as protected housing are taken into account. The maximum legal value of these assets is determined by the VPO module, obtained from the result of multiplying the State Basic Module (MBE) by a zone coefficient determined by each autonomous community. To carry out the valuation of a protected property, the useful surface area is used in accordance with current regulations

- Apparent state of preservation.
- Correspondence with cadastral property.
- Existence of expropriation procedure, expropriation plan or project, administrative resolution or file that may lead to expropriation.
- Expiry of the urbanization or building deadlines.
- Existence of a procedure for failure to comply with obligations.
- Verification of surfaces.

For the purposes of valuation, the land will be classified in the following levels:

- Level I: It will include all the lands that do not belong to level II.
- Level II: It shall include land classified as undeveloped where building is not allowed for uses other than agriculture, forestry, livestock or linked to an economic exploitation permitted by the regulations in force. Also included are lands classified as developable that are not included in a development area of urban planning or that, in such an area, the conditions for its development have not been defined.

In those cases where Banco Santander does not have an updated reference value through an ECO valuation for the current year, we use as a reference value the latest available ECO valuation reduced or corrected by the average annual coverage ratio of the land on which we have obtained an updated reference value, through an ECO valuation.

Banco Santander applies a discount to the aforementioned reference values that takes into account both the discount on the reference value in the sales process and the estimated costs of marketing or selling the land:

Discount on reference value = % discount on sales + % marketing costs being:

- % discount on Sales: = 100 - (sales price / updated appraisal value).
- marketing costs: calculated on the basis of our historical experience in sales and in accordance with the marketing management fees negotiated with our suppliers of this type of service.

In this way Banco Santander obtains the corrected market value, an amount that we compare with the net cost of each piece of land to determine its correct valuation and conclude with our valuation process.

In addition, in relation to the previously mentioned valuations, less costs to sell, are contrasted with the sales experience of each type of asset in order to confirm that there is no significant difference between the sale price and the valuation.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognized under 'Gains or (losses) on non-current assets held for sale not classified as discontinued operations' in the income statement.

The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognized in the income statement up to an amount equal to the impairment losses previously recognized.

j) 'Assets under insurance or reinsurance contracts' and 'Liabilities under insurance or reinsurance contracts'

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

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

The liability linked to pension-related insurance contracts, included under the heading of 'Other liabilities' (see note 2.ñ), reflects the technical provisions registered to cover claims arising from insurance contracts that remain in effect at the end of the year.

k) Tangible assets

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

i. Property, plant and equipment for own use

Property, plant and equipment for own use – including tangible assets received by the Bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases– are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Average annual rate
Buildings for own use	2.0%
Furniture	10.0%
Fixtures	5.0%
Computer equipment	25.0%
Vehicles	16.0%
Other	5.0%
Lease usage rights	Less than the lease term or the useful life of the underlying asset

At the end of each reporting period, Banco Santander, assess whether there is any indication that the carrying amount of an asset exceeds its recoverable amount, in which case they write down the carrying amount of the asset to its recoverable amount and adjust future depreciation charges in proportion to its adjusted carrying amount and to its new remaining useful life, if the useful life needs to be re-estimated.

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

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

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

ii. Investment property

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

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

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

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

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

iii. Assets leased out under an operating lease

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

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

l) Accounting for leases

As of January 1, 2019, with the entry into force of Bank of Spain Circular 2/2018, when the Bank acts as a lessee, an asset by right of use is recognized, representing its right to use the leased asset and the corresponding lease liability on the date on which the leased asset is available for use by the Bank.

Each lease payment is allocated between liability and financial expenditure. Financial expenditure is charged to profit or loss during the lease period in a manner that produces a constant periodic interest rate on the remaining liability balance for each financial year. The right of use asset is amortized over the useful life of the asset or the lease term, the smallest of the two, on a linear basis. If Banco Santander is reasonably certain of exercising a purchase option, the right of use asset is amortized over the useful life of the underlying asset.

Assets and liabilities arising from a lease are initially valued on the basis of present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including inflation-related payments), minus any lease incentive receivable.
- Variable lease payments that depend on an index or rate.
- The amounts expected to be paid by the lessee as residual value collateral.
- The exercise price of a purchase option if the lessee is reasonably certain that he will exercise that option.
- Termination penalty payments, if the term of the lease reflects the tenant's exercise of that option.

Lease payments are discounted using the interest rate implied in the lease.

Since in certain situations this interest rate cannot be obtained, the discount rate used in such cases is the tenant's incremental borrowing interest rate to date. For this purpose, the institution has calculated this incremental interest rate on the basis of the quoted debt instruments issued by Banco Santander; in this regard, the Bank has estimated different rate curves depending on the currency and economic environment in which the contracts are located.

The incremental interest rate is defined as the interest rate that a lessee would have to pay for borrowing, for a term similar to the duration of the lease and with similar security, funds necessary to obtain an asset of similar value to the asset by right of use in a similar economic environment.

Assets by right of use are valued at cost that includes the following:

- The amount of the initial valuation of the lease liability.
- Many lease payment made on or before the start date minus any lease incentive received.
- Any initial direct costs.
- Restoration costs.

Payments associated with short-term leases and leases of low value assets are recognized on a linear basis as an income expenditure.

Short-term leases are leases with a lease term of less than or equal to 12 months (a lease with a purchase option does not constitute a short-term lease).

When Banco Santander acts as a landlord:

i. Finance leases

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

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

The finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to interest and similar income and interest expense and similar charges in the income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When Banco Santander act as the lessors, they present the acquisition cost of the leased assets under 'Tangible assets' (see note 15).

The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under 'Other operating income' in the income statement.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

In accordance with Bank of Spain Circular 4/2017 and subsequent modifications, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank.

Only assets whose cost can be estimated reliably and from which the entities consider it probable that future economic benefits will be generated are recognised.

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

i. Goodwill

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

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.
- If it is attributable to specific intangible assets, by recognising it explicitly in the balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.
- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Bank's geographical and/or business segments.

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

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

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

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

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

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

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

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

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

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

In both cases the Bank recognise any impairment loss on the carrying amount of these assets with a charge to 'Impairment or reversal of impairment on non-financial assets, net - Intangible assets' in the income statement.

The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets (see note 2.k).

Software developed by the entity itself

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

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised into the carrying amount of the intangible asset.

n) Other assets

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

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories include land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the income statement for the year in which they occur.

  The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favour, when this net amount is to be reported in the balance sheet, and the amount of any other assets not included in other items.

Additionally, Other Assets at 31 December 2019 included the right of collection acquired from Enagás Transporte charged to the gas system conferred by Royal Decree Law 13/2004 (for which urgent measures were adopted in relation to with the gas system and due to the extraordinary and urgent need to find a solution to the complex technical situation existing in the underground storage of natural gas Castor, especially after the resignation of the concession presented by its owner).

In the aforementioned Royal Decree Law, it was agreed the hibernation of the Castor gas submarine storage facilities and the assignation of the operations required for its maintenance and operability to Enagás Transporte. It also recognised the value of the investment at EUR 1,350 million and an obligation to pay this amount to the holder of the extinguished concession by Enagás Transporte, recognising a collection right, charged to the monthly billing for access tolls and gas system fees during 30 years, for the amount paid to the holder of the extinguished concession plus the financial remuneration recognised by the Royal Decree Law.

Banco Santander acquired, along with other financial entities, the collection right for its nominal redemption value under a contract with full legal effectiveness and protected, in good faith, in the full constitutionality of the Royal Decree Law that created it, set its amount, established the legal mechanism for its payment from the gas system and allowed its transfer with full effect against it.

On 21 December 2017 the Constitutional Court gave a judgement declaring unconstitutional certain provisions of Royal Decree Law 13/2014 and cancelling them due to procedural defect, considering that the urgency reasons for which said provisions had to be excluded from the ordinary legislative procedure were not proven. Among others, the recognition of the costs accrued until the entry into force of the Royal Decree by the concessionaire waiving the investment and, therefore, the compensation of EUR 1,350 million, and the recognition of Enagás Transporte's right of collection from the gas system for the amount of this compensation were cancelled.

Due to the termination of the payment of the collection right and the obligation to reimburse the amounts received as a result of the declaration of unconstitutionality of the Royal DL, Banco Santander initiated in 2018 the administrative and judicial proceedings that considered appropriate to defend its rights. Regarding the claim for liability of the legislating State (the most relevant by amount) was resolved favourably for the Bank by Supreme Court Ruling of 27 October 2020. In execution of this sentence, on 31 December 2020, a payment of EUR 740.7 million was received from the Public Treasury (comprising the principal amount of the claim plus the appropriate legal interest), while proceedings for an aggregate amount of nearly EUR 56 million corresponding to interest collected by Banco Santander and returned to the administration, and which, in view of the decision of the Supreme Court, is expected to be resolved in an equally favourable manner for Banco Santander.

This compensation asset, since it does not arise as a consequence of a contract, but rather from the liability of the State legislator, does not meet the definition of a financial asset. Consequently, and since it has the characteristic of certain, it also does not meet the definition of a contingent asset, it was classified as a non-financial asset.

ñ) Other liabilities

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

o) Provisions and contingent assets and liabilities

When preparing the financial statements of the entities, Banco Santander's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them. Banco Santander does not recognise the contingent liability. The Bank will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

  Santander UK plc is cooperating with an FCA civil regulatory investigation which commenced in July 2017 into its compliance with the Money Laundering Regulations 2007 and potential breaches of FCA principles and rules relating to anti-money laundering and financial crime systems and controls. The FCA's investigation focuses primarily on the period 2012 to 2017 and includes consideration of high risk customers including Money Service Businesses. It is not currently possible to make a reliable assessment of any liability resulting from the investigation including any financial penalty.
- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised in the balance sheet or in the income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

Banco Santander`s financial statements include all the material provisions with respect to which it is considered that it is more likely than not the obligation will have to be settled. In accordance with accounting standards, liabilities must not be recognized in the financial statements, but must rather be disclosed in the notes.

Provisions (which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year) are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows (see note 23):

- Provision for pensions and similar obligations: includes the amount of all provisions established for the coverage of post-employment definite benefit remuneration, including commitments made to pre-retired staff and similar obligations (see note 2.u).
- Other long-term employee remuneration: includes other commitments made to pre-retired staff as detailed in note 2.v.
- Commitments and guarantees granted: includes the amount of provisions created for the hedging of contingent risks, understood as transactions in which the entity secures obligations of a third party arising from financial guarantees granted or other contracts, and contingent commitments; understood as irrevocable commitments that may result in the recognition of financial assets.
- Provisions for pending tax litigation and procedural matters: Includes the amount of provisions constituted for the coverage of contingencies of a tax, legal nature, litigation and the other provisions constituted by the Bank.
- Remaining provisions: includes the remaining provisions constituted by Banco Santander. Among other concepts, this heading covers provisions for restructuring and environmental actions, where appropriate.

p) Court proceedings and/or claims in process

At the end of 2020 certain court proceedings and claims were in process against Banco Santander arising from the ordinary course of their operations (see note 23).

q) Own equity instruments

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

- The instruments do not include any contractual obligation for the issuer (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.
- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.
- Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

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

r) Equity-instrument-based employee remuneration

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

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

s) Recognition of income and expenses

The most significant criteria used by Banco Santander to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

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

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

ii. Commissions, fees and similar items

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

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.
- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

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

iv. Deferred collections and payments

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

v. Loan arrangement fees

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

t) Financial guarantees

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

Banco Santander initially recognises the financial guarantees provided on the liability side of the balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Bank recognises the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the balance sheet for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in note 2.g above).

The provisions made for these transactions are recognized under 'Provisions - Provisions for commitments and guarantees given in the balance sheet' (see note 23). These provisions are recognised and reversed with a charge or credit, respectively, to 'Provisions or reversal of provisions', net, in the income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under 'Financial liabilities at amortised cost - Other financial liabilities in the balance sheet', are reclassified to the appropriate provision.

u) Post-employment benefits

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

Banco Santander's post-employment obligations to its employees are deemed to be defined contribution plans when the Bank makes pre-determined contributions (recognised under Personnel expenses in the Bank income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see note 23).

Defined contribution plans

The contributions made in this connection in each year are recognised under Personnel expenses in the income statement.

The amounts not yet contributed at each year-end are recognized, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet.

Defined benefit plans

Banco Santander recognises under 'Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet' (or under 'Other assets' on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

Plan assets are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the Bank, but by a legally separate third party that is not a party related to the Bank.
- They are only available to pay or fund post-employment benefits and they cannot be returned to the Bank unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Bank.

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

Banco Santander will recognise the following items in the income statement:

- Current service cost, (the increase in the present value of the obligations resulting from employee service in the current period), is recognised under 'Staff costs'.
- The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under 'Provisions or reversal of provisions'.
- Any gain or loss arising from a liquidation of the plan is included in the Provisions or reversion of provisions.
- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under 'Interest expense' and similar charges ('Interest and similar income' if it constitutes income) in the income statement.

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

- Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

v) Other long-term employee benefits

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

w) Termination benefits

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

x) Income tax

The income tax expense is recognized in the income statement, except when they arise from a transaction whose results are recognised directly in equity

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

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

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

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

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

Deferred tax assets are only recognized for temporary differences to the extent that it is considered probable that it is probable that Banco Santander will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the entities will have sufficient future taxable profits against which they can be utilised.

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

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed (see note 24).

y) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the balance sheet and the average interest rates at the end of the reporting periods is provided in note 48.

z) Statement of recognised income and expenses

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

Accordingly, this statement presents:

a. Profit for the year.

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

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

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

e. Total recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the parent company and the amount relating to non-controlling interests.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

aa) Statement of changes in total equity

This statement presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in equity arising as a result of the retrospective restatement of the balances in the financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the statement of recognised 'Income and expense'.

c. Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in equity.

ab) Statements of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.
- Banco Santander classifies as cash and cash equivalents the balances recognized under 'Cash, cash balances at central banks' and 'Other deposits on demand' in the balance sheet.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

During 2020, Banco Santander received interest amounting to EUR 6,510 million and paid interest amount to EUR 3,447 million (EUR 7,597 and 4,554 million euro, respectively in 2019).

Likewise, the dividends received and paid Banco Santander are detailed in notes 4 and 36.

3. Santander Group

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

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

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

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

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

b) Acquisitions and disposals

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

i. Agreement for the acquisition of a significant stake in Ebury

On 28 April 2020, the investment in Ebury, a payments and currencies platform for SMEs, announced on 4 November 2019, was completed. The transaction involved a total outlay of GBP 357 million (EUR 409 million) of which GBP 70 million (approximately EUR 80 million) was for new shares. At 2019 year-end the Group had already acquired 6.4% of the company for GBP 40 million (approximately EUR 45 million). Following the disbursement made in April 2020, the Group is entitled to receive 50.38% of the dividends distributed by the company.

ii. Reorganization of the banking insurance business, asset management and pension plans in Spain

On 24 June 2019, Banco Santander, S.A., reached an agreement with the Allianz Group to terminate the agreement that Banco Popular Español, S.A.U. ('Banco Popular') held in Spain with the Allianz Group for the exclusive distribution of certain life insurance products, non-life insurance products, collective investment institutions (IIC), and pension plans through the Banco Popular network (the 'Agreement'). Under this Agreement, the Group held a 40% stake in the capital of Popular Spain Holding de Inversiones, S.L.U., classified as investments in joint ventures and associated entities for an overall amount of EUR 409 million on 31 December 2019.

The Agreement was executed on 15 January 2020 for the non-life business and on 31 January 2020 for the remaining businesses, once the regulatory authorisations were obtained in the first half of 2020. The execution of the Termination Agreement entailed the payment by Banco Santander of a total consideration of EUR 859 million (after deducting the dividends paid until the end of the operation) and the acquisition of the remaining 60% of the capital of Popular Spain Holding de Inversiones, S.L.U.

On 10 July, 51% of the life-risk insurance business held by Banco Santander and the 51% of the new General Insurance business from Banco Popular's network not transferred to Mapfre (in accordance with the agreement indicated below) was acquired by Aegon, valuing these businesses at a total of approximately EUR 557 million.

The total amount of the life-savings business, collective investment institutions and pension plans is EUR 711 million and has resulted in the recognition of EUR 271 million of goodwill.

In addition, under the agreement reached between Banco Santander and Mapfre on 21 January 2019, 50.01% of the car, commercial multi-risk, SME multi-risk and corporate liability insurance business in the whole network of Banco Santander in Spain was acquired by Mapfre on 25 June 2019 amounting to EUR 82 million.

iii. Agreement with Crédit Agricole S.A. on the depositary and custody business

On 17 April 2019, Banco Santander, S.A., announced that it had signed a memorandum of understanding with Crédit Agricole S.A. with the purpose of combining CACEIS and its subsidiaries (the 'CACEIS Group'), which is wholly-owned by Crédit Agricole S.A., with Santander Securities Services, S.A.U. and its subsidiaries (the 'S3 Group'), which is wholly-owned by Banco Santander, S.A.

The operation consisted of the contribution by the Santander Group to the CACEIS Group of 100% of the S3 Group in Spain and 50% of the S3 Group's business in Latin America in exchange for a 30.5% stake in the CACEIS Group Capital and voting rights. The remaining 69.5% remained the property of Crédit Agricole, SA. The S3 Group's Latin American business is under the joint control of the CACEIS Group and the Santander Group.

On 27 June 2019, the signing of the final contracts took place after having carried out the precise prior consultations with the representative bodies of Crédit Agricole, SA employees and the CACEIS Group. The closing of the operation took place on 20 December, 2019 once the relevant regulatory authorizations were obtained.

The operation generated a net capital gain of EUR 693 million recorded for its gross amount under the heading of `Non-classified assets as non-current assets for sale' of the consolidated profit and loss account, of which EUR 219 million correspond to the recognition at fair value of the investment of 49.99% retained by the Group in S3 Latin America. The 30.5% interest in the CACEIS Group was recorded under the heading of 'Investments - Associates' of the consolidated balance sheet for an amount of EUR 1,010 million.

iv. Offer to acquire shares of Banco Santander Mexico, S.A., Institución de Banca Multiple, Grupo Financiero Santander México

On 12 April 2019, Banco Santander, S.A., announced its intention to make an offer to acquire all the shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México ('Santander México') which are not owned by Grupo Santander, representing approximately 25% of the share capital of Santander México.

The shareholders who have accepted the offer have received 0.337 newly issued shares of Banco Santander, S.A., per share of Santander México and 1.685 American Depositary Shares (ADSs) of Banco Santander, S.A., per ADS of Santander México.

The offer was accepted by holders of shares representing 16.69% of the capital stock of Santander Mexico, so the Group's participation in Santander Mexico became 91.65% of its share capital. To meet the exchange, the Bank proceeded to issue, in execution of the agreement adopted by the extraordinary general meeting held on 23 July 2019, 381,540,640 shares, which represented approximately 2.35% of the Bank's share capital in the date of issue. This operation meant an increase of EUR 191 million in Capital, EUR 1,491 million in issue premium and a decrease of EUR 670 million in Reserves and EUR 1,012 million in minority interests.

c) Offshore entities

According to current Spanish regulation (Royal Decree 1080/1991, of 5 July), Santander has two subsidiaries and three branches in the offshore territories of Jersey, the Isle of Man and the Cayman Islands. Santander also has three other offshore subsidiaries that are tax resident in the UK and subject to British tax law.

i. Offshore subsidiaries

A subsidiary resident in Jersey was liquidated in 2020 so at the reporting date, Grupo Santander has two subsidiaries resident in these territories: Abbey National International Limited in Jersey and ALIL Services Limited (in liquidation) on the Isle of Man. In 2020, those subsidiaries' contribution to Santander's consolidated profit was insubstantial.

ii. Offshore branches

Grupo Santander also has three operative offshore branches. One is found in the Cayman Islands, one is on the Isle of Man and another is in Jersey. They report to, and consolidate balance sheets and income statements with, their foreign headquarters. They are taxed either with their headquarters (the Cayman Islands branch in Brazil) or in the territories they are located in (the Jersey and Isle of Man branches pertain to the UK). There was a fourth branch in the Cayman Islands, pertain to the US, which was closed in 2020.

The entities mentioned in Sections I and II had 141 employees as of December 2020.

iii. Offshore subsidiaries that are tax resident in other jurisdictions

Grupo Santander also has three subsidiaries that were incorporated in offshore territories but are not deemed offshore entities. They only operate from, and are tax resident in, the UK and, thus, are subject to British tax law (one is expected to be wound up in 2021). In 2020, a subsidiary incorporated in Jersey but tax resident in Spain transferred legal residence to Spain.

iv. Other offshore holdings

From Brazil, Grupo Santander manages Santander Brazil Global Investment Fund SPC, a segregated portfolio company located in the Cayman Islands. From the UK, it manages Guaranteed Investment Products 1 PCC Limited, a protected cell company found in Guernsey. It also has two small holdings in entities located in the Cayman Islands.

Organization for Economic Cooperation and Development (OECD)

Grupo Santander is not in any of the uncooperative tax havens the OECD released in December 2020. Furthermore, Jersey, the Isle of Man and the Cayman Islands satisfy OECD standards on transparency and exchange of information for tax purposes.

The European Union (EU)

As of October 2020, the EU's blacklist comprises 12 jurisdictions where Santander is not present. Santander is also not present in the 10 jurisdictions on the EU's grey list, which have sufficiently committed to adapt legislation to international standards, subject to monitoring by the EU.

The Group's presence in offshore territories at the end of 2020 is as follows:

Presence of the Group in Tax Havens/ Non-cooperative jurisdictions	Spanish legislation		OECD		European Commission Blacklist	
	Sub.	Branch	Sub.	Branch	Sub.	Branch
Jersey	1	1				
Isle of Man	1	1				
Guernsey*						
Bermuda*						
Cayman Islands		1				
2020	**2**	**3**	**—**	**—**	**—**	**—**
2019**	**3**	**4**	**—**	**—**	**1**	**2**

* Additionally, there are 2 entities constituted in Guernsey and 1 in Bermuda, but resident for tax purposes in the United Kingdom.

**Since December 31st 2019, the number of subsidiaries has been decreased in Jersey (1) and Panama (1), this last territory is currently included in the EU blacklist. Additionally, the Cayman Islands (1 operative branch and 1 branch closed in 2020) left the EU blacklist in October 2020.

Forthcoming changes to Spain's tax law

On 23 October 2020, the Draft Law on measures to prevent and fight against tax fraud was published in the *Official Bulletin of the Spanish Parliament*. The law expands the meaning of tax havens, which it renames "non-cooperative jurisdictions". It also allows government to update the non-cooperative jurisdictions list. Nonetheless, until that list conforms to the new criteria, the former list set out in Royal Decree 1080/1991 of 5 July will remain in effect.

Grupo Santander has the right mechanisms (risk management, supervision, verification and review plans, and regular reporting) to prevent reputational, tax and legal risk with those entities. Grupo Santander also maintains its policy of reducing the number of these units.

PwC (PricewaterhouseCoopers) member firms audited the financial statements of Grupo Santander's offshore units in 2020 and 2019.

d) Consolidated balance sheet, income statement, statement of recognized income and expenses, statement of changes in total equity and cash-flow statement

The Group's consolidated balance sheets at December 31, 2020 and 2019 and the consolidated income statements, consolidated statements of recognized income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

Santander

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

ASSETS	2020	2019*
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND	**153,839**	**101,067**
FINANCIAL ASSETS HELD FOR TRADING	**114,945**	**108,230**
Derivatives	67,137	63,397
Equity instruments	9,615	12,437
Debt instruments	37,894	32,041
Loans and advances	299	355
Central banks	—	—
Credit institutions	3	—
Customers	296	355
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	**4,486**	**4,911**
Equity instruments	3,234	3,350
Debt instruments	700	1,175
Loans and advances	552	386
Central banks	—	—
Credit institutions	—	—
Customers	552	386
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**48,717**	**62,069**
Debt instruments	2,979	3,186
Loans and advances	45,738	58,883
Central banks	9,481	6,473
Credit institutions	12,136	21,649
Customers	24,121	30,761
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**120,953**	**125,708**
Equity instruments	2,783	2,863
Debt instruments	108,903	118,405
Loans and advances	9,267	4,440
Central banks	—	—
Credit institutions	—	—
Customers	9,267	4,440
FINANCIAL ASSETS AT AMORTIZED COST	**958,378**	**995,482**
Debt instruments	26,078	29,789
Loans and advances	932,300	965,693
Central banks	12,499	18,474
Credit institutions	37,838	40,943
Customers	881,963	906,276
HEDGING DERIVATIVES	**8,325**	**7,216**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**1,980**	**1,702**
INVESTMENTS	**7,622**	**8,772**
Joint venture entities	1,492	1,325
Associated entities	6,130	7,447
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	**261**	**292**
TANGIBLE ASSETS	**32,735**	**35,235**
Property, plant and equipment	31,772	34,262

ASSETS	2020	2019*
For own-use	13,213	15,041
Leased out under an operating lease	18,559	19,221
Investment properties	963	973
Of which leased out under an operating lease	*793*	*823*
INTANGIBLE ASSETS	**15,908**	**27,687**
Goodwill	12,471	24,246
Other intangible assets	3,437	3,441
TAX ASSETS	**24,586**	**29,585**
Current tax assets	5,340	6,827
Deferred tax assets	19,246	22,758
OTHER ASSETS	**11,070**	**10,138**
Insurance contracts linked to pensions	174	192
Inventories	5	5
Other	10,891	9,941
NON-CURRENT ASSETS HELD FOR SALE	**4,445**	**4,601**
TOTAL ASSETS	**1,508,250**	**1,522,695**

* Presented for comparison purposes only.

Santander

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR Million

LIABILITIES	2020	2019*
FINANCIAL LIABILITIES HELD FOR TRADING	**81,167**	**77,139**
Derivatives	64,469	63,016
Short positions	16,698	14,123
Deposits	—	—
Central banks	—	—
Credit institutions	—	—
Customers	—	—
Marketable debt securities	—	—
Other financial liabilities	—	—
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**48,038**	**60,995**
Deposits	43,598	57,111
Central banks	2,490	12,854
Credit institutions	6,765	9,340
Customers	34,343	34,917
Marketable debt securities	4,440	3,758
Other financial liabilities	—	126
Memorandum items: subordinated liabilities	—	—
FINANCIAL LIABILITIES AT AMORTIZED COST	**1,248,188**	**1,230,745**
Deposits	990,391	942,417
Central banks	112,804	62,468
Credit institutions	62,620	90,501
Customers	814,967	789,448
Marketable debt securities	230,829	258,219
Other financial liabilities	26,968	30,109
Memorandum items: subordinated liabilities	*21,880*	*21,062*
HEDGING DERIVATIVES	**6,869**	**6,048**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**286**	**269**
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	**910**	**739**
PROVISIONS	**10,852**	**13,987**
Pensions and other post-retirement obligations	3,976	6,358
Other long term employee benefits	1,751	1,382
Taxes and other legal contingencies	2,200	3,057
Contingent liabilities and commitments	700	739
Other provisions	2,225	2,451
TAX LIABILITIES	**8,282**	**9,322**
Current tax liabilities	2,349	2,800
Deferred tax liabilities	5,933	6,522
OTHER LIABILITIES	**12,336**	**12,792**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**—**	**—**
TOTAL LIABILITIES	**1,416,928**	**1,412,036**

* Presented for comparison purposes only.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2020 AND 2019

EUR million

EQUITY	2020	2019*
SHAREHOLDERS´ EQUITY	**114,620**	**124,239**
CAPITAL	**8,670**	**8,309**
Called up paid capital	8,670	8,309
Unpaid capital which has been called up	—	—
SHARE PREMIUM	**52,013**	**52,446**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**627**	**598**
Equity component of the compound financial instrument	—	—
Other equity instruments issued	627	598
OTHER EQUITY	**163**	**146**
ACCUMULATED RETAINED EARNINGS	**65,583**	**61,028**
REVALUATION RESERVES	**—**	**—**
OTHER RESERVES	**(3,596)**	**(3,110)**
Reserves or accumulated losses in joint venture investments	1,504	1,210
Others	(5,100)	(4,320)
(-) OWN SHARES	**(69)**	**(31)**
PROFIT OR LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**(8,771)**	**6,515**
(-) INTERIM DIVIDENDS	**—**	**(1,662)**
OTHER COMPREHENSIVE INCOME OR LOSS	**(33,144)**	**(24,168)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(5,328)**	**(4,288)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(27,816)**	**(19,880)**
NON-CONTROLLING INTEREST	**9,846**	**10,588**
Other comprehensive income or loss	(1,800)	(982)
Other items	11,646	11,570
TOTAL EQUITY	**91,322**	**110,659**
TOTAL LIABILITIES AND EQUITY	**1,508,250**	**1,522,695**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS		
Loan commitments granted	241,230	241,179
Financial guarantees granted	12,377	13,650
Other commitments granted	64,538	68,895

* Presented for comparison purposes only.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	(Debit) Credit	
	2020	2019*
Interest income	45,741	56,785
Financial assets at fair value through other comprehensive income	*2,840*	*3,571*
Financial assets at amortized cost	*40,365*	*48,552*
Other interest income	*2,536*	*4,662*
Interest expense	(13,747)	(21,502)
Interest income/(charges)	**31,994**	**35,283**
Dividend income	391	533
Income from companies accounted for using the equity method	(96)	324
Commission income	13,024	15,349
Commission expense	(3,009)	(3,570)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	1,107	1,136
Financial assets at amortized cost	*(31)*	*308*
Other financial assets and liabilities	*1,138*	*828*
Gain or losses on financial assets and liabilities held for trading, net	3,211	1,349
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets at amortized cost	—	—
Other gains (losses)	*3,211*	*1,349*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	82	292
Reclassification of financial assets at fair value through other comprehensive income	—	—
Reclassification of financial assets at amortized cost	—	—
Other gains (losses)	*82*	*292*
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	(171)	(286)
Gain or losses from hedge accounting, net	51	(28)
Exchange differences, net	(2,093)	(932)
Other operating income	1,920	1,797
Other operating expenses	(2,342)	(2,138)
Income from assets under insurance and reinsurance contracts	1,452	2,534
Expenses from liabilities under insurance and reinsurance contracts	(1,242)	(2,414)
Total income	**44,279**	**49,229**
Administrative expenses	(18,320)	(20,279)
Staff costs	*(10,783)*	*(12,141)*
Other general administrative expenses	*(7,537)*	*(8,138)*
Depreciation and amortisation cost	(2,810)	(3,001)
Provisions or reversal of provisions, net	(2,378)	(3,490)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	(12,382)	(9,352)
Financial assets at fair value through other comprehensive income	*(19)*	*(12)*
Financial assets at amortized cost	*(12,363)*	*(9,340)*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	—	—
Impairment or reversal of impairment on non-financial assets, net	(10,416)	(1,623)
Tangible assets	*(174)*	*(45)*
Intangible assets	*(10,242)*	*(1,564)*
Others	—	*(14)*
Gain or losses on non-financial assets and investments, net	114	1,291

	(Debit) Credit	
	2020	2019*
Negative goodwill recognized in results	8	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	(171)	(232)
Operating profit/(loss) before tax	**(2,076)**	**12,543**
Tax expense or income from continuing operations	(5,632)	(4,427)
Profit/(loss) from continuing operations	**(7,708)**	**8,116**
Profit/(loss) after tax from discontinued operations	—	—
Profit/(loss) for the year	**(7,708)**	**8,116**
Profit/(loss) attributable to non-controlling interests	1,063	1,601
Profit/(loss) attributable to the parent	(8,771)	6,515
Earnings/(losses) per share		
Basic	(0.538)	0.347
Diluted	(0.538)	0.346

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	2020	2019*
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR	**(7,708)**	**8,116**
OTHER RECOGNIZED INCOME AND EXPENSE	**(9,794)**	**267**
Items that will not be reclassified to profit or loss	**(1,018)**	**(1,351)**
Actuarial gains and losses on defined benefit pension plans	(25)	(1,677)
Non-current assets held for sale	—	—
Other recognized income and expense of investments in subsidiaries, joint ventures and associates	(4)	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(917)	(29)
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net	—	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	*4*	*44*
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	*(4)*	*(44)*
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	31	(156)
Income tax relating to items that will not be reclassified	(103)	510
Items that may be reclassified to profit or loss	**(8,776)**	**1,618**
Hedges of net investments in foreign operations (effective portion)	2,340	(1,151)
Revaluation gains (losses)	*2,340*	*(1,151)*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Exchanges differences	(11,040)	1,232
Revaluation gains (losses)	*(11,040)*	*1,232*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Cash flow hedges (effective portion)	(53)	8
Revaluation gains (losses)	*799*	*(1,104)*
Amounts transferred to income statement	*(852)*	*1,112*
Transferred to initial carrying amount of hedged items	—	—
Other reclassifications	—	—
Hedging instruments (items not designated)	—	—
Revaluation gains (losses)	—	—
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Debt instruments at fair value with changes in other comprehensive income	(100)	2,414
Revaluation gains (losses)	*692*	*2,588*
Amounts transferred to income statement	*(1,165)*	*(792)*
Other reclassifications	*373*	*618*
Non-current assets held for sale	—	—
Revaluation gains (losses)	—	—
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Share of other recognized income and expense of investments	(151)	(15)
Income tax relating to items that may be reclassified to profit or loss	228	(870)
Total recognized income and expenses for the year	**(17,502)**	**8,383**
Attributable to non-controlling interests	245	1,911
Attributable to the parent	(17,747)	6,472

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest: Other comprehensive income	Non-controlling interest: Others items	Total
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**146**	**61,028**	**—**	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance at 1 January 2020*	8,309	52,446	598	146	61,028	—	(3,110)	(31)	6,515	(1,662)	(24,168)	(982)	11,570	110,659
Total recognized income and expense	—	—	—	—	—	—	—	—	(8,771)	—	(8,976)	(818)	1,063	(17,502)
Other changes in equity	361	(433)	29	17	4,555	—	(486)	(38)	(6,515)	1,662	—	—	(987)	(1,835)
Issuance of ordinary shares	361	(72)	—	—	—	—	70	—	—	—	—	—	5	364
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	(361)	—	—	—	—	—	—	—	—	—	—	(465)	(826)
Purchase of equity instruments	—	—	—	—	—	—	—	(758)	—	—	—	—	—	(758)
Disposal of equity instruments	—	—	—	—	—	—	1	720	—	—	—	—	—	721
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	4,555	—	298	—	(6,515)	1,662	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	(54)	(54)
Share-based payment	—	—	—	(53)	—	—	—	—	—	—	—	—	—	(53)
Others increases or (-) decreases of the equity	—	—	29	70	—	—	(855)	—	—	—	—	—	(473)	(1,229)
Balance at 31 December 2020	**8,670**	**52,013**	**627**	**163**	**65,583**	**—**	**(3,596)**	**(69)**	**(8,771)**	**—**	**(33,144)**	**(1,800)**	**11,646**	**91,322**

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

EUR Million

												Non-controlling interest		
	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Other comprehensive income	Others items	Total
Balance at 31 December 2018*	**8,118**	**50,993**	**565**	**234**	**56,756**	**—**	**(1,583)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**107,361**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	(391)	—	—	—	—	—	—	(391)
Opening balance at 1 January 2019*	**8,118**	**50,993**	**565**	**234**	**56,756**	**—**	**(1,974)**	**(59)**	**7,810**	**(2,237)**	**(24,125)**	**(1,292)**	**12,181**	**106,970**
Total recognized income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,515**	**—**	**(43)**	**310**	**1,601**	**8,383**
Other changes in equity	**191**	**1,453**	**33**	**(88)**	**4,272**	**—**	**(1,136)**	**28**	**(7,810)**	**575**	**—**	**—**	**(2,212)**	**(4,694)**
Issuance of ordinary shares	191	1,453	—	—	—	—	28	—	—	—	—	—	1	1,673
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	(2)	(2)
Dividends	—	—	—	—	(1,055)	—	—	—	—	(1,662)	—	—	(895)	(3,612)
Purchase of equity instruments	—	—	—	—	—	—	—	(928)	—	—	—	—	—	(928)
Disposal of equity instruments	—	—	—	—	—	—	(6)	956	—	—	—	—	—	950
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	5,327	—	246	—	(7,810)	2,237	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	110	110
Share-based payment	—	—	—	(88)	—	—	—	—	—	—	—	—	—	(88)
Others increases or (-) decreases of the equity	—	—	33	—	—	—	(1,404)	—	—	—	—	—	(1,426)	(2,797)
Balance at 31 December 2019*	**8,309**	**52,446**	**598**	**146**	**61,028**	**—**	**(3,110)**	**(31)**	**6,515**	**(1,662)**	**(24,168)**	**(982)**	**11,570**	**110,659**

* Presented for comparison purposes only.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 2020 AND 2019

EUR Million

	2020	2019*
A. CASH FLOWS FROM OPERATING ACTIVITIES	**66,153**	**3,389**
Profit or loss for the year	**(7,708)**	**8,116**
Adjustments made to obtain the cash flows from operating activities	**37,836**	**23,990**
Depreciation and amortisation cost	*2,810*	*3,001*
Other adjustments	*35,026*	*20,989*
Net increase/(decrease) in operating assets	**51,385**	**64,593**
Financial assets held-for-trading	*12,390*	*15,450*
Non-trading financial assets mandatorily at fair value through profit or loss	*(275)*	*(6,098)*
Financial assets at fair value through profit or loss	*(10,314)*	*4,464*
Financial assets at fair value through other comprehensive income	*6,549*	*1,693*
Financial assets at amortized cost	*43,541*	*49,541*
Other operating assets	*(506)*	*(457)*
Net increase/(decrease) in operating liabilities	**90,356**	**38,469**
Financial liabilities held-for-trading	*7,880*	*6,968*
Financial liabilities designated at fair value through profit or loss	*(10,907)*	*(8,858)*
Financial liabilities at amortized cost	*96,561*	*47,622*
Other operating liabilities	*(3,178)*	*(7,263)*
Income tax recovered/(paid)	**(2,946)**	**(2,593)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**(7,220)**	**(7,229)**
Payments	**11,976**	**14,289**
Tangible assets	*7,386*	*12,766*
Intangible assets	*1,134*	*1,377*
Investments	*525*	*63*
Subsidiaries and other business units	*2,931*	*83*
Non-current assets held for sale and associated liabilities	—	—
Other payments related to investing activities	—	—
Proceeds	**4,756**	**7,060**
Tangible assets	*2,014*	*4,091*
Intangible assets	—	—
Investments	*182*	*686*
Subsidiaries and other business units	*1,775*	*218*
Non-current assets held for sale and associated liabilities	*785*	*2,065*
Other proceeds related to investing activities	—	—
C. CASH FLOW FROM FINANCING ACTIVITIES	**(1,909)**	**(10,122)**
Payments	**6,978**	**12,159**
Dividends	—	*3,773*
Subordinated liabilities	*3,780*	*5,123*
Redemption of own equity instruments	—	—
Acquisition of own equity instruments	*758*	*928*
Other payments related to financing activities	*2,440*	*2,335*
Proceeds	**5,069**	**2,037**
Subordinated liabilities	*4,095*	*1,090*
Issuance of own equity instruments	—	—
Disposal of own equity instruments	*721*	*947*
Other proceeds related to financing activities	*253*	—
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES	**(4,252)**	**1,366**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**52,772**	**(12,596)**

	2020	2019*
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**101,067**	**113,663**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**153,839**	**101,067**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash	*7,817*	*8,764*
Cash equivalents at central banks	*137,047*	*75,353*
Other financial assets	*8,975*	*16,950*
Less, bank overdrafts refundable on demand	—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**153,839**	**101,067**
In which, restricted cash	—	—

* Presented for comparison purposes only.

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

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

The board of directors proposes to the shareholders to approve at the 2021 general shareholders' meeting the application of the results of Banco Santander, S.A., for 2020, which consisted in losses amounting to EUR 3,557 million, by charging them against:

i) To share premium account to the extent that the indicated charge against the share premium reserve is approved by the European Central Bank under Articles 77 and 78 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

ii) The voluntary reserve account, to the amount by which the referred losses are not applied in accordance with the provisions of paragraph (i) above.

- In September 2019, the board of directors approved an interim cash dividend against 2019 results in the amount of 0.10 euros per share (EUR 1,662 million), which was paid on 1 November.

- On 27 March 2020, the ECB issued a recommendation urging all European banks under its supervision to abstain from paying dividends out of 2019 and 2020 results at least until 1 October 2020 in order to preserve capital (ECB Recommendation I).

  Taking into consideration ECB Recommendation I and in line with Santander's mission to help people and companies to progress, on 2 April 2020 the Board of Directors decided to cancel the payment of the 2019 final dividend and the dividend policy for 2020, to withdraw the proposals relating to the Final Cash Dividend and the SDE Program from the agenda of the aforementioned General Meeting of April 2020, which had already been convened, and to postpone the decision on the application of the results obtained in the financial year 2019 to a meeting to be held no later than 31 October 2020.

- On 27 July 2020, the ECB issued a second recommendation in which it extended the effects of ECB Recommendation I requiring all European credit institutions under its supervision to abstain, until 1 January 2021, from distributing dividends out of the results of the financial years 2019 and 2020 or from entering into irrevocable commitments to distribute them (ECB Recommendation II).

In September 2020, the board of directors convened the general shareholders' meeting of October 2020, at which it proposed (a) in compliance with ECB Recommendation II, to allocate all of the profit obtained by Banco Santander in 2019 to increase the Voluntary Reserve, except for the amount already allocated to the payment of the interim dividend that had been paid prior to the issuance of ECB Recommendation I, and (b) to increase the capital charged to reserves to allow the payment of a total remuneration for the 2019 financial year, in addition to the interim dividend, for an amount equivalent to 0.10 euros per share through the delivery of new shares and with no cash alternative.

Both proposals were approved at the general shareholders' meeting in October 2020.

- Following the ECB Recommendation II extending the effects of the previous recommendation until 1 January 2021, the board of directors decided to propose to the annual general meeting in October 2020 a resolution allowing the payment in 2021 of up to 0.10 per share as remuneration out of the results of the financial year 2020 from the share premium reserve and conditional on the ECB's recommendations permitting it and obtaining its authorization, on the condition that after the payment the CET 1 capital ratio remains within the target of 11—12% or above and on the condition that the payment does not exceed 50% of the consolidated ordinary (underlying) profit.

  The proposal was approved at the general shareholders' meeting in October 2020.

- On 15 December 2020, the ECB recommended that banks under its supervision limit shareholder remuneration until 30 September 2021 to an amount not exceeding either 15% of adjusted profits earned in 2020 (and in 2019, but only for those banks that, unlike Banco Santander, S.A., had not paid dividends in 2019) or the equivalent of 20 basis points of the CET 1 ratio.

- On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of EUR 2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation. This payment will be made in execution of the share premium distribution agreement approved at the aforementioned October 2020 general meeting.

The board aims to restore a payout ratio of 40—50% of underlying profit, in cash, in the medium term. With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the ECB recommendations so allow. The ECB has said it intends to repeal the recommendation in September 2021 in the absence of materially adverse developments. In the meantime, and in line with the announcement of April 2020, the dividend policy will remain suspended.

b) Earnings/loss per share from continuing and discontinued operations

i. Basic earnings / loss per share

Basic earnings/loss per share are calculated by dividing the net profit attributable to the Group, adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity (see note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during that period, excluding the average number of own shares held through that period.

Accordingly:

	2020	2019
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515
Remuneration of contingently convertible preference shares (CCP) (EUR million) (note 21)	(552)	(595)
	(9,323)	5,920
Of which:		
Profit (Loss) from discontinued operations (non controlling interest net) (EUR million)	—	—
Profit (Loss) from continuing operations (PPC net) (EUR million)	*(9,323)*	*5,920*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883
Impact factor correction*	No applicable	710,800,691
Adjusted number of shares	17,316,288,908	17,059,216,574
Basic earnings (Loss) per share (euros)	**(0.538)**	**0.347**
Of which, from discounted operations (euros)	**—**	**—**
Basic earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.347**

* Correction factor for the capital increase released on 3 December 2020 (see note 1.d and 27).

ii. Diluted earnings / loss per share

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

Accordingly, diluted earnings/loss per share were determined as follows:

	2020	2019
Profit (Loss) attributable to the Parent (EUR million)	(8,771)	6,515
Remuneration of contingently convertible preference shares (CCP) (EUR million) (note 21)	(552)	(595)
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	—	—
	(9,323)	5,920
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (EUR million)	—	—
Profit (Loss) from continuing operations (net of non-controlling interests and CCP) (EUR million)	*(9,323)*	*5,920*
Weighted average number of shares outstanding	17,316,288,908	16,348,415,883
Dilutive effect of options/ rights on shares	Not applicable	35,891,644
Impact factor correction*	Not applicable	712,361,197
Adjusted number of shares	17,316,288,908	17,096,668,724
Diluted earnings (Loss) per share (euros)	**(0.538)**	**0.346**
Of which, from discounted operations (euros)	**—**	**—**
Diluted earnings (Loss) per share from continuing operations (euros)	**(0.538)**	**0.346**

* Correction factor for the capital increase released on 3 December 2020 (see note 1.d and 27).

5. Remuneration and other benefits paid to the bank's directors and senior managers

The following section contains qualitative and quantitative disclosures on the remuneration paid to the members of the board of directors -both executive and non-executive directors- and senior managers for 2020 and 2019:

a) Remuneration of Directors

i. Bylaw-stipulated emoluments

The annual General Meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual General Meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the board of directors may elect to reduce the amount in any years in which it deems such action justified.

The remuneration established by the Annual General Meeting was EUR 6 million in 2020 (same amount as in 2019), with two components: (a) an annual emolument and (b) attendance fees.

As a gesture of responsibility in view of the situation created by the health emergency the board of directors agreed on 5 May 2020 to reduce their allotments by 20% for the balance of 2020, with effect from 1 April 2020, and propose that amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

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

The total bylaw-stipulated emoluments earned by the Directors in 2020 amounted to EUR 4.1 million (4.9 million in 2019).

Annual emolument

The annual amounts received individually by the directors in 2020 and 2019 based on the positions held by them on the board and their membership of the board committees were as follows:

Amount per director in euros	2020		2019
	1 Apr to 31 Dec	1 Jan to 31 Mar	
Members of the board of directors	49,500	22,500	90,000
Members of the executive committee	93,500	42,500	170,000
Members of the audit committee	22,000	10,000	40,000
Members of the appointments committee	13,750	6,250	25,000
Members of the remuneration committee	13,750	6,250	25,000
Members of the risk supervision, regulation and compliance oversight committee	22,000	10,000	40,000
Members of the responsible banking, sustainability and culture committee	8,250	3,750	15,000
Chairman of the audit committee	38,500	17,500	70,000
Chairman of the appointments committee	27,500	12,500	50,000
Chairman of the remuneration committee	27,500	12,500	50,000
Chairman of the risk, regulation and compliance oversight committee	38,500	17,500	70,000
Chairman of the responsible banking, sustainability and culture committee	27,500	12,500	50,000
Lead director*	60,500	27,500	110,000
Non-executive deputy chairman	16,500	7,500	30,000

* Mr. Bruce Carnegie-Brown, in view of the positions held on the board and its committees, in particular as chairman of the appointments and remuneration committees and as coordinating director, and the time and dedication required to properly perform such positions, has been assigned a minimum total annual remuneration of €700,000 since 2015, including the annual allowance for the items corresponding to him of those indicated above and attendance fees. However, in line with the decision taken by the board of directors to reduce his fees by 20% with effect from April 1, 2020, he has requested that the same reduction be applied to this amount, so that the figure to be applied in 2020 will be €595,000.

Attendance fees

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

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings —excluding, as mentioned above, executive committee meetings— for 2020 were set at the same amounts as in 2019.

However, on 5 May 2020, as a gesture of responsibility in view of the situation created by the health emergency, the board of directors agreed to reduce their attendance fees by 20% for the balance of 2020, with effect from 1 April 2020, and propose that the amounts saved thereby be used to finance the initiatives of the Bank to fight against the covid-19 pandemic.

The fees for 2019 and 2020 are as follows:

Meeting attendance fees

	2020		2019
	1 Apr to 31 Dec	1 Jan to 31 Mar	
Board of directors	2,080	2,600	2,600
Audit committee and risk supervision, regulation and compliance oversight committee	1,360	1,700	1,700
Other committees (except the executive committee)	1,200	1,500	1,500

ii. Salaries

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

- 40% of the variable remuneration amount, determined at year-end on the basis of the achievement of the established objectives, is paid immediately.
- The remaining 60% is deferred over five years, to be paid in five portions, provided that the conditions of permanence in the Group and non-concurrence of the malus clauses are met, and subject to long term metrics, taking into account the following accrual scheme:
  - The accrual of the first and second portion (payment in 2022 and 2023) will be conditional on none of the malus clauses being triggered.
  - The accrual of the third, fourth, and fifth portion (payment in 2024, 2025 and 2026), is linked to objectives related to the period 2020—2022 and the metrics and scales associated with these objectives. The fulfilment of the objectives determines the percentage to be paid of the deferred amount in these three annuities, which, accordingly, might not be paid, where the maximum amount is the amount determined at closing of 2020, when the total variable remuneration is approved.
- In accordance with current remuneration policies, the amounts already paid will be subject to a possible recovery (clawback) by the Bank during the period set out in the policy in force at each moment.

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

In the case of Sergio Rial, who was appointed director on April 2020, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020, but he qualifies as an executive director pursuant to section 529 duodecymes of the Spanish Companies Act (Corporate Enteprise Act), because of his role as CEO and vice-president of Banco Santander (Brasil) S.A., the principles herein are the same for his remuneration as CEO and vice-president of Banco Santander (Brasil) S.A.

The same policy and principles above apply to Sergio Rial's remuneration as CEO in Santander Brasil.

Voluntary Reduction of Executive Remuneration (Chairman and CEO)

On 23 March 2020, given the health crisis created by the covid-19 pandemic, Ana Botín and José Antonio Álvarez proposed to reduce their 2020 total compensation (salary and bonus) by 50% and use the amounts saved to finance the Santander covid-19 relief fund. This proposal was supported by the remuneration committee and approved by the board of directors.

To achieve the 50% reduction compared to 2019, the board of directors decided to apply an additional adjustment to Ana Botín's and José Antonio Alvarez's variable compensation, reducing the variable compensation by 74% in the case of Ana Botín and 79% in the case of José Antonio Álvarez.

Ana Botín's total salary and bonus for 2019 was EUR 9,688 thousand, with EUR 3,176 thousand salary and EUR 6,512 thousand bonus (of which EUR 4,168 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 2,344 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of her salary and bonus for 2020 has been established at EUR 4,844 thousand, with EUR 3,176 thousand salary and EUR 1,668 thousand bonus (of which EUR 1,068 thousand is the sum immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 600 thousand is deferred variable remuneration linked to long-term objectives at face value).

José Antonio Álvarez's total salary and bonus for 2019 was EUR 6,893 thousand, with EUR 2,541 thousand salary and EUR 4,352 thousand bonus (of which EUR 2,786 thousand was the sum of immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 1,566 thousand was deferred variable remuneration linked to long-term objectives at face value). Accordingly, the total of his salary and bonus for 2020 has been established at EUR 3,446.5 thousand, with EUR 2,541 thousand salary and EUR 906 thousand bonus (of which EUR 580 thousand is immediately payable and deferred -not linked to long-term objectives- variable remuneration, and EUR 326 thousand is deferred variable remuneration linked to long-term objectives at face value).

The chart below shows the comparison between the amounts received in 2019 and those received in 2020:

	2019			2020			% Var. 2020 vs 2019
	Salary	Bonus	Total	Salary	Bonus	Total	
Chairman	3,176	6,512	9,688	3,176	1,668	4,844	(50)%
CEO	2,541	4,352	6,893	2,541	906	3,447	(50)%

Additionally, Ana Botin has made a personal decision to donate the full amount of the cash bonus paid this year for 2020 to *Empieza por Educar* (EXE), the Spanish affiliate of Teach for All, and to Santander's charity initiative "*euros de tu nómina*".

iii. Detail by director

The detail, by bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2020 and 2019 is provided below:

EUR thousand

	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors									2020	2019
	Annual emolument									Variable-immediate payment		Deferred variable						
	Board[N]	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk supervision, regulation and compliance oversight committee	Responsible banking, sustainability and culture committee	Attendance fees and commissions	Fixed	In cash	In shares	In cash	In shares	Total	Pension contribution	Other remuneration	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	77	145	—	—	—	—	13	55	3,176	333	334	200	200	4,243	1,155	1,131	6,819	9,954
Mr José Antonio Álvarez Álvarez	77	145	—	—	—	—	—	49	2,541	181	181	108	109	3,120	864	1,764	6,019	8,270
Mr Bruce Carnegie-Brown	326	145	—	21	21	—	—	82	—	—	—	—	—	—	—	—	595	700
Ms Homaira Akbari	77	—	34	—	—	—	13	79	—	—	—	—	—	—	—	—	203	226
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[A]	77	—	—	—	—	—	—	45	—	—	—	—	—	—	—	—	122	137
Mr Álvaro Antonio Cardoso de Souza[B]	136	—	—	—	—	34	13	60	—	—	—	—	—	—	—	—	243	276
Mr Ramón Martín Chávez Márquez[C]	8	—	—	1	5	8	—	15	—	—	—	—	—	—	—	—	37	—
Ms Sol Daurella Comadrán	77	—	—	21	21	—	13	82	—	—	—	—	—	—	—	—	214	240
Mr Henrique Manuel Drummond Borges Cirne de Castro[D]	77	—	34	—	21	—	—	85	—	—	—	—	—	—	—	—	217	86
Ms Gina Diez Barroso[E]	2	—	—	—	—	—	—	2	—	—	—	—	—	—	—	—	4	—
Mr Luis Isasi Fernández de Bobadilla[F]	44	84	—	—	12	20	—	43	—	—	—	—	—	—	—	740	943	—
Mr Ramiro Mato García-Ansorena	119	145	34	—	—	34	13	86	—	—	—	—	—	—	—	—	431	500
Mr Sergio Rial[G]	42	—	—	—	—	—	—	21	—	—	—	—	—	—	—	—	63	—
Ms Belén Romana García	98	145	34	—	—	34	13	94	—	—	—	—	—	—	—	—	418	525
Mrs Pamela Ann Walkden[H]	114	—	34	—	—	—	—	66	—	—	—	—	—	—	—	—	214	34
Mr Rodrigo Echenique Gordillo[I]	75	—	—	21	—	—	—	60	—	—	—	—	—	—	—	1,800	1,956	4,874
Mr Ignacio Benjumea Cabeza de Vaca[J]	35	65	—	—	10	15	6	43	—	—	—	—	—	—	—	102	276	524
Mr Guillermo de la Dehesa Romero[K]	23	44	—	6	6	—	—	28	—	—	—	—	—	—	—	—	107	399
Ms Esther Giménez-Salinas i Colomer[L]	64	—	—	18	—	28	11	71	—	—	—	—	—	—	—	—	192	228
Mr Carlos Fernández González[M]	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	214
Total 2020	**1,548**	**918**	**170**	**88**	**96**	**173**	**95**	**1,066**	**5,717**	**514**	**515**	**308**	**309**	**7,363**	**2,019**	**5,537**	**19,073**	**—**
Total 2019	**1,794**	**1,247**	**168**	**117**	**125**	**200**	**120**	**1,094**	**6,317**	**2,572**	**2,572**	**1,543**	**1,543**	**14,547**	**2,003**	**5,772**	**—**	**27,187**

A. All amounts received were reimbursed to Fundación Botín.
B. Director since 1 April 2018.
C. Director since 27 October 2020.
D. Director since 17 July 2019.
E. Director since 22 December 2020.
F. Director since 19 May 2020.
G. Executive director since 30 May 2020.
H. Director since 29 October 2019.
I. Stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.

J. Stepped down as director on 5 May 2020.
K. Stepped down as director on 3 April 2020.
L. Stepped down as director on 27 October 2020.
M. Stepped down as director on 28 October 2019.
N Includes emoluments for chairing committees and other roles.

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

EUR thousand

	2020			2019
	Variable subject to Long-term objectives[1]			
	In cash	In shares	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	210	210	420	1,642
Mr José Antonio Álvarez Álvarez	114	114	228	1,096
Mr Rodrigo Echenique Gordillo	—	—	—	504
Total	**324**	**324**	**648**	**3,242**

1. Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2024, 2025 and 2026, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of "malus" clauses and achievement of the objectives established.

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. Based on the design of the plan for 2020 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. Accordingly, it has been considered that the fair value is 70% of the maximum (see note 42).

Note 5.e) below includes disclosures on the shares delivered from the deferred remuneration schemes in place in previous years and for which delivery conditions were met, as well as on the maximum number of shares that may be received in future years in connection with the aforementioned 2020 and 2019 variable remuneration plans.

In the case of Sergio Rial, as mentioned above, he has not received any remuneration for executive duties in Banco Santander, S.A. during 2020. The remuneration he has received in his role as CEO and vice-president of Banco Santander (Brasil) (Santander Brasil) is:

2020	BRL thousand	EUR thousand
Base salary	12,645	2,175
Other fixed benefits	39	7
Pensions	5,041	867
Variable remuneration	30,240	5,201
Total	**47,965**	**8,250**

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

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after 18 March, 2002, accrues to the Group. In 2020 and 2019 the Bank's directors did not receive any remuneration in respect of these representative duties.

On the other hand, Mr. Álvaro Cardoso de Souza, in his role as non-executive Chairman of Banco Santander (Brasil) S.A., received a remuneration in 2020 of 1,947 thousand Brazilian reales (EUR 335 thousand),Ms. Homaira Akbari was paid USD 190 thousand (EUR 156) as member of the board of Santander Consumer USA (SCUSA) and EUR 17,200 as member of the Board of PagoNxt), and Mr. Henrique Manuel Drummond Borges Cirne de Castro and Mr. Ramón Martín Chávez Márquez, were also each paid paid EUR 17,200 as members of the board of PagoNxt.

Likewise, Luis Isasi was paid EUR 740 thousand as chairman of the board of Santander Spain (amount included in the chart below as "other remuneration" as it is paid by Banco Santander, S.A.)

c) Post-employment and other long-term benefits

In 2012, the contracts of Ms. Ana Botín and Mr. José Antonio Alvarez (and other members of the Bank's senior management) with defined benefit pension commitments were modified to transform these commitments into a defined contribution system, which covers the contingencies of retirement, disability and death. From that moment on, the Bank makes annual contributions to their pension system for their benefit.

This system gives them the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement and up until the retirement date, Ms Ana Botín and Mr José Antonio Alvarez, have the right to receive an annual allotment.

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

Since 2013, the Bank has made annual contributions to the benefits system for executive directors and senior executives, in proportion to their respective pensionable bases, until they leave Grupo Santander or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement).

The benefit plan system is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability.

In accordance with the provisions of the remuneration regulations, contributions made calculated on variable remuneration are subject to the discretionary pension benefits regime. Under this regime, contributions are subject to malus clauses and claw back according to the policy in force at any given time and during the same period in which the variable remuneration is deferred.

Furthermore, they must be invested in bank shares for a period of five years from the date when the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director´s remuneration policy approved at the 23 March 2018 general shareholder´s meeting, the system was changed with a focus on:

- Aligning the annual contributions with practices of comparable institutions.
- Reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of serving directors.
- Not increasing total costs for the Bank.

The changes to the system were the following:

- Fixed and variable pension contributions were reduced to 22% of the respective pensionable bases. The gross annual salaries and the benchmark variable remuneration were increased in the corresponding amount with no increase in total costs for the Bank. The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president).
- The death and disability supplementary benefits were eliminated since 1 April 2018. A fixed remuneration supplement (included in other remuneration in section a.iii in this note) was implemented the same date.
- The total amount insured for life and accident insurance was increased.

The provisions recognized in 2020 and 2019 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

EUR thousand

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,155	1,145
Mr José Antonio Álvarez Álvarez	864	858
Total	**2,019**	**2,003**

Following is a detail of the balances relating to each of the executive directors under the welfare system as of 31 December 2020 and 2019:

EUR thousand

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	49,444	48,104
Mr José Antonio Álvarez Álvarez	18,082	17,404
Mr Rodrigo Echenique Gordillo[1]	—	13,268
Total	**67,526**	**78,776**

1. Mr Rodrigo Echenique has not participated in the defined contribution pension scheme described in the preceding paragraphs. However, for reference purposes, this year's table details his rights before he was named an executive director. Mr. Rodrigo Echenique's accrued obligation as of December 2020 is zero, since he received the benefit in the form of capital in 2020. Therefore, there is no pending commitment in this regard in respect of Rodrigo Echenique.

d) Insurance

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

Insured capital

EUR thousands

	2020	2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	21,984	22,475
Mr José Antonio Álvarez Álvarez	18,703	19,373
Mr Rodrigo Echenique Gordillo	—	5,400
Total	**40,687**	**47,248**

The insured capital has been modified in 2018 for Ms Ana Botín and Mr José Antonio Alvarez as part of the pension systems transformation set out in note 5.c) above, which has encompassed the elimination of the supplementary benefits systems (death of spouse and death of parent) and the increase of the life insurance annuities.

During 2020 and 2019, the Group has disbursed a total amount of EUR 19.5 million and EUR 11.6 million euros, respectively, for the payment of civil-liability insurance premiums. These premiums correspond to several civil-liability insurance policies that hedge, among others, directors, senior executives and other managers and employees of the Group and the Bank itself, as well as its subsidiaries, in light of certain types of potential claims. For this reason, it is not possible to disaggregate or individualize the amount that correspond to the directors and executives.

As of 31 December 2020 and 2019, no life insurance commitments exist for the Group in respect of any other directors.

e) Deferred variable remuneration systems

The following information relates to the maximum number of shares to which the executive directors are entitled at the beginning and end of 2020 and 2019 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2020 and prior years, as well as on the deliveries, in shares or in cash, made to them in 2020 and 2019 once the conditions for the receipt thereof had been met (see note 42):

i. Deferred conditional variable remuneration plan

From 2011 to 2015, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the Board of Directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorized by the related Annual General Meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares. The remaining 40% portion of the bonus is paid in cash and Santander shares (in equal parts), upon commencement of this plan, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing in the opinion of the Board of Directors -following a proposal of the remuneration committee-, in relation to the corresponding year, in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall be subject in each case to the regulations of the relevant plan cycle.

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

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

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

In the case of Sergio Rial, who does not receive any remuneration for executive duties in Banco Santander, S.A., the same policy principles, deferrals, multi year targets linked to the payment of deferred amounts and malus and clawback principles described herein apply to his variable remuneration in the subsidiary where he is the CEO.

ii. Deferred variable compensation plan linked to multiannual objectives

In the annual shareholders meeting of 12 March 2016, with the aim of simplifying the remuneration structure, improving the ex-ante risk adjustment and increasing the incidence of long-term objectives, the bonus plan (deferred and conditioned variable compensation plan) and ILP were replaced by one single plan, the deferred multiyear objectives variable remuneration plan.

The variable remuneration of executive directors and certain executives (including senior management) corresponding to 2020 has been approved by the Board of Directors and implemented through the fifth cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan was authorised by the annual general meeting of shareholders, as it entails the delivery of shares to the beneficiaries.

As indicated in section a.ii of this note, 60% of the variable remuneration amount is deferred over five years (three years for certain beneficiaries, not including executive directors), to be paid, where appropriate, in five portions, provided that the conditions of permanence in the group and non-concurrence of *malus* clauses are met, and subject to long term metrics, according to the following accrual scheme:

- The accrual of the first and second parts (instalments in 2022 and 2023) is conditional on none of the *malus* clauses being triggered.
- The accrual of the third, fourth and fifth parts (instalments in 2024, 2025 and 2026) is linked to the fulfilment of certain objectives related to the2020-2022 period and the metrics and scales associated with those objectives, as well as to non-concurrence of *malus* clauses. These objectives are:
  - The growth of consolidated earnings per share in 2022 compared to 2019;
  - the relative performance of the Bank's total shareholder return (RTA) in the 2020-2022 period in relation to the weighted RTAs of a reference group of 9 credit institutions;
  - compliance with the fully loaded ordinary level 1 capital objective for the year 2022

The degree of compliance with the above objectives determines the percentage to be applied to the deferred amount in these three annuities, the maximum being the amount determined at the end of the year 2020when the total variable remuneration is approved.

The accrual of deferred amounts (whether or not subject to performance measures) is conditioned, in addition to the permanence of the beneficiary in the Group, to non-occurrence, during the period prior to each of the deliveries, of any the circumstances giving rise to the application of malus as set out in the Group's remuneration policy in its chapter related to malus and clawback. Likewise, the amounts already paid of the incentive will be subject to clawback by the Bank in the cases and during the term foreseen in said policy, and in accordance with the terms and conditions foreseen in it.

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

i. Significant failures in risk management committed by the entity, or by a business unit or risk control.

ii. The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures.

iii. Regulatory sanctions or judicial sentences from events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity.

iv. Irregular conduct, whether individual or collective. In this regard, the negative effects derived from the marketing of inappropriate products and the responsibilities of the people or bodies that made those decisions will be specially considered.

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

In the case of Mr. Sergio Rial, although as stated above he does not receive any remuneration for executive duties in Banco Santander, S.A. he is included as CEO of Santander Brasil in the deferred variable compensation plan linked to multiannual objectives and thus subject to the same conditions and principles of deferral, multiannual objectives, deferrals and malus and clawback herein in respect of the remuneration he receives in his role as CEO of this subsidiary.

iii. Shares assigned by deferred variable remuneration plans

The following table shows the number of Santander shares assigned to each executive director and pending delivery as of 1 January 2019, 31 December 2019 and 31 December 2020, as well as the gross shares that were delivered to them in 2019 and 2020, either in the form of an immediate payment or a deferred payment. In this case after having been appraized by the board, at the proposal of the remuneration committee, that the corresponding one-fifth of each plan had accrued. They come from each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2015 and of the deferred conditional and linked to multiannual objectives in 2016, 2017, 2018, 2019 and 2020.

Santander

Share-based variable remuneration

	Maximum number of shares to be delivered at January 1,2019	Shares delivered in 2019 (immediate payment 2018 variable remuneration)	Shares delivered in 2019 (deferred payment 2017 variable remuneration)	Shares delivered in 2019 (deferred payment 2016 variable remuneration)	Shares delivered in 2019 (deferred payment 2015 variable remuneration)	Variable remuneration 2019 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2019	Instruments matured but not consolidated at January 1, 2020	Shares delivered in 2020 (immediate payment 2019 variable remuneration)	Shares delivered in 2020 (deferred payment 2018 variable remuneration)	Shares delivered in 2020 (deferred payment 2017 variable remuneration)	Shares delivered in 2020 (deferred payment 2016 variable remuneration)	Shares delivered in 2020 (deferred payment 2015 variable remuneration)	Variable remuneration 2020 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2020
2015 variable remuneration[4]															
Ms Ana Botín-Sanz de Sautuola y O'Shea	193,213	—	—	—	(64,404)	—	128,809	—	—	—	—	—	(64,404)	—	64,405
Mr José Antonio Álvarez Álvarez	128,431	—	—	—	(42,811)	—	85,620	—	—	—	—	—	(42,811)	—	42,809
Mr Rodrigo Echenique Gordillo[3]	95,134	—	—	—	(31,712)	—	63,422	—	—	—	—	—	(31,712)	—	31,710
	416,778				(138,927)		277,851						(138,927)		138,924
2016 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	288,410	—	—	(72,102)	—	—	216,308	(51,265)	—	—	—	(55,014)	—	—	110,029
Mr José Antonio Álvarez Álvarez	194,665	—	—	(48,667)	—	—	145,998	(34,602)	—	—	—	(37,133)	—	—	74,263
Mr Rodrigo Echenique Gordillo[3]	144,180	—	—	(36,046)	—	—	108,134	(25,628)	—	—	—	(27,503)	—	—	55,003
	627,255			(156,815)			470,440	(111,495)				(119,650)			239,295
2017 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	344,625	—	(68,925)	—	—	—	275,700	—	—	—	(68,925)	—	—	—	206,775
Mr José Antonio Álvarez Álvarez	230,471	—	(46,094)	—	—	—	184,377	—	—	—	(46,094)	—	—	—	138,283
Mr Rodrigo Echenique Gordillo[3]	179,608	—	(35,922)	—	—	—	143,686	—	—	—	(35,922)	—	—	—	107,764
	754,704		(150,941)				603,763				(150,941)				452,822
2018 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	860,865	(344,346)	—	—	—	—	516,519	—	—	(103,304)	—	—	—	—	413,215
Mr José Antonio Álvarez Álvarez	575,268	(230,107)	—	—	—	—	345,161	—	—	(69,032)	—	—	—	—	276,129
Mr Rodrigo Echenique Gordillo[3]	456,840	(182,736)	—	—	—	—	274,104	—	—	(54,821)	—	—	—	—	219,283
	1,892,973	(757,189)					1,135,784			(227,157)					908,627

Santander

Share-based variable remuneration

	Maximum number of shares to be delivered at January 1,2019	Shares delivered in 2019 (immediate payment 2018 variable remuneration)	Shares delivered in 2019 (deferred payment 2017 variable remuneration)	Shares delivered in 2019 (deferred payment 2016 variable remuneration)	Shares delivered in 2019 (deferred payment 2015 variable remuneration)	Variable remuneration 2019 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2019	Instruments matured but not consolidated at January 1, 2020	Shares delivered in 2020 (immediate payment 2019 variable remuneration)	Shares delivered in 2020 (deferred payment 2018 variable remuneration)	Shares delivered in 2020 (deferred payment 2017 variable remuneration)	Shares delivered in 2020 (deferred payment 2016 variable remuneration)	Shares delivered in 2020 (deferred payment 2015 variable remuneration)	Variable remuneration 2020 (Maximum number of shares to be delivered)	Maximum number of shares to be delivered at December 31, 2020
2019 variable remuneration															
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	887,193	887,193	—	(354,877)	—	—	—	—	—	532,316
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	592,915	592,915	—	(237,166)	—	—	—	—	—	355,749
Mr Rodrigo Echenique Gordillo[3]	—	—	—	—	—	272,480	272,480	—	(108,992)	—	—	—	—	—	163,488
						1,752,588	1,752,588		(701,035)						1,051,553
2020 variable remuneration[1]															
Ms Ana Botín-Sanz de Sautuola y O'Shea	—	—	—	—	—	—	—	—	—	—	—	—	—	310,615	310,615
Mr José Antonio Álvarez Álvarez	—	—	—	—	—	—	—	—	—	—	—	—	—	168,715	168,715
Mr Sergio Rial[2]	—	—	—	—	—	—	—	—	—	—	—	—	—	355,263	355,263
														834,593	834,593

1. For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfilment of multiannual objectives.
2. Mr. Sergio Rial's share-based variable remuneration awarded in shares of Banco Santander (Brasil). He has the right to a maximum of 51,483 Santander shares and 269,148 options over Santander shares for his participation in the 2019 Digital Transformation Award.
3. Mr. Rodrigo Echenique stepped down as executive director on 30 April 2019. Non-executive director from 1 May 2019 to 22 December 2020.
4. In addition, Mr. Ignacio Benjumea Cabeza de Vaca received 35,372 shares during 2020 and maintains the right to a maximum of 35,369 shares arising from his participation in the corresponding plans during his term as executive vice president.

In addition, the table below shows the cash delivered in 2020 and 2019, by way of either immediate payment or deferred payment, in the latter case once the Board had determined, at the proposal of the remuneration committee, that one-fifth relating to each plan had accrued:

EUR thousands

	2020			2019
	Cash paid (immediate payment 2019 variable remuneration)	Cash paid (deferred payments from 2018, 2017, 2016 and 2015 variable remuneration)	Cash paid (immediate payment 2018 variable remuneration)	Cash paid (deferred payments from 2017, 2016 and 2015 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,302	1,383	1,480	1,025
Mr. José Antonio Álvarez Álvarez	870	925	989	686
Mr. Rodrigo Echenique Gordillo	400	712	785	519
	2,572	**3,020**	**3,254**	**2,230**

iv. Information on former members of the Board of Directors

The chart below includes information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to 1 January 2019 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were Executive Directors. Also set forth below is information on the deliveries, whether in shares or in cash, made in 2020 and 2019 to former board members, upon achievement of the conditions for the receipt thereof (see note 42):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	60,847	121,694
Deferred conditional variable remuneration plan and linked to objectives (2016)	65,502	98,253
Deferred conditional variable remuneration plan and linked to objectives (2017)	47,956	140,531

Number of shares delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	60,847	60,847
Performance shares plan ILP (2015)	—	129,612
Deferred conditional variable remuneration plan and linked to objectives (2016)	32,751	42,924
Deferred conditional variable remuneration plan and linked to objectives (2017)	35,132	35,132

In addition, EUR 612 thousand and EUR 663 thousand relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2020 and 2019.

f) Loans

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

EUR thousand

	2020			2019		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Mrs. Ana Patricia Botín	14	—	14	18	—	18
Mr. José Antonio Álvarez Álvarez	5	—	5	27	—	27
Mr. Bruce Carnegie-Brown	—	—	—	—	—	—
Mr. Rodrigo Echenique Gordillo**	—	—	—	33	—	33
Mr. Javier Botín-Sáenz de Sautuola	2	—	2	21	—	21
Mrs. Sol Daurella Comadrán	22	—	22	55	—	55
Mrs. Esther Gimenéz-Salinas i Colomer****	—	—	—	1	—	1
Mr. Ignacio Benjumea Cabeza de Vaca*	—	—	—	1	—	1
Mrs. Belén Romana García	—	—	—	21	—	21
Mr. Guillermo de la Dehesa Romero***	—	—	—	56	—	56
Mr. Ramiro Mato García-Ansorena	—	—	—	—	—	—
Mrs. Homaira Akbari	—	—	—	—	—	—
Mr. Álvaro Antonio Cardoso de Souza	—	—	—	—	—	—
Mr. Henrique Manuel Drummond Borges Cirne de Castro	—	—	—	—	—	—
Mrs. Pamela Ann Walkden	—	—	—	—	—	—
Mr. Luis Isasi Fernández de Bobadilla	—	—	—	—	—	—
Mr. Sergio Agapito Lires Rial	—	—	—	—	—	—
Mr. R. Martín Chávez	—	—	—	—	—	—
Mrs. Gina Lorenza Díez Barroso Arcárraga	6	—	6	—	—	—
	49	**—**	**49**	**233**	**—**	**233**

* Mr. Ignacio Benjumea Cabeza de Vaca resigns as a member of the Board in June 2020.
** Mr. Rodrigo Echenique Gordillo resigns as a member of the Board in December 2020.
*** Mr. Guillermo de la Dehesa resigns as a member of the Board in June 2020.
**** Ms. Esther Gimenez-Salinas i Colomer resigns as a member of the Board in December 2020.

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2020 and those at 31 December 2019, excluding the remuneration of the executive directors, which is detailed above:

EUR thousand

			Short-term salaries and deferred remuneration						
			Variable remuneration (bonus) - Immediate payment		Deferred variable remuneration				
Year	Number of persons	Fixed	In cash	In shares [2]	In cash	In shares	Pensions	Other remuneration [1]	Total [3]
2020	18	21,642	5,739	5,740	2,470	2,471	6,039	6,312	50,413
2019	18	22,904	7,668	7,669	3,336	3,337	6,282	15,337	66,532

1. Includes other remuneration items such as life and medical insurance premiums and localization aids.
2. The amount of immediate payment in shares for 2020 is 2,135,700 shares (2,090,536 Santander shares in 2019).
3. The deferred amount in shares not linked to long-term objectives for 2020 is 919,308 shares (909,534 Santander shares in 2019).

At the annual general meeting on 3 April 2020, shareholders approved the 2020 Digital Transformation Incentive, a variable remuneration scheme that delivers Santander shares and share options if the group hits major milestones on its digital roadmap.

Three senior executives are included within this plan (aimed at a group of up to 250 employees whose functions are deemed essential to Santander Group's growth and digital transformation) and, thus, can receive a total of EUR 1,700 thousand to be paid in thirds on the third, fourth and fifth anniversary of the authorisation date (2024, 2025 and 2026). This amount is implemented in 316,574 Santander shares and 944,445 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (EUR 0.90).

Of the EUR 30,000 thousand approved by the 2020 general meeting as maximum amount for the 2020 Digital Transformation Award, a total overall cost of EUR 17,800 thousand has been approved, based on the final number of participants and the level of achievement of milestones.

The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries.

The 2019 Digital Transformation Incentive, which terms are substantially the same as those of the 2020 one, included three senior executives, who may receive up to a total of EUR 2,100 thousand.

See note 42 to the 2020 Group's consolidated financial statements for further information on the Digital Transformation Incentive.

In 2020, the ratio of variable to fixed pay components was 80% of the total for senior managers, well within the maximum limit of 200% set by shareholders.

Also, the detail of the breakdown of the remuneration linked to long-term objectives of the members of senior management at 31 December 2020 and 31 December 2019 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods, upon achievement of the conditions stipulated for each payment (see note 42).

EUR thousand

		Variable remuneration subject to long-term objectives [1]		
Year	Number of people	Cash payment	Share payment	Total
2020	18	2,594	2,594	5,188
2019	18	3,503	3,504	7,007

1.Relates to the fair value of the maximum annual amounts for years 2024, 2025 and 2026 of the fifth cycle of the deferred conditional variable remuneration plan (2022, 2024 and 2025 for the fourth cycle of the deferred variable compensation plan linked to annual objectives for the year 2019).

Senior executive vice presidents who retired in 2020 and, therefore, were not members of senior management at year-end, received in 2020 salaries and other remuneration relating to their termination amounting to EUR 5,984 (EUR 6,789 thousand in 2019). Likewise, these same individuals have generated as senior managers the right to obtain variable remuneration linked to long-term objectives for a total amount of EUR

133 thousand (this right has been generated in 2019 for a total amount of EUR 615 thousand).

The average total remuneration awarded to women who were part of the senior management during 2020, excluding executive directors, is 37% lower than the average remuneration of men senior managers.

The maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive as of 31 December 2020 and 31 December 2019 relating to the deferred portion under the various plans then in force is the following(see note 42):

Maximum number of shares to be delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,617	391,074
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	417,818	660,205
Deferred conditional variable remuneration plan and linked to objectives (2017)	791,360	1,115,570
Deferred conditional variable remuneration plan and linked to objectives (2018)	1,512,992	1,986,754
Deferred conditional variable remuneration plan and linked to objectives (2019)	2,154,312	2,273,859

Since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, the following number of Santander shares was delivered in 2020 and 2019 to the senior management, in addition to the payment of the related cash amounts:

Number of shares delivered

	2020	2019
Deferred conditional variable remuneration plan (2015)	179,614	257,187
Performance shares plan ILP (2015)	—	515,456
Deferred conditional variable remuneration plan (2017)	2,786	—
Deferred conditional variable remuneration plan (2018)	3,474	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	170,185	215,868
Deferred conditional variable remuneration plan and linked to objectives (2017)	219,363	245,575
Deferred conditional variable remuneration plan and linked to objectives (2018)	342,884	—

As indicated in note 5.c above, senior management participate in the benefit system created in 2012, which covers the contingencies of retirement, disability and death. Banco Santander makes annual contributions to the benefit plans of its senior managers. In 2012, the contracts of the senior managers with benefit pension commitments were amended to transform them into a contribution system. The system, which is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., gives senior managers the right to receive benefits upon retirement, regardless of whether or not they are active at Banco Santander at such time, based on contributions to the system. This new system replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement, and up to the retirement date, senior managers appointed prior to September 2015 are entitled to receive an annual allowance.

In addition, further to applicable remuneration regulations, from 2016 (inclusive), a discretionary pension benefit component of at least 15% of total remuneration in contributions to the pension system has been included. Under the regime corresponding to these discretionary benefits, the contributions that are calculated on variable remunerations are subject to *malus* and *clawback* clauses, subject to policies applicable at each time, and during the same period in which the variable remuneration is deferred.

Likewise, the annual contributions calculated on variable remunerations must be invested in Bank shares for a period of five years from the date that the senior manager leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the senior manager, or it will be paid to the senior manager or to their beneficiaries in the event of a contingency covered by the benefits system.

The contracts of some senior executives were modified at the beginning of 2018 with the same objective and changes indicated in section *c* of this note for Ms Ana Botín and Mr José Antonio Álvarez. The modifications, which are aimed at aligning the annual contributions with the practices of comparable institutions and reducing the risk of future obligations by eliminating the supplementary scheme for death (widowhood and orphanhood) and permanent disability in service without increasing the costs to the bank, are as follows:

- Contributions to the pensionable bases were reduced. Gross annual salaries were increased in the corresponding amount.
- The death and disability supplementary benefits were eliminated since January 1, 2018. A fixed remuneration supplement reflected in other remuneration in the table above was implemented on the same date.
- The amounts insured for life and accident insurance were increased.

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

The balance as of 31 December 2020 in the pension system for those who were part of senior management during the year amounted to EUR: $59,400,000.00 (EUR 69.8 million at 31 December, 2019).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR $6,400,000.00 in 2020 (EUR 6.3 million in 31 December 2019).

In 2020 and 2019 there have been no payments in the form of a single payment of the annual voluntary pre-retirement allowance.

Additionally, the capital insured by life and accident insurance at 31 December 2020 of this group amounts to EUR $135,100,000.00 (EUR 134.1 million at 31 December 2019).

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

The post-employment benefits and settlements paid in 2020 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 11.2 million and EUR 6.3 million in 2019, respectively. Also, the post-employment benefits and settlements paid in 2020 to former executive vice presidents amounted to EUR 10.26 million and EUR 6.5 million in 2019, respectively.

Contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits to previous members of the Bank's board of directors, amounted to EUR 0.17 million in 2020 (EUR 0.2 million in 2019). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous senior managers amounted to EUR 5.8 million in 2020 (EUR 5.5 million in 2019).

During the 2020 financial year, a release of EUR 5 million was recorded in the consolidated income statement for pension commitments and similar obligations held by the Group with previous former members of the bank's board of directors (in 2019, no provisions/releases were recorded), and no provisions/releases has been recorded in respect of former senior managers in 2020 and 2019.

In addition, 'Provisions - Pension Fund and similar obligations' in the consolidated balance sheet as at 31 December 2020 included EUR 52 million in respect of the post-employment benefit obligations to former Directors of the Bank (EUR 65.7 million at 31 December 2019) and EUR 159 million corresponding to former senior managers (EUR 172 million at 31 December 2019).

i) Pre-retirement and retirement

The board of directors has approved, subject to the condition that the remuneration policy be approved at the annual general shareholders' meeting, an amendment to the contracts of the executive directors whereby:

- Ms Ana Botín ceases to have the right to pre-retire if she leaves the Bank out of her own volition, keeping this right in case of termination by the Bank until 1 September 2022. After this date, she does not have the right to pre-retire. While she keeps this right she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of her last variable remuneration, to a maximum of three. This allotment is subject to the *malus* and *clawback* provisions in place for a period of five years.
- Mr. José Antonio Álvarez ceases to have the right to pre-retire in case of termination of his contract.

j) Contract termination

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

If Banco Santander were to terminate her contract, Ms. Ana Botín-Sanz de Sautuola y O'Shea would have to remain at Banco Santander's disposal for a period of 4 months in order to ensure an adequate transition, and would receive her fixed salary during that period.

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

None of the members of the board of directors have declared that they or persons related to them may have a direct or indirect conflict of interest with the interests of Banco Santander, S.A., as set forth in Article 229 of the Corporate Enterprises Act.

Santander

6. Loans and advances to central banks and credit institutions

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

EUR million	2020	2019
CENTRAL BANKS		
Classification		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	482	138
Financial assets designated at fair value through other comprehensive income	—	—
Financial assets at amortized cost	21	22
	503	**160**
Breeakdown by product		
Reverse repurchase agreements	482	138
Other term loans	20	20
Advances different from loans	1	2
Of which, impaired assets	—	—
Of which, valuation adjustments for impairment	—	—
	503	**160**
Currency		
Euro	502	160
US Dollars	1	—
	503	**160**
CREDIT INSTITUTIONS		
Classification		
Financial assets held for trading	3	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	9,888	18,543
Financial assets designated at fair value through other comprehensive income	—	—
Financial assets at amortized cost	34,159	34,747
	44,050	**53,290**
Breakdown by product		
Credit card Debt	—	—
Commercial credit	931	1,044
Finance leases	7	8
Reverse repurchase agreements	15,897	24,667
Other term loans	16,733	14,324
Advances different from loans	10,482	13,247
Of which, impaired assets	—	—
Of which, valuation adjustments for impairment	*(6)*	*(7)*
	44,050	**53,290**
Currency		
Euro	30,815	40,069
Pound sterling	1,555	1,539
US dollar	10,632	10,555
Chilean pesos	741	747
Brazilian real	—	237
Other currencies	307	143
	44,050	**53,290**
TOTAL	**44,553**	**53,450**

The loans and advances classified under 'Financial assets designated at fair value through profit or loss' consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

Deposits in credit institutions classified as 'Financial assets at amortized cost' (Circular 4/2017 of Banco de España) are mainly term accounts and bonds given in cash to credit institutions.

The loans and advances to credit institutions classified under 'Financial assets at amortized' are mainly time accounts and deposits. In addition, at December 31, 2020, there were outstanding balances with central banks and credit institutions for EUR 63.984 million and EUR 2.275 million, respectively (2019: EUR 24,596 million and EUR 6,324 million, respectively). These balances are included under 'Cash, cash balances at central banks and other deposits on demand'.

Note 48 shows the details of the maturity terms of financial assets at amortized cost (Bank of Spain Circular 4/2017), as well as its average interest rate.

The breakdown as of December 31, 2020 of the exposure and of the provision fund by phase of impairment of the 'Financial assets at amortized cost' accounted is EUR 34,187 million and EUR 6 million in stage 1 (EUR 34,776 million and EUR 7 million in phase 1, in 2019).

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

EUR millon

	2020	2019
Classification		
Financial assets held for trading	18,243	19,094
Non-trading financial assets mandatorily at fair value through profit or loss	671	1,099
Financial assets designated at fair value through profit or loss	—	—
Financial assets designated at fair value through other comprehensive income	15,146	26,306
Financial assets at amortized cost	11,413	14,528
	45,473	**61,027**
Type		
Central banks	362	322
Public sector	23,681	36,252
Credit institutions	10,123	10,651
Other financial institutions	10,169	12,327
Non-financial institutions	1,138	1,475
Of which, impaired assets	*134*	*—*
Of which, value adjustments for impairment	*(74)*	*(11)*
	45,473	**61,027**
Currency		
Euro	32,431	44,556
US dollar	6,105	7,699
Pound sterling	3,903	5,693
Brazilian real	1,491	1,834
Other currencies	1,543	1,245
	45,473	**61,027**

At 31 December 2020, the nominal amount of debt instruments assigned to Banco Santander's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 9,495 million (EUR 18,373 million in 2019), of which EUR 5,512 million related to Spanish government debt (EUR 11,553 million in 2019).

The breakdown at 31 December 2020 of the exposure by impairment phase of impairment assets is EUR 26.5 billion in phase 1 and EUR 134 million in phase 3. In 2019 the entire exhibition (EUR 40.845 million) was in Phase 1.

Note 25 e) shows the details of 'Other comprehensive income accumulated in Equity for the Financial Assets designated at fair value' through other comprehensive income' (Bank of Spain Circular 4/2017) and impairment corrections.
Note 48 shows the details of the maturity periods of 'Loans and Advances and Financial Assets designated at fair value through other comprehensive income' and their average interest rate.

8. Equity instruments

a) Breakdown

The detail, by classification, listing status, currency and type, of Equity instruments in the accompanying balance sheets is as follows:

EUR millon

	2020	2019
Classification		
Financial assets held for trading	9,758	11,697
Non-trading financial assets mandatorily at fair value through profit or loss	305	231
Financial assets designated at fair value through other comprehensive income	1,942	1,856
	12,005	**13,784**
Listing status		
Listed	10,819	13,439
Unlisted	1,186	345
	12,005	**13,784**
Currency		
Euros	8,527	8,751
Pound sterling	1,938	2,737
Chinese yuan	908	1,127
Brazilian real	426	451
US Dollar	151	126
Other currencies	55	592
	12,005	**13,784**
Type		
Shares of Spanish companies	3,276	3,555
Shares of foreign companies	8,396	9,668
Investment fund units and shares	333	561
	12,005	**13,784**

Note 25 contains a detail of the 'Other comprehensive income, recognized in equity, on Financial assets designated at fair value through other comprehensive income' (Bank of Spain Circular 4/2017 and subsequent modifications).

b) Changes

The changes in 'Non-trading financial assets mandatorily at fair value through profit or loss' and 'Financial assets at fair value through other comprehensive income' were as follows:

EUR million

	2020	2019
Balance at December 31 of the previous year	**1,856**	**1,751**
Purchases and capital increases	1,433	749
Of which		
Saudi British Bank	*—*	*632*
Project Quasar Investments 2017, S.L.	*956*	*—*
Disposals and capital reductions	(372)	(550)
Of which		
RFS Holdings, B.V.	*—*	*(540)*
Saudi British Bank	*(326)*	*—*
Valuation adjustment and other items*	(975)	(94)
Balance at end of the year	**1,942**	**1,856**

* Significant changes in value occurred during the year 2020, due to the fall in prices of listed companies covered under this heading.

In September 2020, on the occasion of the loss of control over Project Quasar Investments 2017, S.L., Banco Santander's holding in the portfolio, until then registered under the heading 'Associated Entities' (see note 13 a.ii), amounting to EUR 956 million, was reclassified to this portfolio.

Also, on September 7, 2020 and on December 1, 2020, Banco Santander has proceeded to sell its shares owned by Saudi British Bank, which has resulted in the total reduction of its share valued at that time EUR 326 million.

Under the 'Share Premiun Contribution Agreement' dated June 13, 2019 and on July 7, 2020, Banco Santander has contributed EUR 53 million to RFS Holding B.V. and that entity has distributed assets and liabilities between each of the holding's shareholders, then proceeding to the sale of the holding company.

As a result of the distribution referred to in the preceding subparagraph,Banco Santander has received shares in Saudi British Bank equivalent to 3.01% of that institution's capital for a market value of EUR 632 million and has declined its stake in RFS Holding B.V.

c) Notifications of acquisitions of investments

The notifications made by Banco Santander in 2020, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by Banco Santander at 31 December 2020 and 2019 is as follows.

EUR million

	2020		2019	
	Debit balance	Credit balance	Debit balance	Credit
Interest rate	35,280	31,484	37,828	35,305
Equity instruments	1,873	918	2,233	1,816
Currency and Gold	16,062	17,986	15,324	18,562
Credit	77	223	206	286
Commodities	—	—	—	—
Others	70	65	103	99
	53,262	**50,676**	**55,694**	**56,068**

b) Short positions

Following is a breakdown of the short positions:

EUR million

	2020	2019
Securities lending		
Equity instruments	289	308
Uncovered on assignments		
Debt instruments	10,049	7,980
Total	**10,338**	**8,288**

10. Loans and advances to customers

a) Detail

The detail, by classification, of 'Loans and advances to customers' in the balance sheets is as follows:

EUR million	2020	2019
Financial assets held for trading	71	98
Non-trading financial assets mandatorily at fair value through profit or loss	1,249	1,289
Financial assets designated at fair value through profit or loss	23,529	31,178
Financial assets at fair value through other comprehensive income	5,535	3,865
Financial assets at amortized cost	265,427	239,998
Loans and advances to customers	**295,811**	**276,428**
Of which		
Impairment losses	*(6,981)*	*(6,245)*
Loans and advances to customers disregarding impairment losses	**302,792**	**282,673**

Note 48 shows the details of the maturity periods of financial assets at amortized cost, as well as their average interest rates.

At 31 December 2020 and 2019, there were no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

The following is a breakdown of the loans and advances granted to the Banco Santander´s clients, which include exposure to the Bank´s credit risk in its main activity, without considering the balance of impairment reserve or the valuation adjustments (except accrued interest) depending on the modality and situation of the operations, the geographical area of the residence of the borrower and the modality of interest rate of the operation:

EUR million

	2020	2019
Loan type and status		
On demand and with a short prior period	2,473	1,967
Credit cards receivables	1,264	1,597
Commercial credit	15,920	17,277
Finance leases	2,951	3,471
Reverse repurchase agreements	14,700	21,043
Other term loans	246,679	220,829
Non loans advances	11,824	10,244
Of which		
Impaired assets	*13,524*	*13,994*
Mortgage loans	*89,763*	*94,758*
Other secured loans	*35,068*	*41,845*
Impairment losses	*(6,981)*	*(6,245)*
Book value	**295,811**	**276,428**
Gross book value	**302,792**	**282,673**
By sector		
Public sector	13,458	13,287
Other financial institutions	63,742	57,143
Non-financial institutions	141,657	125,907
Households	83,935	86,336
	302,792	**282,673**
Geographical area		
Spain	213,407	199,878
European Union (excluding Spain)*	27,949	41,129
United States of America and Puerto Rico	22,624	17,082
Other OECD countries*	20,224	7,814
Latin America (non-OECD)	7,704	7,373
Rest of the world	10,884	9,397
	302,792	**282,673**
Interest rate:		
Fixed rate	137,397	113,223
Floating rate	165,395	169,450
	302,792	**282,673**

* Changes are mainly due to the reclassification of United Kingdom balances due to their 2020 exit from the European Union.

At December 31, 2020 and 2019 Banco Santander had EUR 11,767 and 9,691 million, respectively, of loans and advances granted to Spanish public administrations whose rating at December 31, 2020 is A (rating at December 31, 2019 was A) and with EUR 1,691 and 3,596 million, respectively, granted to the Public Sector of other countries (as of December 31, 2019 this amount was composed, based on the rating of the issuer as follows: 1% AAA, 20% AA, 18% A, 4% BBB and 257% lower than BBB).

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by Banco Santander (see note 49) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Without considering the 'Public Administrations', the amount of loans and advances as of December 31, 2020 amounts to EUR 289,334 million, of which EUR 275,810 million are in no doubt situation.

Following is a detail, by activity, of the loans to customers at 31 December 2020, net of impairment losses:

EUR million

			Secured loans						
			Net exposure		Loan-to-value ratio (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	12,099	11,569	194	336	69	75	36	342	8
Other financial institutions and individual traders (business financial activity)	53,953	35,869	940	17,144	537	606	226	16,388	327
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	143,683	100,491	24,410	18,782	9,404	8,099	5,531	15,124	5,034
Of which									
Construction and property development (including land)	2,692	14	2,670	8	1,048	882	518	152	78
Civil engineering construction	2,076	1,149	103	824	16	198	13	676	24
Large companies	86,374	65,974	6,791	13,609	2,862	2,390	2,180	10,247	2,721
SMEs and individual traders	52,541	33,354	14,846	4,341	5,478	4,629	2,820	4,049	2,211
Other households (broken down by purpose)	74,251	8,680	64,163	1,408	17,713	19,455	18,959	5,943	3,501
Of which									
Residential	59,100	663	58,254	183	15,822	17,943	17,490	4,743	2,439
Consumer loans	7,896	7,149	439	308	200	144	164	148	91
Other purposes	7,255	868	5,470	917	1,691	1,368	1,305	1,052	971
Total*	**283,986**	**156,609**	**89,707**	**37,670**	**27,723**	**28,235**	**24,752**	**37,797**	**8,870**
Memorandum item									
Refinanced and restructured transactions	10,091	1,257	7,917	917	1,463	1,395	1,371	1,667	2,938

* Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2020 to the latest available appraisal value of the collateral.

Note 49 includes information regarding the refinanced / restructured portfolio.

Following the movement of the gross exposure is broken down by the phase of impairment of loans and advances to customers recognized under 'Financial assets at amortized cost' and 'Financial assets at fair value through other comprehensive income' under Bank of Spain Circular 4/2017 to 31 December 2020:

EUR million

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	**226,826**	**9,288**	**13,994**	**250,108**
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(6,288)	6,288		—
Transfer to Stage 3 from Stage 1	(812)		812	—
Transfer to Stage 3 from Stage 2		(1,910)	1,910	—
Transfer to Stage 1 from Stage 2	1,818	(1,818)		—
Transfer to Stage 2 from Stage 3		301	(301)	—
Transfer to Stage 1 from Stage 3	259		(259)	—
Net changes on financial assets	30,585	(118)	(702)	29,765
Failed	—	—	(1,930)	(1,930)
Differences in change and other movements				
Balance at end of the year	**252,388**	**12,031**	**13,524**	**277,943**

As of December 31, 2020, the total net exposure of loans and advances to Banco Santander customers is EUR 270,962 million, of which EUR 251,904 million correspond to phase 1, EUR 11,316 million to phase 2 and EUR 7,742 million with phase 3. The Bank presents EUR 284 million (EUR 444 million as of December 31, 2019) in impaired assets purchased with impairment, which correspond mainly to the business combinations that Banco Santander has carried out.

c) Impairment losses on loans and advances to customers at amortized cost and at fair value through other comprehensive income

The changes in the impairment losses on the assets making up the balances of financial assets at amortized cost and at fair value through other comprehensive income 'Loans and advances - Customers':

EUR million

	2020	2019
Balance at beginning of the year	**6,245**	**7,300**
Net impairment losses charged to income for the year	2,577	1,423
Of which		
Impairment losses charged to income	*4,075*	*3,972*
Impairment losses reversed with a credit to income	*(1,498)*	*(2,549)*
Decreases due to amounts used against value adjustments	(1,930)	(2,480)
Exchange differences and other changes	89	2
Balance at end of the year	**6,981**	**6,245**
Of which		
By status of the asset		
Impaired assets	*5,782*	*5,397*
Of which, due to country risk	*—*	*5*
Other assets	*1,199*	*848*
Balance at end of the year	**6,981**	**6,245**
Of which		
Individually calculated	*909*	*1,083*
Collective calculated	*6,072*	*5,162*

The suspended assets recovered during the financial year 2020 amount to EUR 82 million (EUR 179 million as at 31 December 2019). In addition, EUR 38 million has been recognized for losses due to renegotiation or contractual modification as at 31 December 2020 (no amount recognised as at 31 December 2019).

Including recovered suspended assets such as impairment of Credit Institutions (see notes 6 and 7) the amount recorded under the heading 'Impairment of impairment of financial assets not measured at fair value through profit or loss and net modification gains or losses' amounts to EUR 2,559 million in the financial year 2020. The amount amounted to EUR 1,246 million in 2019.

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers, under Bank of Spain Circular 4/2017, aligned with IFRS 9 during 2020:

EUR million

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	**335**	**513**	**5,397**	**6,245**
Transfers				
Transfer to Stage 2 from Stage 1	(138)	242		104
Transfer to Stage 3 from Stage 1	(94)		382	288
Transfer to Stage 3 from Stage 2		(122)	288	166
Transfer to Stage 1 from Stage 2	10	(82)		(72)
Transfer to Stage 2 from Stage 3		22	(65)	(43)
Transfer to Stage 1 from Stage 3	6		(19)	(13)
Net changes of the exposure and modifications in the credit risk	359	131	1,657	2,147
Changes due to update in the methodology of estimates of the entity				
Write-offs	7	10	72	(1,930)
FX and other movements				
Gross carrying amount end of the year	**485**	**714**	**5,782**	**6,981**

d) Impaired assets and assets with unpaid past-due amounts

The detail of the movement produced in the balance of financial assets classified as 'Loans and receivables - Customers' and considered to be impaired by reason of their credit risk:

EUR million

	2020	2019
Balance at beginning of the year	**13,994**	**15,695**
Net additions	1,460	779
Written-off assets	(1,930)	(2,480)
Other changes	—	—
Balance at end of the year	**13,524**	**13,994**

This amount, once the corresponding provisions have been deducted, is Banco Santander's best estimate of the discounted value of the flows that are expected to be recovered from impaired assets.

At 31 December 2020, the balance of the assets written-off amounted to EUR 8,660 million. (December 2019: EUR 8,296 million).

Details of those financial assets classified in the 'Financial assets at amortized cost – Customers portfolio' and considered as impaired by reason of their credit risk, classified according to the sector where the risks are located, as well as depending on the period elapsed since the maturity of the amount unpaid on said oldest date of each operation:

EUR million

	2020				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	4	—	—	9	13
Other financial institutions	13	1	141	52	207
Non-financial institutions	2,895	332	442	4,859	8,528
Households	1,252	273	445	2,806	4,776
	4,164	**606**	**1,028**	**7,726**	**13,524**

EUR million

	2019				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	Total
Public sector	6	—	—	9	15
Other financial institutions	4	1	1	16	22
Non-financial institutions	2,222	368	805	4,579	7,974
Households	1,441	434	454	3,654	5,983
	3,673	**803**	**1,260**	**8,258**	**13,994**

Santander

The following are the credit impaired financial assets and related guarantees maintained to mitigate potential losses as at 31 December 2020:

EUR million

	Gross amount	Allowance recognized	Estimated collateral value*
Without associated real collateral	3,186	2,919	—
With associated real collateral	9,591	2,623	5,397
With other collateral	747	240	175
Total	**13,524**	**5,782**	**5,572**

* Collects the estimated value of the collateral associated with each loan. Consequently, it does not include any other cash flow that could be obtained, such as those from the personal guarantees of the accredited.

When classifying assets in the previous table, the main factors considered by Banco Santander to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances may be arise which will not result in all contractual cash flow being recovered, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

Past-due amounts receivable

In addition, at 31 December 2020, there are assets with amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

EUR million

	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	809	31	17
Of which Public Sector	1	—	—
Total	**809**	**31**	**17**

e) Transferred credits

The heading 'Loans and Advances to customers' includes, among others, those loans transferred to third parties by securitisation on which risks and profits are maintained, albeit partially, which is why and in accordance with the accounting regulations that apply, they cannot be removed from the balance sheet. Securitisation loans are mainly mortgage loans, business loans and consumer loans. The breakdown of securitised loans held on the balance sheet, taking into account the nature of the financial instrument from which they originate, is shown below. Liabilities associated with securitisation transactions are reported in note 19.

EUR million

	2020	2019
Retained on the balance sheet	**20,113**	**18,769**
Of which, mortgage assets are securitized through:		
Mortgage transfer certificates	*17,610*	*14,569*
	20,113	**18,769**

The evolution of this activity responds to its use as a regulatory capital management tool and as a resource for the diversification of the liquidity sources of Banco Santander. During the years 2020 and 2019, the Bank has not discharged any of the securitisations carried out therein, corresponding the derestrated balance at those dates to securitisations carried out in previous years..

As of December 31, 2020, Banco Santander has derogated credits from the balance sheet and on which the administration maintains in the amount of EUR 1,778 million (EUR 415 million as at 31 December 2019). In addition, as of December 31, 2020, there are EUR 1,005 million (EUR 1,130 million in 2019) of securitised off-balance sheet assets.

f) Guarantee

Following is a detail of the accounting amount of mortgage-backed bonds and securitized bonds, excluding treasury shares at 31 December 2020 and 2019:

EUR million

	2020	2019
Guarantee:		
Mortgage-backed bonds	23,522	23,594
Asset-backed securities	368	116
	23,890	**23,710**

The mortgage-backed bonds are secured by mortgage loans with average maturities of more than ten years. In order to calculate the amount of the qualifying assets, the following transactions are excluded from the total base of the unsecuritized mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.

- Transactions exceeding 80% of the appraized value in residential financing and 60% in the case of other assets.

- Second mortgages or mortgages with insufficient collateral.

- Transactions without insurance or with insufficient insurance.

The asset-backed securities, including asset-backed securities and notes issued by special-purpose vehicles (SPVs), are secured by:

- Mortgage loans to individuals to finance the acquisition and refurbishment of homes with an average maturity of more than ten years.

- Personal consumer finance loans with no specific guarantee and unsecured loans with an average maturity of five years.

- Loans to SMEs (non-financial small and medium-sized enterprises) secured by State guarantees, and loans to companies (SMEs -self-employed, microbusinesses, small and medium-sized enterprises- and large companies) secured by property mortgages, the borrower's personal guarantee, guarantees and other collateral other than property mortgages, with an average maturity of seven years.

- Mortgage and non-mortgage loans to finance municipalities, autonomous communities and subsidiaries with an average maturity of more than ten years.

- Asset-backed securities issued by various European special-purpose vehicles backed by German and Italian loans for the purchase of vehicles and Italian personal loans, with an average maturity of eight years.

- Commercial credit of Banco Santander (ordinary and occasional invoice discounting and advances to customers on legitimate receivables) with an average maturity of 45 days.

The fair value of the guarantees received by Banco Santander (financial and non-financial assets) which the Bank is authorized to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Bank's financial statements as a whole.

11. Trading derivatives

The detail of the notional and/or contractual amounts and the market values of the trading derivatives held by Banco Santander in 2020 and 2019 is as follows:

EUR million

	2020		2019	
	Notional value	Market value	Notional value	Market value
Held for trading:				
Interest rate	4,423,110	3,795	4,638,109	2,523
Options	247,858	(441)	302,937	(533)
Other	4,175,252	4,236	4,335,172	3,056
Equity instruments	50,733	955	54,880	417
Options	39,270	4	35,402	(301)
Other	11,463	951	19,478	718
Currency	618,977	(1,925)	634,016	(3,239)
Options	39,842	41	39,205	13
Other	579,135	(1,966)	594,811	(3,252)
Credit	11,652	(146)	23,190	(80)
Hedging default derivative and total through out	11,652	(146)	23,190	(80)
Securities and commodities derivatives and other	6,067	7	5,677	4
	5,110,539	**2,686**	**5,355,872**	**(375)**

12. Non-current assets held for sale

The balance detail under this heading of the attached balance sheets is shown below:

EUR million

	2020	2019
Foreclosed assets	1,001	1,089
Other assets leased out under an operating lease	231	33
Investment property	55	42
Total	**1,287**	**1,164**

At 31 December 2020, 'Non-current assets' held for sale was reduced by impairment losses amounting to EUR 626 million (2019: EUR 598 million), of which EUR 68 million were recognized in 2020 (2019: EUR 70 million) under 'Gains/losses on non-current assets held for sale not classified as discontinued operations' in the income statement (see note 46).

At December 31, 2020 there are no liabilities associated in disposable groups of items that have been classified as held for sale associated with other non-current assets and alienable groups of items that have been classified as held for sale.

13. Investments

a) Associates

'Investments - Associates' in the accompanying balance sheets includes Banco Santander`s ownership interests in associates (see note 2.b).

Appendix II contains a detail of these companies, indicating the percentages of direct or indirect ownership and other relevant information.

At 31 December 2020 there were no capital increases in progress at any associated company.

i. Breakdown

The detail of the balance of this heading of the attached balances, based on the contracting currency and the admission or non-listing of the securities, is as follows:

EUR million

	2020	2019
Currency:		
Euro	3,082	4,860
Foreign Currency	—	—
	3,082	**4,860**
Listing status:		
Listed	1,978	1,938
Unlisted	1,104	2,922
	3,082	**4,860**

ii. Changes

The changes in 2020 and 2019 in 'Investments - Associates'', disregarding impairment losses, were as follows:

EUR million

	2020	2019
Balance at the beginning of the year	**5,432**	**5,446**
Purchases, capital increases and mergers	512	83
Of which		
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*414*	—
Merlín Properties, SOCIMI, S.A.	*87*	—
Promontoria Manzana, S.A.	*3*	*72*
Disposals, reductions and mergers:	(9)	(116)
Of which		
Promontoria Manzana, S.A.	*4*	—
Merlin Properties, SOCIMI, S.A.	—	*(8)*
Grupo Financiero Ve por Más, S.A. de C.V.	—	*(86)*
Transfers	(2,535)	—
Of which		
Project Quasar Investment 2017, S.L.	*(1,701)*	—
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*(834)*	—
Other changes (net)	(37)	19
Balance at end of the year	**3,363**	**5,432**

On January 31, 2020, Banco Santander proceeded to repurchase 60% of the stake in Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.) for an amount of EUR 414 million, reaching a 100% stake in this company. The total cost of this participation after this acquisition has been fixed at EUR 834 million, and then reclassify it to the heading of 'Group Entities' (see note 12.b.ii).

In addition, during the year 2020, Banco Santander acquired shares of Merlín Properties, SOCIMI, S.A. through various purchases on the stock market for a net total of EUR 87 million.

Also, in September 2020, on the occasion of the loss of control over the entity Proyecto Quasar Inversiones 2017, S.L., Banco Santander's share in the same, amounting to EUR 1,701 million (EUR 956 million net impairment fund), was reclassified to the portfolio of Equity Instruments (see note 8.b.ii).

In March 2019, as part of a project with the sale of properties awarded by several companies of Grupo Santander, Banco Santander acquired 20% of the company Promontoria Manzana, S.A., subsequently making a contribution of real estate. As a result of the partner contribution made and the capital increase, the next cost of this participation amounted to EUR 72 million.

In addition, on July 1, 2019, it proceeded to the sale of its stake in the Mexican company Grupo Financiero Ve por Más, S.A. de C.V. of EUR 85 million, registering a profit from this operation of EUR 12 million.

iii. Impairment losses

The changes in the balance of this item were as follows:

EUR million

	2020	2019
Balance at the beginning of the year	**572**	**346**
Net impairment losses (reversals) (note 44)	460	250
Other changes	(751)	(24)
Balance at end of the year	**281**	**572**

b) Subsidiaries

'Investments - Subsidiaries' includes the equity instruments owned by Banco Santander and issued by subsidiaries belonging to Santander Group.

Relevant information on these companies is provided in Appendix I.

i. Breakdown

The detail, by currency and listing status, of 'Investments - Subsidiaries' in the balance sheets as at 31 December 2020 and 2019 is as follows:

EUR million

	2020	2019
Currency:		
Euro	44,346	38,212
Pound Sterling	12,163	15,383
Other currencies	25,051	28,628
	81,560	**82,223**
Listing status:		
Listed	5,968	8,787
Unlisted	75,592	73,436
	81,560	**82,223**

ii. Changes

The changes in 2020 and 2019 in 'Investments - Subsidiaries', disregarding impairment losses, were as follows:

EUR million

	2020	2019
Balance at beginning of the year	**89,318**	**83,309**
Acquisitions, contributions, capital increase payments and mergers	7,108	6,026
Of which		
Santander Totta, SGPS, S.A.	*4,949*	-
PagoNxt, S.L. (before Santander Digital Businesses, S.L.)	*1,030*	-
Sam Investment Holding Limited	*292*	—
Uro Property Holding, SOCIMI, S.A.	*179*	—
Landmark Iberica, S.L. (now Landcompany 2020, S.L.)	*33*	*272*
Santander Consumer Finance, S.A.	—	*3,193*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	—	*1,683*
Disposals, capital reductions and mergers	(3,725)	(770)
Of which		
Banco Santander (Brasil) S.A.	*(2,478)*	—
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*(292)*	—
Santander Global Property, S.L.U.	*(255)*	—
Santander Merchant Platform Solutions, S.L.	*(150)*	—
Inmobiliaria Viagracia, S.A.U.	*(109)*	—
Inversiones Capital Global, S.A.	*(67)*	*(197)*
BPE Financiaciones, S.A.U.	*(1)*	—
Transfers	1,013	3
Of which		
Popular Spain Holding de Inversiones, S.L.U. (before Allianz Popular, S.L.)	*834*	—
FX and other movements*	204	750
Balance at end of the year	**93,918**	**89,318**

* In 2020 it includes EUR 2,507 million corresponding to the contingently convertible debt instruments (AT1) transferred under this heading.

On January 31, 2020, Banco Santander proceeded to transfer to this heading 100% of its stake in Popular Spain Holding de Inversiones, S.L.U. (formerly Allianz Popular, S.L.) for an amount of EUR 834 million (see note 13.a.ii). Next, on 28 April 2020, Popular Spain Holding de Inversiones, S.L.U. approves a refund of the issuance premium of EUR 292 million to Banco Santander by transferring a credit right derived from the deferred price of two contracts for the sale of shares and the Bank makes a contribution to the own funds of SAM

Investment Holding Limited for the same amount, by assignment of the said right.

On May 8, 2020, Banco Santander signed two successive capital increases by Landcompany 2020, S.L. (before Landmark Iberia, S.L.) through non-cash contributions of land totaling EUR 33 million, reaching a share rate of 17.22%.

On 30 June 2020, the sole partner of Investments Capital Global, S.A.U. approved a partial distribution of the issue premium, which has meant to derogate Banco Santander share in the company of EUR 67 million.

In September 2020, Banco Santander acquired 85.03% of the shares of Uro Property Holdings, SOCIMI, S.A. reaching a total share of 99.99%. As a result of this acquisition, this stake has been enforced under this heading at a total cost of EUR 179 million.

On December 22, 2020, in the context of the reorganization of the shareholder of Banco Santander (Brasil) S.A. within the Group, Banco Santander has sold 13.89% of its stake in that entity to Grupo Empresarial Santander, S.L. for EUR 3.605 million. As a result of this sale, the Bank has recorded a profit of EUR 1,127 million (see note 45).

Also, on December 23, 2020, the deeds of merger by absorption by Banco Santander of the entities Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.A.U. and BPE Financiaciones, S.A.U. have been raised to the public. The amount discharged under this heading for this operation was EUR 365 million.

In addition, on December 28, 2020, Banco Santander acquired 99.85% of Santander Totta, SGPS, S.A. shares from Santusa Holding, S.A. for an amount of EUR 4.949 million.

In addition, during the year 2020, Banco Santander has made various monetary contributions to the own funds of the company PagoNxt, S.L. (formerly Santander Digital Businesses, S.L.) totaling EUR 754 million. In addition, it has also signed capital increases during 2020 and made non-cash contributions to this company totaling EUR 276 million, by contributing its participation in the following companies: EUR 45 million by Ebury Partners Limited, EUR 31 million by Moneybit, S.L., EUR 150 million for Santander Merchant Solutions, S.L. (before Santander Merchant Platform Solutions, S.L.) and EUR 50 million for PagoFX Holdco, S.L.

On 22 January 2019, Banco Santander established Landcompany 2020 S.L. (before Landmark Iberia, S.L.). Subsequently, on 29 April 2019, the Bank made a shareholder contribution of EUR 1 million and on November 8, 2019, together with other companies in the Group, signed a non-cash capital increase with an emission premium by means of a soil-contributing emission premium, with a value of EUR 271 million. After these operations, it reached a 16.20% stake in that company.

On September 10, 2019, on the occasion of the Public Offer for Acquisition of Shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, the Bank acquired 16.68% of the shares of that company, for this purpose, carried out a capital increase of 381,540,640 shares with an issue premium, totaling EUR 1,683 million, which were delivered to the shareholders of the aforementioned entity who went to the offer.

In addition, on September 26, 2019, the company Inversiones Capital Global, S.A.U. made a refund of reserves of EUR 197 million, which Banco Santander recorded reducing the net cost of the participation for that amount.

On December 20, 2019, Banco Santander purchased from Holneth B.V. its stake in Santander Consumer Finance, S.A. for EUR 3.193 million, reaching 99.99% in that company with this acquisition.

iii. Impairment losses

The changes in the balance of this item were as follows:

EUR million

	2020	2019
Balance at beginning of the year	**7,095**	**6,985**
Net impairment losses (reversals) (note 44)	5,466	207
Other changes	(203)	(97)
Balance at end of the year	**12,358**	**7,095**

The Management conducts an analysis of the potential loss of value of investments in subsidiaries, joint ventures and associates that are registered with respect to their book value. This analysis is performed using different parameters, such as equity value, quotation value and recoverable value, which is obtained from estimates of expected cash flows or net worth corrected by tacit capital gains existing at the valuation date, including goodwill registered at that date.

Bank of Spain Circular 4/2027 requires that a Cash-Generating Unit ('UGE') to which goodwill has been assigned to be subject to an impairment test annually, and provided there is evidence of impairment.

The Group's impairment test for goodwill allocated to each UGE is carried out annually. However, a review of the indicators of impairment is made in each reporting period. Considering the reasons explained below, a impairment test was carried out as of 31 December 2020 for all UGES.

The standard sets a minimum number of indicators for assessing whether there is any indication, so despite the great uncertainty as to how the covid-19 crisis will affect the economies of some of our subsidiaries, the Panel considers the circumstances described below as situations in which the deterioration, in this regard:

- Current changes in the economic environment in which GDP is expected to decline in most countries and their recovery will end within two to three years. The evolution planned for the coming months, by the different national and international agencies for magnitudes such as GDP, unemployment, growth of credit portfolios, etc., is negative and the recovery of these economies will be less pronounced and at a slower rate than their fall.
- Uncertainty about the macroeconomic situation also leads to a lower expectation of profitability, and market premiums will increase considerably. As a result of a higher cost of capital, discount rates applied to cash flows are higher (rates reflect the risk associated with the current environment), resulting in lower value in use.

In addition, the Group is already seeing budgetary deviations in most subsidiaries due to current macroeconomic prospects, which also adversely affect future cash flows.

Taking into account the reasons described above, in December 2020, Banco Santander carried out the evaluation of its investees. Impairment appropriations made by Banco Santander during the financial year 2020 include EUR 4.313 million corresponding to the deterioration of the holding held in Santander UK Group Holding PLC.

c) Jointly controlled entities

The cost of the investee entities registered under this heading as of 31 of December 2020 amounts to EUR 420 million, while impairment provisions recorded at that date are EUR 172 million.

In March 2019, Banco Santander proceeded to sell 34.18% of its stake in Inbond Invesiones 2014, S.L. for an amount of EUR 146 million, registering a capital gain for this operation of EUR 57.3 million.

During the year 2020, Banco Santander releazed provisions of EUR 5 million by entities registered under this heading corresponding to UCI, S.A, while in 2019 it releazed provisions of EUR 23 million for the same company.

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

EUR million

	2020	2019
Assets relating to insurance contracts covering post-employment benefit plan obligations (notes 17 and 23)	423	511
	423	**511**

15. Tangible assets

a) Changes

The movement under this heading of the balance sheet during the financial year 2020 and 2019 was as follows:

EUR million

	Tangible assets				Of which, right-of-use for operating lease			
	For own use	Leased out under an operating lease	Investment property	Total	For own use	Leased out under an operating lease	Investment property	Total
Cost								
Opening balance at 1 January 2019	7,955	678	447	9,080	4,236	—	—	4,236
Additions/disposals (net)	754	172	(5)	921	(1,290)	—	—	(1,290)
Transfers and other	(112)	—	(105)	(217)	—	—	—	—
Balance at 31 December 2019	**8,597**	**850**	**337**	**9,784**	**2,946**	**—**	**—**	**2,946**
Additions/disposals (net)	174	126	—	300	8	—	—	8
Transfers and others	(455)	—	(10)	(465)	—	—	—	—
Balance at 31 December 2020	**8,316**	**976**	**327**	**9,619**	**2,954**	**—**	**—**	**2,954**
Accumulated depreciation								
Opening balance at 1 January 2019	(2,056)	(183)	(20)	(2,259)	—	—	—	—
Charge for the year	(435)	(67)	(5)	(507)	(268)	—	—	(268)
Disposals	195	62	2	259	—	—	—	—
Transfers and others	(2)	(11)	2	(11)	—	—	—	—
Balance at 31 December 2019	**(2,298)**	**(199)**	**(21)**	**(2,518)**	**(268)**	**—**	**—**	**(268)**
Charge for the year	(453)	(99)	(2)	(554)	(262)	—	—	(262)
Disposals	43	69	—	112	28	—	—	28
Transfers and others	195	—	7	202		—	—	—
Balance at 31 December 2020	**(2,513)**	**(229)**	**(16)**	**(2,758)**	**(502)**	**—**	**—**	**(502)**
Impairment losses								
Opening balance at 1 January 2019	(22)	—	(153)	(175)	—	—	—	—
Charge for the year	—	—		—	—	—	—	—
Disposals	—	—		—	—	—	—	—
Transfers and others	(24)	—	64	40	—	—	—	—
Balance at 31 December 2019	**(46)**	**—**	**(89)**	**(135)**	**—**	**—**	**—**	**—**
Charge for the year	(62)	—	—	(62)	—	—	—	—
Disposals	—	—	—	—	—	—	—	—
Transfers and others	20	—	(4)	16	—	—	—	—
Balance at 31 December 2020	**(88)**	**—**	**(93)**	**(181)**	**—**	**—**	**—**	**—**
Tangible assets, net								
Balance at 31 December 2019	**6,253**	**651**	**227**	**7,131**	**2,678**	**—**	**—**	**2,678**
Balance at 31 December 2020	**5,715**	**747**	**218**	**6,680**	**2,452**	**—**	**—**	**2,452**

b) Property, plant and equipment for own use

The detail, by class of asset, of 'Property, plant and equipment - For own use' in the balance 2020 and 2019 sheets is as follows:

EUR million

	Cost	Accumulated depreciation	Impairment losses	Carrying amount	Of which, right-of-use for operating lease
Land and buildings	5,759	(439)	(46)	5,274	2,678
Furniture, fixtures and vehicles	2,202	(1,352)	—	850	—
Computer hardware	602	(507)	—	95	—
Other	34	—	—	34	—
Balance at 31 December 2019	**8,597**	**(2,298)**	**(46)**	**6,253**	**2,678**
Land and buildings	5,514	(644)	(88)	4,782	2,452
Furniture, fixtures and vehicles	2,130	(1,322)	—	808	—
Computer hardware	634	(547)	—	87	—
Other	38	—	—	38	—
Balance at 31 December 2020	**8,316**	**(2,513)**	**(88)**	**5,715**	**2,452**

The carrying amount at 31 December 2020 in the table above includes the following approximate amounts:

- EUR 2 million (31 December 2019: EUR 2 million) relating to property, plant and equipment owned by Banco Santander's branches located abroad.
- EUR 549 million (31 December 2019: EUR 627 million) relating to property, plant and equipment held under finance leases by Banco Santander, of which EUR 427 million related to leases in force at 31 December 2020 (31 December 2019: EUR 513 million) (see note 2.l).

16. Intangible assets

a) Goodwill

The detail of goodwill, based on the cash-generating units giving rise thereto, is as follows:

EUR million

	2020	2019
Santander España	623	623
Amortization charge	(165)	(102)
Balance at end of year	**458**	**521**

The movement during the years 2020 and 2019 has been as follows:

EUR million

	2020	2019
Balance at beginning of the year	**521**	**583**
Additions (note 3)	—	—
Of which		
Santander España	—	—
Amortization charge	(63)	(62)
Impairment losses	—	—
Disposals or changes in scope	—	—
Balance at end of year	**458**	**521**

Neither in 2020, nor in 2019 has goodwill been generated.

In 2018, Banco Santander registered goodwill generated in the following corporate operations:

- Merger by absorption of Banco Popular Español, S.A.U.: on 7 June 2017 Banco Santander acquired 100% of the share capital of Banco Popular Español, S.A.U., arising as a result of the business combination, a goodwill of EUR 248 million recorded in consolidated books. Subsequently, on 28 September 2018, the merger deed for absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A., was registered in the Mercantile Registry of Cantabria, with accounting effects January 1, 2018, transferring to individual books the goodwill pending amortizing at that date, EUR 236 million.

- Repurchase of the credit and debit card business marketed by Grupo Banco Popular in Spain and Portugal generating the business combination a goodwill of EUR 375 million.

According to the provisions of Banco de España's circular 4/2017, goodwill will be amortized within ten years. In addition, the Bank periodically reviews the term and method of amortization and, if it considers that they are not appropriate, the impact will be treated as a change in accounting estimates.

As at 31 December 2020 and 31 December 2019, the amount of goodwill recorded by Banco Santander, net of accumulated depreciation, amounts to EUR 458 million and EUR 521 million respectively.

Banco Santander, at least annually and whenever there are indicators of impairment, conducts an analysis of the potential loss of value of the trade funds it has recorded in respect of their recoverable value.

The first step in carrying out this analysis requires the identification of the cash-generating units, which are the smallest identifiable groups of assets in Banco Santander that generate cash inflows and are largely independent of the cash flows of other assets or asset groups.

For the purposes of those mentioned in the preceding paragraph, the Bank's administrators have identified the banking commercial business in Spain as the cash-generating unit to which to allocate goodwill arising both by the acquisition and subsequent merger by absorption of Banco Popular Español, S.A.U. and by the repurchase of the credit and debit cards from Grupo Banco Popular.

Its carrying value is determined taking into account the book value of all the assets and liabilities that make up the commercial banking business in Spain, together with the corresponding goodwill.

This carrying value is compared to its recoverable amount in order to determine whether there is impairment. The recoverable amount of the cash-generating unit Santander España has been determined as the fair value of that cash-generating unit obtained from quotes, market references (multiples) and internal estimates. At the end of the year, this value exceeded the carrying value.

Based on the above, and according to the estimates of the Bank's directors, during the years 2020 and 2019 the Bank has not recorded a balance under the heading Impairment or impairment reversal of 'Non-financial assets' 'Intangible assets' as a result of impairment of goodwill'.

b) Other intangible assets

i. Breakdown

The detail of Intangible assets 'Other intangible assets' in the balance sheets is as follows:

EUR million

	2020	2019
With finite useful life		
IT Developments	996	550
Accumulated amortization	(506)	(386)
Balance at end of year	**490**	**164**

ii. Changes

The changes in Intangible assets 'Other intangible assets' in the balance sheets were as follows:

EUR million

	2020	2019
Balance at end of prior year	**164**	**195**
Net additions and disposals	447	62
Amortization charge	(120)	(93)
Impairments losses	(1)	—
Balance at end of year	**490**	**164**

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17. Other assets and Other liabilities

The detail of 'Other assets and Other liabilities' in the accompanying balance sheets is as follows:

EUR million

	Assets		Liabilities	
	2020	2019	2020	2019
Transactions in transit	—	565	20	433
Insurance contracts linked to pensions (note 14)	423	511	—	—
Inventory	—	—	—	—
Prepayments and accrued income	447	503	1,789	1,737
Other*	3,304	4,368	1,758	1,761
Total:	**4,174**	**5,947**	**3,567**	**3,931**

* Includes, mainly, unsettled transactions.

18. Deposits from central banks and credit institutions

The detail by classification, type and currency of 'Deposits from central banks' and 'Deposits from credit institutions' in the accompanying balance sheets is as follows:

EUR million

	2020	2019
CENTRAL BANKS		
Classification		
Financial liabilities designated at fair value through profit or loss	1,469	7,596
Financial liabilities at amortized cost	60,372	36,896
	61,841	**44,492**
Type		
Time deposits	60,932	43,686
Deposits available with prior notice	—	—
Repurchase agreements	909	806
Of which, valuation adjustments	*(292)*	*(306)*
	61,841	**44,492**
Currency		
Euro	56,306	37,237
US dollar	4,909	7,189
Pound Sterling	593	6
Other currencies	33	60
	61,841	**44,492**
CREDIT INSTITUTIONS		
Classification		
Financial liabilities designated at fair value through profit or loss	4,496	6,152
Financial liabilities at amortized cost	40,725	51,180
	45,221	**57,332**
Nature		
Current accounts / Intraday deposits	14,280	15,911
Time deposits	23,869	28,496
Deposits available with prior notice	—	—
Repurchase agreements	7,072	12,925
Of which, valuation adjustments	*429*	*364*
	45,221	**57,332**
Currency		
Euro	32,063	33,804
US dollar	8,963	18,614
Pound Sterling	3,541	4,163
Other currencies	654	751
	45,221	**57,332**
Total	**107,062**	**101,824**

Banco Santander, following the various long-term financing programmes of the European Central Bank (TLTRO), mantain deposits at amortized cost from the TLTRO III programme amounting to EUR 56,288 million as at 31 December 2020 (EUR 35.200 million as at 31 December 2019 from TLTRO II). As of December 2020, the income recognized in the profit and loss account, corresponding to TLTRO III, is EUR 299 million.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

19. Customer deposits

The detail by classification, type, sector and geographical area, of 'Customer deposits' is as follows:

EUR million

	2020	2019
Classification		
Financial liabilities held for trading	—	—
Financial liabilities designated at fair value through profit or loss	10,925	10,516
Financial liabilities at amortized cost	275,740	250,521
	286,665	**261,037**
Type		
Current accounts / Intraday deposits	247,394	219,852
Time deposits	36,660	38,030
Deposits available with prior notice	—	—
Repurchase agreements	2,611	3,155
Of which, subordinated deposits	—	—
Of which, issued securities	*381*	*116*
Of which, valuation adjustments	*2,495*	*2,639*
	286,665	**261,037**
Sector		
Public sector	21,754	20,012
Other financial companies	47,169	40,090
Non-financial companies	75,877	64,442
Households	141,865	136,493
	286,665	**261,037**
Geographical area		
Spain	249,522	229,873
European Union (excluding Spain)	21,801	22,286
United States and Puerto Rico	7,902	3,451
Other OECD countries	3,116	2,606
Latin America (non-OECD)	2,385	2,146
Rest of the world	1,939	675
Total:	**286,665**	**261,037**

Funds received under 'Financial asset' transfers in the table above includes the liabilities associated with securitisation transactions (see note 10.e).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

20. Marketable debt securities

a) Breakdown

The detail by classification and type, of 'Marketable debt securities' in the accompanying balance sheets is as follows:

EUR million	2020	2019
Classification:		
Financial liabilities at amortized cost	87,902	87,567
	87,902	**87,567**
Type:		
Certificates of deposit	3,921	3,661
Guaranteed bonds	55,110	49,610
Mortgage bonds	44,343	41,199
Others mortgage bonds and guaranteed bonds	10,767	8,411
Other non-convertible issued securities (note 21)	59,209	59,273
Of which, subordinated liabilities	*17,124*	*15,352*
Treasury shares*	(32,430)	(26,351)
Valuation adjustments	2,092	1,374
	87,902	**87,567**

* At 31 December 2020 y 2019, the registered balance corresponds mainly to guaranteed bonds.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortized cost and of the related average interest rates.

b) Certificates of deposit

The detail of certificates of deposits by currency of issuance is as follows:

	EUR million		2020	
Currency of issuance	2020	2019	Outstanding issue amount in foreign currency (million)	Annual interest rate*
US dollar	2,351	3,661	2,885	1.31 %
Hong Kong Dollars	21	—	200	0.34 %
Pound Sterling	1,549	—	1,391	0.17 %
Balance at end of the year	**3,921**	**3,661**		

* Average interest rates for different issue based on their nominal values.

i. Changes

The movement that has occurred in the certificate of deposit account during the years 2020 and 2019 is as follows:

EUR million

	2020	2019
Balance at end of the prior year	**3,661**	**1,495**
Issues	10,193	10,404
Redemptions	(9,530)	(8,278)
Exchange differences and other changes	(403)	40
Balance at end of the year	**3,921**	**3,661**

As at 31 December 2020, Banco Santander issued certificates of deposit issues amounting to EUR 10,193 million (EUR 10,404 million as at 31 December 2019), with an average maturity of 6 months (5 months during the 2019 financial year), with have been amortized in EUR 9,530 million (EUR 8,278 million in 2019).

c) Marketable mortgage-backed securities

The detail by currency of issuance, of 'Marketable mortgage-backed securities' is as follows:

	EUR million		2020
Currency of issuance	2020	2019	Annual interest rate*
Euros	44,343	41,199	0.96 %
Balance at end of the year	**44,343**	**41,199**	

* Average interest rate of the various issues at 31 December 2019 based on their nominal values.

i. Changes

The changes in 2020 and 2019 in 'Marketable mortgage-backed securities' were as follows:

EUR million

	2020	2019
Balance at the end of the prior year	**41,199**	**38,470**
Reclassification of deposits	—	—
Issues	6,250	4,749
Of which		
May 2019	—	*1,499*
July 2019	—	—
December 2019	—	*1,500*
April 2020	*2,750*	—
May 2020	*1,000*	—
June 2020	*2,000*	—
October 2020	500	—
Transfers	(66)	—
Amortizations on maturity	(3,040)	(2,020)
Balance at end of the year	**44,343**	**41,199**

ii. Disclosures required pursuant to the Mortgage Market Law 2/1981, of 25 March, of the Spanish Royal Decree 716/2009, of 24 April, implementing certain provisions of this Law, and to Bank of Spain Circular 7/2010, of 30 November, and Bank of Spain Circular 5/2011, of 30 November

The members of the board of directors hereby state that Grupo and Banco Santander entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines Grupo and Banco Santander entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

General policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analyzed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

Grupo and Banco Santander have specialized document comparison procedures and tools for verifying customer information and solvency (see note 49).

Grupo and Banco Santander procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Bank.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, Banco Santander entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. Banco Santander`s internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of Banco Santander related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation (see note 2.i).

Basically, the companies wishing to cooperate with Banco Santander must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

Mortgage-backed bonds

The mortgage-backed bonds issued by Grupo and Banco Santander are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the property register, by mortgage on all those that at any time are recorded in favour of the issuer and are not affected by the issuance of mortgage bonds and / or are subject to mortgage participations, and / or mortgage transfer certificates, and, if they exist, by substitution assets eligible to be hedged and for the economic flows generated by derivative financial instruments linked to each issue, and without prejudice to the issuer's unlimited liability.

The mortgage bonds include the credit right of its holder against the issuing entity, guaranteeing in the manner provided for in the previous paragraph, and involve the execution to claim from the issuer the payment after due date. The holders of these securities are recognized as preferred creditors, singularly privileged, with the preference, included in number 3º of article 1,923 of the Spanish Civil Code against any other creditor, in relation with the entire group of loans and mortgage loans registered in favor of the issuer, except those that act as coverage for mortgage bonds and / or are subject to mortgage participations and / or mortgage transfer certificates.

In the event of insolvency, the holders of mortgage-backed bonds, as long as they are not considered 'person especially related' to the issuing entity in accordance with Royal Legislative Decree 1/2020, of 5 May, approving the revized text of the Bankruptcy Law and Law 22/2003, of 9 July, on Bankruptcy (the Insolvency Law'), will enjoy the special privilege established in Article 270.1.1 of the aforementioned Insolvency Law. Without prejudice to the foregoing, in accordance with Article 242.10 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Article 14 of Law 2/1981 of 25 March 1981 regulating the mortgage market).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that it would be necessary to proceed in accordance with the terms of Article 212.1 and, in accordance with the requirements of Article 413 of the Insolvency Law, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds. If the same credit or loan is subject to the payment of bonds and a mortgage bond issue, it will be paid first to the holders of the bonds.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations. In addition, the issuing entity may advance the mortgage-backed bonds, if this has been expressly established in

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the final conditions of the issue in question and under the conditions set out therein.

None of the mortgage-backed bonds issued by Grupo and Banco Santander had replacement assets assigned to them.

Following is a detail, by their main features and nominal amount, of the marketable mortgage-backed bonds outstanding at 31 December 2020 and 2019:

	Code ISIN	EUR million			Annual interest rate (%)
		2020	2019	Nominal amount	
Issues					
Euros					
Issue April 2005	ES0413900087	—	993	—	
Issue February 2006	ES0413900129	1,500	1,488	1,500	3.87 %
Issue May 2007	ES0413900160	1,500	1,494	1,500	4.63 %
Issue January 2010	ES0413900194	100	100	100	0.05 %
Issue June 2012	ES0413900293		100		
Issue November 2014	ES0413900368	1,750	1,728	1,750	1.13 %
Issue November 2014	ES0413900376	1,250	1,238	1,250	2.00 %
Issue September 2015	ES0413900384	1,000	994	1,000	0.75 %
Issue January 2016	ES0413900392	1,000	997	1,000	1.50 %
Issue February 2016	ES0413900400	907	933	907	2.04 %
Issue March 2016	ES0413900418	100	100	100	1.52 %
Issue June 2016	ES0413900434	4,000	4,000	4,000	0.13 %
Issue June 2016	ES0413900442		150		
Issue December 2016	ES0413900467	250	250	250	0.45 %
Issue June 2017	ES0413900475	350	350	350	0.13 %
Issue June 2017	ES0413900483	2,000	2,000	2,000	0.02 %
Issue June 2017	ES0413900491	2,000	2,000	2,000	0.16 %
Issue November 2017	ES0413900509	12	12	13	
Bonds Pitch		300	299	300	5.13 %
Issue April 2010 (Banco Popular Español, S.A.U.)	ES0413770100		39		
Issue April 2013	ES0413790256	200	200	200	2.22 %
Issue July 2013	ES0413790264	15	15	15	5.28 %
Issue July 2013	ES0413790280	400	400	1,250	1.24 %
Issue July 2013	ES0413790298	500	500	1,500	1.49 %
Issue July 2013	ES0413790306	1,500	1,500	1,500	1.74 %
Issue December 2013	ES0413790322	100	100	100	2.17 %
Issue February 2014	ES0413790330	1,000	1,000	1,500	2.02 %
Issue March 2014	ES0413790348	200	200	200	1.15 %
Issue March 2014	ES0413790389	250	250	250	0.28 %
Issue April 2015	ES0413790397	1,000	995	1,000	1.00 %
Issue June 2015	ES0413790405	575	575	575	0.22 %
Issue July 2015	ES0413790413		1,248		
Issue October 2015	ES0413790421	750	749	750	0.88 %
Issue March 2016	ES0413790439	1,500	1,500	1,500	1.00 %
Issue October 2016	ES0413790454	—	500	1,500	
Issue December 2016	ES0413790462	250	250	250	1.13 %
Issue March 2017	ES0413790470	1,000	1,000	1,000	0.30 %

	Code ISIN	EUR million			Annual interest rate (%)
		2020	2019	Nominal amount	
Issue April 2017	ES0413790488	1,600	1,600	1,600	0.54 %
Issue July 2014 (Banco Pastor)	ES0405035009	1,000	1,000	1,000	2.71 %
Issue June 2018	ES0413900517	350	350	350	
Issue October 2018	ES0413900533	1,000	987	1,000	1.12 %
Issue October 2018	ES0413900525	2,000	2,000	2,000	0.29 %
Issue November 2018	ES0413900541	200	200	200	0.40 %
Issue May 2019	ES0413900558	1,500	1,485	1,500	0.88 %
Issue July 2019	ES0413900566	1,500	1,493	1,500	0.25 %
Issue December 2019	ES0413900574	1,750	1,733	1,750	0.13 %
Issue February 2020	ES0413900590	1,250	—	1,250	0.01 %
Issue February 2020	ES0413900608	1,250	—	1,250	0.10 %
Issue February 2020	ES0413900582	250	—	250	0.05 %
Issue March 2020	ES0413900616	1,000	—	1,000	0.01 %
Issue April 2020	ES0413900624	2,000	—	2,000	0.27 %
Issue Octuber 2020	ES0413900699	500	—	500	0.01 %
Balance at end of the year		**44,409**	**41,095**	**48,260**	

The detail of the principal amount of Banco Santander mortgage securities outstanding at 31 December 2020 and 2019 is as follows:

EUR million

	Principal amount	
	2020	2019
1. Mortgage bonds outstanding	**—**	**—**
2. Mortgage-backed bonds issued	**44,409**	**41,199**
Of which, recognized in liabilities	*23,589*	*23,594*
2.1. Debt instruments. Issued through a public offering	44,409	41,199
- Term to maturity of up to one year	7,300	2,540
- Term to maturity of one to two years	7,700	7,800
- Term to maturity of two to three years	1,125	7,700
- Term to maturity of three to five years	6,250	4,125
- Term to maturity of five to ten years	16,627	13,627
- Term to maturity of more than ten years	5,407	5,407
2.2. Debt instruments. Other issues	—	—
2.3 Deposits	—	—
3. Mortgage transfer certificates issued (1)	**—**	**—**
4. Mortgage transfer certificates issued (1) (2)	**17,610**	**14,569**
4.1. Issued through a public offering (note 10.e)	17,610	14,569

(1) Relating solely to mortgage loans and credits not derecognized.
(2) The average term to maturity weighted by amount, expressed in months, rounded up, was 465 months .

Asset transactions

According to Bank of Spain Circulars 7/2010 and 5/2011, of 30 November, on the implementation of certain aspects of the mortgage market, the table below details: the principal amount of all the mortgage loans and credits, those that are eligible pursuant to Royal Degree 716/2009 on the regulation of the Spanish mortgage market for the purposes of calculating the limit of mortgage-backed bond issues, the mortgage loans and credits covering mortgage bond issues, those that have been transferred through mortgage participation certificates or mortgage transfer certificates, and the uncommitted transactions relating to Banco Santander. The breakdown of the mortgage loans at 31 December 2020 and 2019 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

EUR million

	Principal amount	
	2020	2019
Total mortgage loans and credits (1)	95,114	98,823
Mortgage participation certificates issued	1,811	454
Of which, loans recognized in assets	—	—
Mortgage transfer certificates issued	18,305	15,346
Of which, loans recognized in assets	*17,610*	*14,569*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	74,998	83,023
i) Non-eligible mortgage loans and credits (3)	18,652	24,614
- Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009	11,621	15,934
- Other non-eligible loans	7,031	8,680
ii) Eligible mortgage loans and credits (4)	56,346	58,409
- Un-measurable amounts (5)	—	—
- Measurable amounts	56,346	58,409
a) Mortgage loans and credits covering mortgage bond issues	—	—
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	56,346	58,409

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognized.
(2) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings.
(3) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009.
(4) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.
(5) Pursuant to Art. 12 of Royal Decree 716/2009.

Following is a detail of the principal amount of the outstanding mortgage loans and credits and of the principal amount of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the measurement limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average term to maturity, interest rate, borrower and type of guarantee:

EUR million

	Principal amount			
	2020		2019	
	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which, eligible loans*	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which, eligible loans*
By origin of transactions				
Originated by the entity	74,238	55,621	82,137	57,574
From subrogations	760	725	886	835
	74,998	**56,346**	**83,023**	**58,409**
By currency				
Euro	74,299	56,346	81,971	58,409
Other currencies	699	—	1,052	—
	74,998	**56,346**	**83,023**	**58,409**
By payment status				
Current	66,215	54,967	73,508	56,772
Past due	8,783	1,379	9,515	1,637
	74,998	**56,346**	**83,023**	**58,409**
By term to maturity				
Less than 10 years	26,072	15,185	27,793	15,806
10 to 20 years	27,436	23,249	29,395	24,404
20 to 30 years	20,301	17,445	22,260	17,431
More than 30 years	1,189	467	3,575	768
	74,998	**56,346**	**83,023**	**58,409**
By interest rate				
Fixed-rate loans	13,623	10,921	11,214	8,332
Floating-rate loans	61,375	45,425	71,809	50,077
	74,998	**56,346**	**83,023**	**58,409**
By borrower				
Legal entities and individual traders	25,492	13,290	28,078	14,248
Of which, property developments(including land)	*2,837*	—	*3,376*	*1,042*
Other individuals and non-profit institutions serving households	49,506	43,056	54,945	44,161
	74,998	**56,346**	**83,023**	**58,409**
By type of guarantee				
Completed buildings – residential	55,297	46,001	60,835	47,167
Of which, officially sponsored housing	*4,996*	*3,452*	*3,695*	*3,190*
Completed buildings – commercial	6,908	3,782	6,720	3,807
Completed buildings – other	9,085	5,343	11,024	5,870
Buildings under construction – residential	1,225	1	1,106	3
Of which, officially sponsored housing	*99*	—	*5*	*2*
Buildings under construction – commercial	46	—	38	—
Buildings under construction – other	57	1	68	9
Land – developed consolidated land	801	434	1,656	750
Land – other	1,579	784	1,576	803
	74,998	**56,346**	**83,023**	**58,409**

* Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account measurement limits established in Art. 12 of Royal Decree 716/2009.

Following is a detail, by loan-to-value ratio, of the principal amount of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the measurement limits established in Article 12 of Royal Decree 716/2009:

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EUR million

	2020				
	Principal amount by LTV range				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	22,834	20,251	13,261	—	56,346
Home property	17,210	15,532	13,261	—	46,003
Other property	5,624	4,719	—	—	10,343

* Pursuant to Art. 3 of Royal Decree 716/2009.

Following is a detail of the changes in 2020 in the principal amount of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

EUR million

	Eligible mortgage loans and credits*	Non-eligible mortgage loans and credits**
Balance at 31 December 2019	**58,409**	**24,614**
Period additions:	6,713	4,502
Originated by Banco Santander	4,792	2,435
Subrogations from other entities	1	4
Other	1,920	2,063
Period disposals:	(8,776)	(10,464)
Repayments on maturity	(203)	(1,261)
Early repayments	(2,328)	(1,390)
Other***	(6,245)	(7,813)
Balance at 31 December 2020	**56,346**	**18,652**

* Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.
** That do not comply with the requirements of Art. 3 of Royal Decree 716/2009.
*** Banco Santander performs a reappraisal its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

EUR million

	Principal amount*	
	2020	2019
Potentially eligible **	589	622
Non-eligible	1,387	2,131

* Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold.
** Pursuant to Art. 3 of Royal Decree 716/2009.

d) Other non-convertible marketable securities

The balance of 'Other non-convertible marketable securities' relates to territorial bonds (mortgage bond), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

Currency of issuance	EUR million		2020
	2020	2019	Annual interest rate*
Euro	7,671	6,668	0.18 %
US dollar	3,096	1,743	0.75 %
Balance at end of the year	**10,767**	**8,411**	

* Average interest rate of the various securities at 31 December 2020 based on their nominal amounts.

Internationalisation bonds have been repaid early in February 2020, replaced by internationalisation bonds, issued in April 2020.

i. Changes

The following movement in 2020 and 2019 in the 'Other non-convertible marketable securities' account was as follows:

	EUR million		2020	
	2020	2019	Annual interest rate (%)**	Maturity date
Balance at end of the prior year	**8,411**	**10,141**		
Issues	10,145	—		
Of which				
April, 2020	*1,100*	—	*0.00 %*	*abr-25*
April, 2020	*1,200*	—	*0.00 %*	*abr-27*
April, 2020	*3,095*	—	*0.75 %*	*abr-27*
June, 2021	*750*	—	*0.07 %*	*jun-27*
June, 2021	*2,000*	—	*0.06 %*	*jun-27*
July, 2021	*2,000*	—	*0.01 %*	*jul-27*
Amortizations	(7,789)	(1,778)		
Exchange differences	—	48		
Balance at end of the year	**10,767**	**8,411**		

In February 2020 Banco Santander has amortized the live internationalization bonds to December 2019 in the amount of EUR 2,639 million.

In addition, there have been other depreciations in territorial ballot cards amounting to EUR 4,900 million.

Three new issues of Territorial Cards were made in the financial year two of them amounting to 2 billion and a third EUR 750 million.

In April 2020, 3 new issues of Internalization Cards totaling EUR 5,397 million have been formalized.

ii. Disclosures required by Bank of Spain Circular 4/2017, of 27 November Territorial bonds

Territorial bonds

The members of the board of directors have stated that in the territorial bond issuances Banco Santander has established specific policies and procedures in relation to the financing activities of public entities pursuant to Bank of Spain Circular 4/2017, of 27 November.

Following is a detail of the total principal amount of the loans used to secure the territorial bonds outstanding at 31 December 2020:

EUR million

	Principal amount*
	Residents in Spain
Central governments	115
Autonomous or regional governments	8,959
Local governments	786
	9,860

* Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2020:

EUR million

	Principal amount
Issued through a public offering	—
Other emissions	**5,371**
Of which,treasury shares	*4,500*
Term to maturity of up to one year	217
Term to maturity of one to two years	309
Term to maturity of two to three years	95
Term to maturity of three to five years	250
Term to maturity of five to ten years	4,500
Term to maturity of more than ten years	—

The coverage ratio of the territorial bonds with respect to the loans was 54.39% at 31 December 2020 (65.39% at 31 December 2019).

iii. Internationalization bonds

The following is a detail of the face value of all loans that serve as collateral to live internationalization cards as of December 31, 2020:

	Nominal value (EUR million)
Eligible loans under Article 34.6 and 7 of Law 14/2013	9,793
Less: loans that support the issuance of internationalization bonds	—
Less: loans in arrears to be deducted in the calculation of the emission limit, in accordance with Article 13 of Royal Decree 579/2014	—
Total loans included in the base of the emission limit	**9,793**

Below is a detail of the internationalization bonds issued live on December 31, 2020:

	Nominal value (EUR million)
(1) Debt securities. Issued by public offer	—
Of which, own values	—
Residual maturity up to one year	—
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	—
Residual maturity greater than five and up to ten years	—
(2) Debt securities. Other emissions	—
Of which, own values	*5,396*
Residual maturity up to one year	5,396
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	1,100
Residual maturity greater than five and up to ten years	4,296
Residual maturity greater than ten years	—
(3) Deposits	—
Residual maturity up to one year	—
Residual maturity greater than one year and up to two years	—
Residual maturity greater than two and up to three years	—
Residual maturity greater than three and up to five years	—
Residual maturity greater than five and up to ten years	—
Residual maturity greater than ten years	—
TOTAL	**5,396**

The coverage ratio of internationalization papers on loans is 55.11% as of December 31, 2020.

21. Other non-convertible issuances

a) Breakdown

The following is a breakdown of the balance under this heading of the attached balance sheets, taking into account their nature and currency of the transactions:

EUR million*

	2020	2019
Type		
Other non convertible issuances	59,209	59,273
Of which, subordinated liabilities	*17,124*	*15,352*
	59,209	**59,273**
Currency		
Euro	34,321	29,384
US dollar	18,848	22,596
Pound Sterling	2,692	3,685
Other currencies **	3,348	3,608
	59,209	**59,273**

* This amount includes the principal, in other currencies.

** As of December 31, 2020, the most significant currencies are yen (EUR 1,328 million), Swiss Frankfurt (EUR 939 million) and Australian (EUR 686 million).

b) Changes

The changes in 'Subordinated marketable debt securities' in the foregoing table for the years 2020 and 2019 are as follows:

EUR million

	2020	2019
Balance at the end of prior year	**59,273**	**53,380**
Issues	28,255	44,305
Redemptions	(26,297)	(39,230)
Exchange differences	(2,022)	818
Balance at end of the year	**59,209**	**59,273**

Within the sub-heading Other Non-convertible Marketable Securities, there are commercial paper issues, as well as other issues made by Banco Santander.

- Commercial paper

On 16 April 2020, Banco Santander approved the annual renewal of the 'European Commercial Paper Issue Programme' for a maximum nominal global amount of up to EUR 15,000,000 thousand. On November 2020, the “American Commercial Paper Issue Program” was renewed for a nominal global amount of up to 15,000,000 thousand dollar.

As at 31 December interest rate is between -0.66% and 3.0% per annum with the average nominal interest rate of 1.059% per annum. At the end of 2019, the interest rate was between -0.53% and 3.285% per annum, with the average nominal interest rate of 1.586% per annum.

- Remaining emissions

During the financial year 2020, Banco Santander reported 17 issues for a nominal amount of EUR 8,088 million (excluding perpetual issues amounting to EUR 1,500 MM, see note 21.c). The average remuneration of these emissions has been set at 1.63% per annum.

During 2019, Banco Santander reported 42 issues amounting to a nominal amount of EUR 8,230 million (not considering perpetual issues amounting to USD 1,200 million, see note 21.c). The average remuneration for these emissions has been set at 2.1% per annum.

c) Other information

This heading includes preferential shares as well as other issued financial instruments, which have the legal nature of capital, do not meet the requirements to qualify as equity (preferential shares).

Preference shares are not eligible to vote and are non-cumulative. They have been subscribed by third parties outside Banco Santander, and are amortizable by decision of the issuer, according to the conditions of each issue.

Preferred interests are placed for the purpose of priority of claims behind common creditors and subordinated deposits. Their remuneration is conditional on obtaining sufficient distributable profits, and the limitations imposed by Spanish banking regulations on own resources, and they lack political rights. All other issues are subordinate and, for priority purposes, are placed behind all common creditors of Banco Santander, S.A.

As of December 31, 2020, there are the following issues convertible into shares of Banco Santander:

On January 14, 2020, Banco Santander carried out the issuance of preferential shares that are contingently convertible into ordinary shares of the newly issued of Banco Santander (the PPCC) for a nominal amount of EUR 1,500 million. The remuneration of PCCs whose payment is subject to certain conditions and is in turn discretionary, was fixed at 4.375% per annum for the first five years and thereafter by applying a margin of 453.4 basis points on the 5-year Mid-Swap Rate (5 year Mid-Swap Rate).

On February 8, 2019, Banco Santander carried out the issuance of preferential shares that are contingently convertible into ordinary shares of the newly issued Banco Santander (the PPCC) for a nominal amount of USD 1,2 billion. The remuneration of PCCs whose payment is subject to certain conditions and is in turn discretionary, was fixed at 7.5% per annum for the first five years and thereafter by applying a margin of 498.9 basis points on the 5-year Mid-Swap Rate (5 year Mid-Swap Rate).

The interest of the PPCC for the year 2020 amounted to EUR 417 million (EUR 466 million in the financial year 2019).

In addition, as of December 31, 2020, the following subordinate issues were issued:

Issuance for 2018, of EUR 1.5 billion with a remuneration of 4.75%, two emissions in 2017, of EUR 1 billion and EUR 750 million, with remuneration of 5.25% and 6.75% respectively; and an issue in 2014, of EUR 1.5 billion with a remuneration of 6.25%.

22. Other financial liabilities

a) Breakdown

Following is a detail of 'Other financial liabilities' in the accompanying balance sheets:

EUR million

	2020	2019
Trade payables	721	758
Payment obligations	2,864	3,239
Public agency revenue collection accounts	3,498	3,401
Unsettled financial transactions	797	1,133
Other accounts	2,000	2,323
	9,880	**10,854**

b) Average payment period to suppliers

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions.

	2020	2019
	Days	
Average period of payment to suppliers	11	12
Ratio of transactions paid	11	12
Ratio of transactions pending payments	—	—
	EUR million	
Total payments made	**2,966**	**3,233**
Total payments outstanding	**—**	**—**

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of December, 3.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

"Average period of payment to suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction,

Note 48 contains a detail of the maturity periods of 'Other financial liabilities' at each year-end.

c) Lease liabilities

The total cash outflow of leases in 2020 was EUR 324 million.

The analysis of the maturities of lease liabilities as of 31 December 2020 is shown below:

EUR million

	2020
Maturity Analysis – Discounted payments	
Within 1 year	289
Between 1 and 3 years	485
Between 3 and 5 years	349
Later than 5 years	1,411
Total Discounted payments at 31 December 2020	**2,534**

During 2020, there were no significant variable lease payments not included in the valuation of lease liabilities.

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23. Provisions

a) Breakdown

The detail of 'Provisions' in the balance sheets at 31 December 2020 and 2019 is as follows:

EUR million

	2020	2019
Provision for pensions and similar obligations	3,430	5,138
Of which		
Pensions and similar defined benefit obligations post-employment	*1,849*	*3,918*
Other long-term remunerations to employees	*1,581*	*1,220*
Restructuring	484	279
Provisions for taxes and other legal contingencies	496	501
Provisions for commitments and guarantees given	157	180
Rest of provisions	440	392
	5,007	**6,490**

b) Changes

The changes in 'Provisions' in 2020 and 2019 were as follows:

EUR million

	2020					2019				
	Post-employment	Long – Term	Commitments and guarantees given	Other provisions	Total	Post-employment	Long - Term	Contingent liabilities and commitments	Other provisions	Total
Balance at end of prior year	**3,918**	**1,220**	**180**	**1,172**	**6,490**	**3,895**	**1,111**	**263**	**1,412**	**6,681**
Changes in value recognized in equity	77	—	—	—	77	327	—	—	—	327
Additions charged to income	(340)	728	(20)	804	1,172	15	639	(60)	560	1,154
(Interest income)/ Interest expense (notes 34 and 35)	20	8	—	—	28	28	14	—	—	42
Staff costs (note 42)	10	1	—	—	11	12	1	—	—	13
Provisions or reversal of provision	(370)	719	(20)	804	1,133	(25)	624	(60)	560	1,099
Payments to pensioners and pre-retirees	(1,817)	(367)	—	—	(2,184)	(297)	(565)	—	—	(862)
Amounts used and other changes	11	—	(3)	(556)	(541)	(22)	35	(23)	(800)	(810)
Balances at end of year	**1,849**	**1,581**	**157**	**1,420**	**5,007**	**3,918**	**1,220**	**180**	**1,172**	**6,490**

c) Provision for pensions and similar obligations

The detail of 'Provision for pensions and similar obligations' at 31 December 2020 and 2019 is as follows:

EUR million

	2020	2019
Provisions for pensions and similar defined benefit plan obligations	3,430	5,138
Of which		
Provisions for pensions	*1,849*	*3,918*
Provisions for similar obligations	*1,581*	*1,220*
Of which, pre-retirements	*1,567*	*1,206*
Provisions for pensions and similar defined contribution plan obligations	—	—
Total provisions for pensions and similar obligations	**3,430**	**5,138**

i. Defined contribution plans

At the end of 2012, Banco Santander reached an agreement with workers' representatives to transform the defined benefit commitments derived from the collective agreement into defined contribution plans. Similarly, the contracts for senior management staff with pension commitments in the defined benefit modality were amended to transform them into a defined contribution provision system.

Practically all pension commitments with active personnel correspond to defined contribution plans. The total contributions made to said aircraft during the year 2020 amounted to EUR 80 million (EUR 82 million during the year 2019) (see note 42).

ii. Defined Benefit Plans

In addition to the previous defined contribution plans, as of December 31, 2020 and 2019, Banco Santander maintained definite service commitments. Below is the present value of the Bank`s commitments in post-employment remuneration for defined benefit, as well as the value of the reimbursement entitlements for insurance contracts linked to those obligations as at 31 December 2020 and the preceding years:

EUR million

	2020	2019	2018
Present value of the obligations			
To current employees	78	78	58
To retired employees	3,304	5,378	5,331
Other	—	—	—
	3,382	**5,456**	**5,389**
Fair value of plan assets	(1,537)	(1,543)	(1,496)
Assets not recognized	4	5	2
Provisions - Provisions for pensions	**1,849**	**3,918**	**3,895**
Of which			
Internal provisions for pensions	*1,426*	*3,407*	*2,241*
Insurance contracts linked to pensions (note 14)	*423*	*511*	*1,654*
Of which			
Group insurance entities	*249*	*319*	*1,445*
Other insurers	*174*	*192*	*209*

In December 2019, Banco Santander reached an agreement with workers' representatives to offer in 2020 part of its passive staff the possibility of collecting pensionable rights derived from the collective agreement in the form of a single or split consideration in a maximum of 5 equal annuities. Similarly, the proposal was extended to staff with pensionable rights recognized under individual contracts or agreements. The number of beneficiaries who exercised the voluntary option of accepting replacement of life annuity by the payment of a single payment in the form of capital or in a maximum of 5 annuities amounted to 15,613 persons. The effect of the reduction of those commitments is shown in the following tables.

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.
2. Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

EUR million

	2020	2019
Annual discount rate	0.60 %	0.80 %
Expected return on plan assets rate	0.60 %	0.80 %
Mortality tables	PE2020 M/F Col. Orden 1	PE2000P M/F
Cumulative annual CPI growth	1.00 %	1.00 %
Annual pension increase rate	1.00 %	1.00 %

3. The discount rate used for the flows was determined by reference to high-quality corporate bonds.
4. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.
5. The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

EUR million

	2020	2019
Expected rate of return on reimbursement rights	0.60 %	0.80 %

The amounts recognized in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	2020	2019
Service cost:		
Current service cost (note 42)	10	12
Past service cost (including reductions)	2	3
Pre-retirement cost	—	1
Settlements	(372)	(29)
Net interest (note 35)	26	52
Expected return on insurance contracts linked to pensions (note 34)	(6)	(24)
	(340)	**15**

In addition, in 2020 'Other comprehensive income – items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans' has caused an additional actuarial losses of EUR 78,7 million respect to defined benefit obligations (2019: EUR 327 million of actuarial loss).

The changes in 2020 and 2019 in the present value of the accrued defined benefit obligations were as follows:

EUR million

	2020	2019
Present value of the obligations at beginning of the year	**5,456**	**5,389**
Current service cost	10	12
Interest cost	39	71
Pre-retirement cost	—	1
Settlements	(372)	(29)
Benefits paid for settlements	(1,551)	—
Other benefits paid	(356)	(397)
Past service cost	2	3
Actuarial (gains)/losses*	160	404
Exchanges rate differences and others	(6)	2
Present value of the obligations at end of the year	**3,382**	**5,456**

* Including in 2020 demographic actuarial losses of EUR 90 million and financial actuarial losses of EUR 70 million (2019: demographic actuarial gains of EUR 15 million and financial actuarial gains of EUR 389 million).

The changes in 2020 and 2019 in the fair value of the plan assets are as follows:

EUR million

	2020	2019
Fair value of plan assets at beginning of year	**1,543**	**1,496**
Expected return on plan assets	13	19
Benefits paid	(94)	(108)
Contributions payable by the employer	5	8
Exchange rate differences and others	(6)	2
Actuarial gains/(losses)	76	126
Fair value of plan assets at end of year	**1,537**	**1,543**

The changes in 2020 and 2019 in the fair value of the insurance contracts linked to pensions are as follows:

EUR million

	2020	2019
Fair value of insurance contracts linked to pensions at beginning of the year	**511**	**1,654**
Expected return on insurance contracts (note 34)	6	24
Actuarial gains/(losses)	5	(47)
Premiums paid/(surrenders)	(7)	(1,006)
Benefits paid	(92)	(114)
Fair value of insurance contracts linked to pensions at end of the year (note 14)	**423**	**511**

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

iii. Other long-term employee benefits

In various years Banco Santander offered to some certain of its employees the possibility of leaving its employ prior to their retirement, Therefore, provisions are recognized to cover the obligations to pre-retirees -in terms of both salaries and other employee benefit costs- from the date of their pre-retirement to the date of their effective retirement.

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2020 and for the preceding years:

EUR million

	2020	2019	2018
Present value of the obligations:			
To pre-retirees	1,580	1,220	1,111
Long-service bonuses and other benefits	13	14	15
	1,593	**1,234**	**1,126**
Fair value of plan assets	(12)	(14)	(15)
Provisions - Provisions for pensions	**1,581**	**1,220**	**1,111**
Insurance plans linked to pensions	—	—	—
Group insurers	—	—	—
Other insurance entities	—	—	—

In December 2020, Banco Santander reached an agreement with the representatives of the In December 2020, Banco Santander reached an agreement with workers' representatives to implement a pre-retirement and incentive retirement plan expected to receive 3,572 employees in 2021, bringing the provision established to cover these commitments to EUR 674 million. In addition to the above, the provision constituted to cover the retirement losses of 379 employees who have received pre-retirement offers and incentive leave during 2020 amounts to EUR 63 million. Therefore, the total provision established during 2020 to cover these items amounts to 737 EUR million (EUR 624 million as at 31 December 2019, corresponding to the offer of pre-retirements and incentives for that year).

The amount of the other long-term remuneration commitments defined benefit has been determined on the basis of work performed by independent actuaries, applying the following criteria to quantify them:

1. Valuation method: projected unit credit method.
2. Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

EUR million

	2020	2019
Annual discount rate	0.60 %	0.80 %
Expected return on plan assets rate	0.60 %	0.80 %
Mortality tables	PE2020 M/F Col. Orden 1	PE2000P M/F
Cumulative annual CPI growth	1.00 %	1.00 %
Annual benefit increase rate	Entre 0% y 1,5%	Entre 0% y 1,5%

3. The discount rate used for the flows was determined by reference to high-quality corporate bonds.
4. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.
5. The amounts recognized in the income statement in relation to the aforementioned defined benefit obligations are as follows:

EUR million

	2020	2019
Current service cost	1	1
Interest cost (note 35)	8	14
Extraordinary charges		
Actuarial (gains)/losses recognized in the year	(3)	4
Pre-retirement cost	737	622
Other	(15)	(2)
	728	**639**

The changes in 2020 and 2019 in the present value of the accrued obligations for other long-term benefits were as follows:

EUR million

	2020	2019
Present value of the obligations at beginning of the year	**1,234**	**1,126**
Current service cost	1	1
Cost per interest (note 35)	8	14
Past service cost	—	—
Pre-retirement cost	737	622
Effect of curtailment/settlement	(15)	(2)
Benefits paid	(369)	(566)
Actuarial (gains)/losses	(3)	5
Other	—	34
Present value of the obligations at end of the year	**1,593**	**1,234**

The movement that has occurred, during the years 2020 and 2019, in the fair value of the assets of the plan, has been as follows:

EUR million

	2020	2019
Fair value of plan assets at the beginning of the year	**14**	**15**
Expected return on plan assets	—	—
Benefits paid	(2)	(2)
Contributions by the employer	—	—
Contributions by the employee and others	—	—
Actuarial gains / (losses)	—	—
Present value of the obligations at end of the year	**12**	**13**

During the financial year 2020 there has been no movement in the present value of insurance contracts linked to pensions.

iv. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations, At 31 December 2020, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of 5.43% and -5.10%, respectively, and an increase or decrease in the present value of the long-term obligations of 1.11% and -1.08%, These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

d) Provisions for taxes and other legal contingencies and Other provisions

'Provisions - Provisions for taxes and other legal contingencies' and 'Provisions - Other provisions', which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for Banco Santander depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

'Provisions for taxes and other legal contingencies' include proceedings and other legal proceedings such as judicial, arbitral or administrative proceedings initiated against Banco Santander. Qualitative information on the main disputes is provided in note 23.e. For their part, the provisions for restructuring include only costs arising from restructuring processes incurred in Banco Santander.

Banco Santander general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for Banco Santander depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

As for the restructuring provision, EUR 299 million have been recorded in 2020 related to the agreement reached with workers' representatives to implement a pre-retirement and incentive retirement plan in that year 2020. The amounts associated with that plan have been recorded, according to their nature, part in 'Restructuring Provisions' and part in 'Pension Provisions and Similar Liabilities' as explained in footnote 23.c above. The increase in the restructuring provision has been of EUR 99 million in 2020.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2020 the main tax-related proceedings concerning Banco Santander were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and other Group entities to avoid the application of Law 9.718/98, which modifies the basis to calculate PIS and COFINS social contribution, extending it to all the entities income, and not only to the income from the provision of services. In relation of Banco Santander (Brasil) S.A. process, in May 2015 the Federal Supreme Court (FSC) admitted the extraordinary appeal filed by the Federal Union regarding PIS, and dismissed the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office regarding COFINS contribution, confirming the decision of Federal Regional Court favourable to Banco Santander (Brasil) S.A. of August 2007. The appeals filed by the other entities before the Federal Supreme Court, both for PIS and COFINS, are still pending. These claims are fully provisioned.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) in relation to different administrative processes of various years on the ground that the requirements under the applicable legislation were not met. The appeals are pending decision in CARF. No provision was recognized in connection with the amount considered to be a contingent liability.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. There are several cases in different judicial instances. A provision was recognized in connection with the amount of the estimated loss.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. There are several cases in different judicial instances. A provision was recognized in connection with the amount of the estimated loss.
- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, actually Santander Brasil Tecnología S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000 to 2002. The administrative discussion

ended unfavourably for both companies, and on July 3, 2015, filed a lawsuit requesting the cancellation of both tax assessments. The lawsuit was judged unfavorably in first instance. Therefore, both plaintiffs appealed to the court of second instance. On December 2020, the appeal was decided unfavorably and is pending a motion of clarification, which could be appealed to higher courts. There is a provision recognized for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), currently Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005, questioning the tax treatment applied to a sale of shares of Real Seguros, S.A. The administrative discussion ended unfavourably, and the CARF decision has been appealed at the Federal Justice. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognized in connection with this proceeding as it is considered to be a contingent liability.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to corporate income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. Actually it is appealed before the Higher Chamber of CARF. No provision was recognized in connection with this proceeding as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A from years 2007 to 2012. No provision was recognized in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

- Banco Santander (Brasil) S.A. is involved in appeals in relation to infringement notices initiated by tax authorities regarding the offsetting of tax losses in the CSLL ('Social Contribution on Net Income') of year 2009. The appeal is pending decision in CARF. No provision was recognized in connection with this matter as it is considered to be a contingent liability.

- Brazilian tax authorities have issued infringement notices against Getnet Adquirência e Serviços para Meios de Pagamentos S.A and Banco Santander (Brasil) S.A. as jointly liable in relation to corporate income tax (IRPJ and CSLL) for 2014 to 2018 questioning the tax-deductibility of the amortization of the goodwill from the acquisition of Getnet Tecnologia Proces S.A., considering that the company would not have complied with the legal requirements for such amortization. A defense against the tax assessment notices was submitted. The notice related to the fiscal years 2014 and 2015 has already been appealed at the CARF, meanwhile the one related to the fiscal years of 2016 to 2018 is pending on judgment. No provision was recognized as it is considered to be a contingent liability.

  The total amount for the aforementioned Brazil lawsuits that are fully provisioned is EUR 821 million, and for lawsuits that qualify as contingent liabilities is EUR 2,972 million.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 as well as the related issuance and financing costs. On 17 July 2018, the District Court finally ruled against Santander Holdings USA, Inc. On September 5, 2019 the Federal District Court in Massachusetts entered a judgement resolving the Company's tax liability for fiscal years 2003 to 2005, which had no effect on income. The Company has agreed to resolve the treatment of the same transactions for 2006 and 2007, consistent with the September 5, 2019 judgment. The Congressional Joint Committee on Taxation has completed its review of the proposed resolution of the 2006 and 2007 tax years, with no objection. The Company and the IRS are now finalizing that resolution, which will have no impact on net income.

- Banco Santander has appealed before European Courts the Decisions 2011/5/CE of 28 October 2009, and 2011/282/UE of 12 January 2011 of the European Commission, ruling that the deduction of the financial goodwill regulated pursuant to Article 12.5 of the Corporate Income Tax Law constituted illegal State aid. On November 2018 the General Court confirmed these Decisions but these judgements have been appealed at the Court of justice of the European Union. The Advocate-General has issued his conclusions proposing the dismissal of the appeal. The dismissal of this appeal would not have effect on equity.

At the date of approval of these financial statements certain other less significant tax-related proceedings were also in progress.

ii. Non-tax-related proceedings

At 31 December 2020 the main non-tax-related proceedings concerning Banco Santander were as follows:

- Payment Protection Insurance (PPI): claims associated with the sale by Santander UK plc of payment protection insurance or PPI to its customers. At 31 December 2020, the remaining provision for PPI redress and related costs was GBP 76 million – EUR 85 million - (GBP 189 million – EUR 222 million at 31 December 2019). There was no additional provision in 2020.

  Cumulative complaints from the inception of the PPI complaints process to 31 December 2020, regardless of the likelihood of Santander UK incurring in liability, were 4,6 million. At 31 December 2020, there are an estimated 3,500 complaints still requiring assessment and, Santander UK has also entered into a commercial negotiation with the Official Receiver.

  Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of current stock and estimated future claims. There are ongoing factual issues to be resolved regarding such litigation which may have legal consequences including the volume and quality of future litigation claims. As a result, the extent of the potential liability and amount of any compensation to be paid remains uncertain.

  In relation to a specific PPI portfolio of complaints, there is a legal dispute regarding allocation of liability for pre-2005 PPI policies underwritten by two affiliates (Axa France) that Axa Group acquired from Genworth Financial International Holdings, Inc. in September 2015. The dispute involves a Santander Cards UK Limited (formerly known as GE Capital Bank Limited which was acquired by Banco Santander, S.A. from GE Capital group in 2008) which was distributor of the refer pre-2005 PPI policies and Santander Insurance Services UK Limited (the Santander Entities).

  In July 2017, Santander UK plc notified Axa France that the Santander Entities did not accept liability for losses on PPI policies relating to this period, but entered in a Complaints Handling Agreement –that included a standstill agreement- agreeing to handle complaints on Axa affiliates behalf, paying these latter companies redress assessed to be due to relevant policyholders on a without prejudice basis.

  After the termination of the Complaints Handling Agreement, on 30 December 2020 Axa France has provided written notice to the Santander Entities to terminate the standstill agreement, and that the Santander Entities are liable to reimburse AXA France for pre-2005 PPI mis-selling losses currently estimated at GBP 631 million (EUR 706 million). This dispute is at an early stage and there are ongoing factual issues to be resolved which may have legal consequences including in relation to liability. These issues create uncertainties which mean that it is not currently practicable to reliably predict the resolution of the matter including timing or the significance of the possible impact. The provision for this dispute includes the best estimate of Santander UK's liability to the specific portfolio.

- Delforca: dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial, S.A. Banco Santander, S.A. is claiming to Delforca before the Court of Barcelona in charge of the bankruptcy proceedings, a total of EUR 66 million from the liquidation resulting from the early termination of financial transactions due to Delforca's non-payment of the equity swaps. In the same bankruptcy proceedings, Delforca and Mobiliaria Monesa have in turn claim the Bank to repay EUR 56,8 million, which the Bank received for the enforcement of the agreed guarantee, as a result of the aforementioned liquidation. In 2009, Mobiliaria Monesa, S.A. (parent of Delforca) filed a civil procedure with the Courts of Santander against the Bank claiming damages that have not been specified to date. The procedure is suspended.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) requesting the payment of a half-yearly bonus contemplated in the by-laws of Banespa in the event that Banespa obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since Banespa had not made a profit during those years. Partial payments were made from 1996 to 2000, as approved by the Board of Directors. The relevant clause was eliminated in 2001. The Regional Labor Court and the High Employment Court ordered Santander Brasil, as successor to Banespa, to pay this half-yearly bonus for the period from 1996 to the present. On 20 March 2019, the Supreme Federal Court (STF) rejected the extraordinary appeal filed by Banco Santander Brasil. The Bank filed a rescission action to nullify the decisions of the main proceedings and suspend the execution of the judgment, which was deemed inadmissible, and its execution has been suspended until the publication of the decision. At the moment we have the legal opinion of the bank's external advisers, who have classified the risk as probable. The recorded provisions are considered sufficient to cover the risks associated with the legal claims that are being substantiated as of today.

- "Planos Económicos": like the rest of the banking system in Brasil, Santander Brasil has been the target of customer complaints and collective civil suits stemming from legislative changes and its application to bank deposits, fundamentally ('economic plans'). At the end of 2017, there was an agreement between regulatory entities and the Brazilian Federation of Banks (Febraban), already approved by the Supremo Tribunal Federal, with the purpose of closing the lawsuits. Discussions focused on specifying the amount to be paid to each affected client according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the number of endorsements they have made and the number of savers who have demonstrated the existence of the account and its balance on the date the indexes were changed. In November 2018, the STF ordered the suspension of all economic plan processes for two years from May 2018. On 29 May 2020, the Supremo Tribunal Federal approved the extension of the agreement for 5 additional years starting from 3 June 2020. Condition for this extension was to include in the agreement actions related to the "Collor I Plan". The provisions recorded for the economic plan processes are considered to be sufficient.

- Floor clauses: in consequence of the acquisition of Banco Popular, S.A.U, the Group has been exposed to a material number of transactions with floor clauses. The so-called "floor clauses" or minimum clauses are those under which the borrower accepts a minimum interest rate to be paid to the lender, regardless of the applicable reference interest rate. Banco Popular Español, S.A.U. included "floor clauses" in certain asset transactions with customers. In relation to this type of clauses, and after several rulings made by the Court of Justice of the European Union and the Spanish Supreme Court, and the extrajudicial process established by the Spanish Royal Decree-Law 1/2017, of 2 January, Banco Popular Español, S.A.U. made extraordinary provisions that were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. Grupo Santander considered that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. At 31 December 2020, after having processed most of the customer requests, the potential residual loss associated with ongoing court proceedings is estimated at EUR 51 million, amount which is fully covered by provisions.

- Banco Popular´s acquisition: considering the declaration setting out the resolution of Banco Popular Español, S.A.U., the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander, S.A. of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, in the application accordance with the single resolution framework regulation referred to in Note 3 of the 2018 consolidated annual accounts, some investors have filed claims against the EU's Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims have been filed and may be filed in the future against Banco Santander, S.A. or other Santander Group companies deriving from or related to the acquisition of Banco Popular Español, S.A.U..

  At this stage, it is not possible to foresee the total number of claims that could be filed by the former holders of shares and capital instruments (arising from the acquisition by investors of such shares and capital instruments of Banco Popular prior to resolution, including in particular, without limitation, the shares acquired in the context of the capital increase with pre-emptive subscription rights carried out in 2016), and their economic implications (especially considering that the decision to resolve in application of the new regulation has no precedent, and that it may be possible that future claims do not specify a specific amount, put forward new legal interpretations or involve a large number of parties).

  In this respect, on 2 September 2020, the Provincial Court of La Coruña has referred a preliminary ruling to the Court of Justice of the European Union ("CJEU") asking for the correct interpretation of Article 60 (2) of Directive 2014/59/EU of the European Parliament and of the Councill, dated 15 May 2014, which establishes a framework for the restructuring and resolution of credit institutions and investment firms. This article establishes that, in cases of redemption of capital instruments in a bank resolution, no liability shall remain in relation to the amount of the instrument that has been redeemed. The judgement given by the CJEU in this case is likely to condition the outcome on the judicial proceedings that are currently open.

  The estimated cost of any compensation to shareholders and bondholders of Banco Popular recognized in the 2017 accounts amounted to EUR 680 million, of which EUR 535 million were applied to the commercial loyalty program. The provisions recorded are considered sufficient to cover the risks associated with the court claims currently being dealt with. However, if additional amounts have to be paid for claims already raised with an undetermined economic interest or for new claims, this could have a significant adverse effect on the Santander Group's results and financial situation.

  Likewise, the Central Court of Instruction 4 is currently conducting preliminary proceedings 42/2017, in which, amongst other things, is being investigated the following: (i) the accuracy of the prospectus for the capital increase with pre-emptive subscription rights carried out by Banco Popular in 2016; and (ii) the alleged manipulation of the share price of Banco Popular until the resolution of the bank, in June 2017. During the course of the proceedings, on 30 April

2019, the Spanish National Court, ruled in favour of Banco Santander, S.A. declaring that Banco Santander, S.A. cannot inherit Banco Popular's potential criminal liability. This ruling was appealed before the Supreme Court who have rejected the appeal. In this procedure, Banco Santander has the status of possible subsidiary civil liability.

- German shares investigation: the Cologne Public Prosecution Office is conducting an investigation against the Bank, and other group entities based in UK - Santander UK plc, Abbey National Treasury Services plc and Cater Allen International Limited -, in relation to a particular type of tax dividend linked transactions known as cum-ex transactions.

  Grupo Santander is cooperating with the German authorities. According to the state of the investigations, the results and the effects for the Group, which may potentially include the imposition of financial penalties, cannot be anticipated. For this reason, the Bank has not recognized any provisions in relation to the potential imposition of financial penalties.

- Attorneys General Investigation of auto loan securitisation transactions and fair lending practices: in October 2014, May 2015, July 2015 and February 2017, Santander Consumer USA Inc. (SC) received subpoenas and/or Civil Investigative Demands (CIDs) from the Attorneys General of the U.S. states of California, Illinois, Oregon, New Jersey, Maryland and Washington under the authority of each state's consumer protection statutes. These states served on behalf of a group of 33 state Attorneys General. The subpoenas and CIDs contained broad requests for information and the production of documents related to SC's underwriting, securitization, the recovery efforts servicing and collection of nonprime vehicle loans. SC responded to these requests within the deadlines specified and has otherwise cooperated with the Attorneys General with respect to this matter. On 19 May 2020, SC entered into settlements with all the attorneys general resolving this investigation. The agreement had no significant impact for the Group.

- Financial Industry Regulatory Authority (FINRA) Puerto Rico Arbitrations: as of 31 December 2020, Santander Securities LLC (SSLLC) had received 770 FINRA arbitration cases related to Puerto Rico Bonds issued by public and public related entities, as well as Puerto Rico closed-end funds (CEFs). The statements of claims allege, among other things, fraud, negligence, breach of fiduciary duty, breach of contract, unsuitability, over-concentration of the investments and failure to supervise. There were 141 arbitration cases that remained pending as of 31 December 2020.

  As a result of various legal, economic and market factors impacting or that could impact of the value Puerto Rico bonds and CEFs, it is possible that additional arbitration claims and/or increased claim amounts may be asserted against SSLLC in future periods. The provisions recorded for these matters are considered sufficient.

- IRPH Index: a portion of our Spanish mortgage loan portfolio bears interest at a rate indexed to the 'Índice de Referencia de Préstamos Hipotecarios' known as 'IRPH', which, at the time the contracts were entered into, served as reference rate for many mortgage loan agreements in Spain and was published by the Bank of Spain. Consumers in Spain have brought lawsuits against most of the Spanish banking sector alleging that the use and related disclosures of such rate did not comply with the transparency requirements of European regulation. On 14 December 2017, the Supreme Court of Spain ruled that these clauses were valid, as the IRPH is an official rate and therefore non-subject to transparency requirements. The matter was referred to the Court of Justice of the European Union through a preliminary ruling procedure. On 3 March 2020 the CJEU rendered its decision.

  The CJEU ruled that, being the IRPH a valid index, national courts are entitled to examine its use on each particular contract in order to verify whether the transparency requirements have been met. When carrying out the transparency control, national courts have to take into account all the circumstances surrounding the conclusion of the particular contract, including whether essential information relating to the calculation of that rate was easily accessible and the provision of data relating to past fluctuations of the index. Finally, with regards to the effects of nullity of an IRPH index clause, the CJUE entitles national courts to substitute it with another statutory index, thus not declaring the nullity of the whole contract.

  On 12 November 2020, the Supreme Court has issued four judgments applying the doctrine established by the CJUE that resolve individual appeals in which the validity of the IRPH clauses was questioned. The Court understands that in those cases there is a lack of transparency because the financial institutions had not been able to prove the delivery to the client of the information on the evolution of the index in the two years prior to the contract. However, the Supreme Court reminds that the lack of transparency does not automatically imply the invalidity of the clause, but rather it is necessary to analyze whether this lack of transparency generates abusiveness. The Supreme Court resolves that in the case of the IRPH, that specific lack of transparency does not mean that the clause is abusive to the detriment of the client, so the clause is valid and fully applicable.

  Currently, the balance of the relevant mortgage indexed to IRPH loans held by the Group, equals approximately EUR 3,1 billion.

- Banco Santander, S.A. has been sued in a legal proceeding in which the plaintiff alleges that a contract was concluded whereby he would be entrusted with the functions of CEO of the Bank. In the complaint, the claimant mainly requests a declaratory ruling that affirms the validity and conclusion of such contract and its enforcement together with the payment of certain amounts. If the main request is not granted, the claimant seeks compensation for a total amount of approximately EUR 112 million or, an alternative relief for other minor amounts. Banco Santander, S.A. has answered to the complaint. In this answer, it is stated that the conditions to which the appointment was subject to were not met and that the contract required by law was not concluded. Trial will take place on 10 March 2021.

- CHF Polish Mortgage Loans: On 3 October 2019, the Court of Justice of the European Union (CJEU) rendered its decision in relation to a lawsuit against an unrelated bank in Poland, with regards to unfair contractual clauses in consumer agreements, specifically the consequences of potentially unfair contractual clauses in CHF-indexed loan agreements. The CJEU has left to Polish courts the decision on whether the whole contract can be maintained once the abusive terms have been removed, which should in turn decide whether the effects of the annulment of the contract are prejudicial to the consumer. In that case, the court may only integrate the contract with default provisions of national law and decide, in accordance with those provisions, on the applicable rate.

On March 2021, the Supreme Court is expected to take a position regarding the key issues in disputes concerning loans based on foreign currency, clarifying the discrepancies and unifying the court jurisprudence.

In December 2020, the Chairman of the Financial Supervision Authority announced a high-level proposal for voluntary settlements between banks and borrowers under which active loans based on Swiss francs would be converted into PLN loans with interest at the WIBOR rate and an appropriate margin. No details of the proposal, or legal or tax considerations, were provided as at the date of publication of these financial statements. This proposal is currently under analysis within the Bank, as well as by representatives of the financial sector in consultation with the competent authorities. Depending on the results of this analysis, the Bank will decide whether to adhere to this proposal and will proceed to include additional scenarios in the models for calculating provisions and reflect the estimated impact on their level. The Group considers that the maximum risk associated to this proposal, assuming that 100% of customers choose to convert their active loans as proposed, would amount to approximately PLN 3,5bn (EUR 768 million).

While these two events could lead to significant changes in the level of expected provisions, in the opinion of the Management Board, as at the date of these financial statements it is not possible to reliably estimate the value of their impact on the financial position of the Group.

As of 31 December 2020, Santander Bank Polska and Santander Consumer Bank Poland have a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,853 million (EUR 2,161 million). At the same date, the provision registered is PLN 603 million (EUR 132 million). This provision represents the best estimate to date given the difficulty to predict the financial impact, as it is for national courts to decide the relevant issues and the process of analysing and deciding on the proposal described above has not yet been completed. Santander Bank Polska and Santander Consumer Bank Poland will continue to monitor and assess appropriateness of those provisions in the upcoming reporting periods.

Grupo y Banco Santander and the other group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business including those in connection with lending activities, relationships with employees and other commercial or tax matters.

With the information available to it, Banco Santander considers that, at 31 December 2020, it had reliably estimated the obligations associated with each proceeding and had recognized, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal risks. Subject to the qualifications made, it also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on Banco Santander business, financial position or results of operations.

iii. Administrative Sanctions

In accordance with the applicable legislation, it is hereby informed that, during the financial year 2020, Banco Santander was enforceably imposed on the Bank sanction of EUR 32,250, imposed by the Bank of Spain, as a result of the penalty file followed against Avalmadrid, S.G.R. its former directors and ex-directors, for breaches relating to the lack of remediation of various deficiencies in the area of concentration and risk control. The sanction is imposed on Banco Santander, as successor to Banco Popular, and as director of Aval Madrid S.G.R.

24. Tax matters

a) Consolidated Tax Group

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the parent) and the Spanish subsidiaries that meet the requirements provided for Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

b) Years open for review by the tax authorities

In 2018 the conformity and non-conformity acts relating to the corporate income tax financial years 2009 to 2011 were formalised. The adjustments signed in conformity had no significant impact on results and, in relation to the concepts signed in disconformity both in this year and in previous years (corporate income tax 2003 to 2007), Banco Santander, S.A., as the Parent of the Consolidated Tax Group, considers, in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the financial statements, as there are sound arguments as proof in the appeals filed against them pending at the National Appellate Court (tax years 2003 to 2007) and the Economic Administrative Court (tax years 2009-2011). Consequently, no provision has been recorded for this concept. Following the completion of these actions for 2009 to 2011, subsequent years up to and including 2020 are subject to review. At the date of approval of these accounts, the Corporate Income Tax proceedings for periods not yet prescribed up to and including 2015, and the proceedings relate to other taxes up to and including 2016 are on going.

Likewise, relating the Consolidated Tax Group of which Banco Popular Español, S.A.U. was the parent, in 2018 a certificate of conformity was drawn up in a partial proceeding, confirming the 2016 Corporate Income Tax return. During 2019, a certificate of disconformity was drawn up for 2017 corporate income tax, with no impact on profit, and the final assessment has been appealed. In relation to this Consolidated Tax Group, the years 2010 to 2017 inclusive are subject to review. On 1 January 2018 those entities that were part of the aforementioned Consolidated Tax Group were integrated in the Consolidate Tax Group which parent company is Banco Santander.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the rest of years subject to review might give rise to contingent tax liabilities which cannot be objectively quantified. However, Grupo Santander tax advisers consider that it is unlikely that such tax liabilities will materialize, and that in any event the tax charge arising therefrom would not materially affect Banco Santander's financial statements.

c) Reconciliation

The following is the reconciliation between the corporate tax expenditure applying the applicable tax rate (30%) and the expenditure recorded by the said tax (in EUR million):

EUR million

	Expenses / (Incomes)	
	2020	2019
Profit before taxes	**(2,247)**	**3,579**
Corporate tax at the applicable rate of 30%	(674)	1,074
Dividends and capital gains not subject	(1,885)	(1,836)
Impairment of non-deductible shares	1,776	180
Deferred tax review effect	1,632	—
Remaining permanent differences and others	461	631
Expense taxes recorded	**1,310**	**49**

d) Tax recognized in equity

Regardless of the income tax passed on profit and loss accounts, Banco Santander has passed on the net worth the following amounts during 2020 and 2019:

EUR million

	Amounts receivable/ (Amounts payable)	
	2020	2019
OCI,s loan	3	(2)
Fixed-income securities - Available for sale	93	(218)
Equity securities - Available for sale	87	(37)
Cash flow hedges	62	35
Other valuation adjustments (note 25)	23	96
	268	**(126)**

e) Deferred taxes

The balance under the heading 'Tax assets' of the balance sheets includes the debtor balances against the Public Treasury for Advance Tax; in turn, the balance under the heading 'Tax liabilities' includes the liabilities corresponding to the different deferred taxes of Banco Santander.

In Spain Royal Decree-Law 14/2013 of 29 November, confirmed by Law 27/2014 of 27 November, established a regime to allow certain deferred tax assets to continue to count as prudential capital, within the "Global regulatory framework to strengthen banks and banking systems" (called Agreements Basel III) and under the implementing regulations of those Agreements, i.e. Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 (hereinafter CRD IV).

Prudential legislation provides that deferred tax assets that depend on their use of future profits must be deducted from regulatory capital, although taking into account whether they are credits for tax losses and deductions or for temporary differences. It is for the latter category of deferred tax assets and within it those arising from insolvencies, awarded, commitments for pensions and pre-retirements, for which it is established that they do not depend on future profits, since in certain circumstances they can be converted into credits against the Public Treasury, and therefore not deducts from regulatory capital (hereinafter referred to as monetizable tax assets).

During 2015, the regulation on monetizable tax assets was completed by the introduction of a capital supply involving the payment of an amount of 1.5% per annum for maintaining the right to monetization and will be applied on part of the deferred tax assets that meet the legal requirements to be considered monetizables generated before 2016.

The following are the breakdown of tax assets and liabilities as of December 31, 2020 and 2019:

EUR million

	2020	2019
Tax assets:	**9,282**	**12,331**
Current	721	2,215
Deferred	8,561	10,116
Of which		
Relating to pensions	*3,540**	*3,540**
Relating to allowances for loan losses	*3,023**	*3,023**
Relating to deductions and negative tax bases	*380*	*2,064*
Tax liabilities:	**1,555**	**1,591**
Of which, deferred tax liabilities	*1,510*	*1,591*

* Monetizable, not deducted from regulatory capital.

On the occasion of the accounting closure, deferred taxes, both assets and liabilities, are reviewed in order to verify whether adjustments are necessary to be made in accordance with the results of the analyses carried out.

These analyses take into account all the positive and negative evidence of the recoverability of such assets, including (i) the results generated in previous years, (ii) the projections of results, (iii) the estimate of the reversal of the various temporary differences depending on their nature and (iv) the period and limits established in current legislation for the recovery of the various deferred tax assets, thus concluding on Banco Santander ability to recover its deferred tax assets.

The results projections used in this analysis are based on the financial budgets approved by both the local bureaux of the respective units and by the Grupo Santander managers. Grupo Santander budget estimation process is common for all units. The Grupo Santander management prepares its financial budgets based on the following key assumptions.

a. Microeconomic variables of the entities that make up the tax group at each location: consideration is taken of the existing balance sheet structure, the mix of products offered and the commercial strategy at any time defined by the local authorities in this regard based on the competition, regulatory and market environment.

b. Macroeconomic variables: The estimated growth is based on the evolution of the economic environment considering the expected developments in the Gross Domestic Product of each location and the forecasts of behaviour of interest rates, inflation and exchange rates. These data are provided by Grupo Santander's Studies Service, which are based on external sources of information.

In addition, Grupo Santander performs retrospective contrasts (backtesting) on the variables projected in the past. The differential performance of these variables with respect to the actual market data is considered in the estimated projections for each financial year. Thus, in relation to Spain, the deviations identified by the Management in recent years are due to non-recurring events that are not related to the business's operations, such as the impacts for the first application of new applicable regulations, the costs incurred for accelerating restructuring plans and the changing effect of the current macroeconomic environment.

During 2020, given the uncertainties about the economic impacts resulting from the covid-19 health crisis, Grupo Santander has reassessed the generation of tax gains in relation to the recoverability of deferred taxes recorded in the main companies that make up the Grupo Santander, including Banco Santander. In Spain, the Panel finds that the key changes on which the projections of its tax group's results are based, resulting from the above-mentioned impact of covid-19, have resulted in the case of Banco Santander an impairment of EUR 1,632 million in deferred tax assets against a counterpart under the heading 'Profit tax' on the profit and loss account.

Finally, and given the degree of uncertainty of these assumptions regarding those variables, Grupo Santander conducts a sensitivity analysis of the most significant ones used in the analysis of the recoverability of deferred tax assets, considering reasonable changes in the key assumptions upon which the projections of results of each tax entity or group and the estimate of the reversal of the various temporary differences. In relation to Spain, the sensitivity analysis consisted of adjusting 50 basis points for growth (gross domestic product) and adjusting 50 basis points for inflation. Following this analysis, the maximum recovery period of deferred tax assets recorded at 31 December 2020 is maintained in 15 years.

In addition, the Spanish Tax Group, of which Banco Santander, S.A. is the dominant entity, has not recognized deferred tax assets in respect of tax losses, investment deductions and other incentives amounting to approximately EUR 9,700 million, of which EUR 350 million are subject, among other requirements, to time limits.

f) Regulatory changes

In 2018, for the purpose of regulating the tax effects of the first application of the Bank of Spain's Circular 4/2017, Royal Decree-Law 27/2018 of 28 December established a transitional regime, according to which charges and credits to reserve accounts accounted for in first application, which have tax effects, will be integrated into the Tax base for corporation tax equally in each of the first three tax periods starting from January 1, 2018.

In application of the aforementioned Royal Decree-Law, a negative adjustment amounting to EUR 99 million, EUR 30 million in instalment will be integrated into the tax base of Banco Santander, S.A. corresponding to 2020.

Moreover, in 2020, the Law on General State Budgets for 2021 was approved, which, among other tax measures, establishes in Corporation Tax the reduction of the exemption on dividends and capital gains to 95% as of January 1, 2021 (formerly 100%), considering it does not exempt 5% for management expenses and the abolition of the exemption from dividends and capital gains derived from shares in the capital of an institution which does not reach 5% but whose acquisition value exceeds EUR 20 million, although in that second case the shares acquired before 1 January 2021 may benefit from a transitional regime until 2026.

g) Other information

In compliance with the reporting obligation set out in the 2005 Contributing Standards Instrument issued by the Financial Conduct Authority of the United Kingdom, it is stated that shareholders of Banco Santander who are resident in the United Kingdom shall be entitled to apply for a tax credit paid abroad in respect of withholdings to be made by Banco Santander on dividends to be paid to those shareholders if the total dividend income exceeds the amount of exempt dividends of £2,000 for the 2020/21 financial year. Banco Santander shareholders who are resident in the United Kingdom and maintain their participation in Banco Santander through Santander Nominee Service will be directly provided with information on the amount withheld as well as any other information they may need to complete their tax returns in the UK. All other shareholders of Banco Santander who are resident in the United Kingdom should contact their bank or securities agency.

Banco Santander, is part of the Large Business Forum and has adhered to the Code of Good Tax Practices in Spain since 2010, actively participating in the cooperative compliance programmes being developed by the tax administration.

25. Other comprehensive income

The balances of 'Other comprehensive income' include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

Respect to items that may be reclassified to profit or loss, the statement of recognised income and expense includes changes in other comprehensive income as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.
- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.
- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognized gross, presenting the corresponding tax effect is presented under a separate item.

a) Breakdown of Other accumulated comprehensive income - Items that will not be reclassified in results and Items that can be classified in results

EUR million

	2020	2019
Other accumulated comprehensive income	**(1,561)**	**(340)**
Items that will not be reclassified in results	**(1,882)**	**(1,024)**
Actuarial gains and losses on defined benefit pension plans	(1,351)	(1,197)
Non-current assets held for sale	—	—
Other recognized income and expense of investments in subsidiaries, joint ventures and associates	—	—
Rest of valuation adjustments	—	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(537)	171
Ineffectiveness of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	—	—
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	154	44
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	(154)	(44)
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	6	2
Items that can be classified in results	**321**	**684**
Hedges of net investments in foreign operations (effective portion)	—	—
Exchange differences	—	—
Cash flow hedges (effective portion)	(189)	(45)
Changes in the fair value of debt instruments measured at fair value through changes in other comprehensive income	510	729
Hedging instruments (items not designated)	—	—
Non-current assets held for sale	—	—
Share in other income and expenses recognized in investments in joint ventures and associates	—	—

b) Other accumulated comprehensive income- Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans

'Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans' include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Its variation is shown in the statement of income and expense.

c) Other accumulated comprehensive income - Items that will not be reclassified in results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income.

Includes the net amount of unrealized fair value changes of equity instruments at fair value with changes in other comprehensive income.

The following is a breakdown of the composition of the balance as of 31 December 2020 under 'Other accumulated comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other global result' depending on the geographical origin of the issuer (see note 8):

EUR million

	2020				2019			
	Capital gains by valuation	Capital losses by valuation	Net gains/ losses by valuation	Fair value	Capital gains by valuation	Capital losses by valuation	Net gains/ losses by valuation	Fair value
Equity instruments	275	(812)	(537)	1,942	590	(419)	171	1,856

d) Other accumulated comprehensive income - Items that may be reclassified to profit or loss - Hedging derivatives – Cash flow hedges (Effective portion)

'Other comprehensive income – Items that may be reclassified to profit or loss - Cash flow hedges' includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognized in the income statement in the periods in which the hedged items affect it (see note 32).

e) Other accumulated comprehensive income - Items that may be reclassified to profit or loss – Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (Bank of Spain Circular 4/2017)

Includes the net amount of unrealized changes in the fair value of assets classified as items than can be reclassified in results changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (see note 7).

Below is a breakdown of the balance composition as of December 31, 2020 and 2019 of 'Other accumulated global income - Items that can be reclassified in results - Changes in the fair value of the instruments of debt valued at fair value with changes in other comprehensive income' depending on the type of instrument:

EUR million

	2020				2019			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	526	(16)	510	15,146	747	(18)	729	26,306

As at 31 December 2020, the handicaps recorded in the 'Other cumulative comprehensive income - Elements that can be reclassified into profit or loss - Changes in the fair value of debt instruments measured at fair value through other comprehensive income' are not significant.

26. Shareholders' equity

The changes in 'Shareholders' equity' are presented in the statement of changes in total equity. Significant information on certain items of 'Shareholders' equity' and the changes therein in 2020 is set forth below.

27. Issued capital

a) Changes

On 10 September 2019, a capital increase of EUR 191 million was carried out with the issuance of 381,540,640 shares (2.35% of the Bank's share capital). to meet the takeover bid for 16.69% of the share capital of Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México. (see note 3.a).

Therefore, Banco Santander's new capital consisted of EUR 8,309 million at 31 December 2019, represented by 16,618,114,582 shares of EUR 0,50 of nominal value each one and all of them from a unique class and series.

On 3 December 2020, a capital increase of EUR 361 million was made, with a charge to the share premium, through the issue of 722,526,720 shares (4.35% of the share capital).

Therefore, Banco Santander's share capital at 31 December 2020 was consisted of EUR 8,670 million, represented by 17,340,641,302 shares of EUR 0,50 of nominal value each and all of them of a unique class and series.

Banco Santander's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Mexico and Warsaw Stock Exchanges, and all of them have the same features and rights. Santander shares are listed on the London Stock Exchange under Crest Depository Interest (CDI), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDR), each BDR representing one share. During 2019 and 2018 the number of markets where the Bank is listed was reduced; the Bank's shares was delisted from Buenos Aires, Milan, Lisboa and São Paulo's markets.

At 31 December 2020, no shareholder held more than 3% of Banco Santander's total share capital (which is the threshold generally provided under Spanish regulations for a significant holding in a listed company to be disclosed). Even though at 31 December 2020, certain custodians appeared in our shareholder registry as holding more than 3% of our share capital, we understand that those shares were held in custody on behalf of other investors, none of whom exceeded that threshold individually. These custodians were State Street Bank (13.54%),The Bank of New York Mellon Corporation (8.25%), Chase Nominees Limited (7.74%), EC Nominees Limited (3.55%), BNP Paribas (3.07%) and Caceis Bank (3.01%).

On 24 October 2019, BlackRock Inc. reported to the CNMV its significant holding of voting rights in Banco Santander (5.426%). It also specified that it was holding shares on behalf of a number of funds or other investment entities, none of which exceeded 3% individually. No changes have been communicated since then. There may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2020, neither our shareholder registry nor the CNMV's registry showed any shareholder residing in a tax haven with a shareholding equal to, or greater than, 1% of our share capital (which is the other threshold applicable under Spanish regulations).

b) Other considerations

At 31 December 2020 the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was 39 million shares, which represented 0.22% of the Bank's share capital (40 and 63 million shares, representing 0.24% and 0.39% of the share capital in 2019 and 2018, respectively). In addition, the number of Bank shares owned by third parties and received as security was 237 million shares (equal to 1.37% of the Bank's share capital).

28. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The increased produced in 2019 is a consequence of the increase of EUR 1,491 million to cope with the capital increase for the acquisition of Banco Santander México, S.A, Institución de Banca Múltiple, Grupo Financiero Santander México shares on 10 September 2019.

The decrease in 2020 is due to the reduction of EUR 361 million to cover the capital increase on 3 December (see Note 27).

Also, in 2020, and an amount of EUR 72 million was transferred from the Share premium account to the Legal reserve (2019 EUR 38 million) (see note 29 b).

29. Accumulated retained earnings

a) Definitions

The balance of 'Equity - Accumulated gains and Other reserves' includes the net amount of the accumulated results (profits or losses) recognised in previous years through the income statement which in the profit distribution were allocated in equity, the expenses of own equity instrument issues, the differences between the amount for which the treasury shares are sold and their acquisition price, as well as the net amount of the results accumulated in previous years, generated by the result of non-current assets held for sale, recognised through the income statement.

b) Breakdown

The detail of 'Shareholders' equity - reserves' at 31 December 2020 and 2019 is as follows:

EUR million

	2020	2019
Restricted reserves	**2,460**	**2,594**
Legal reserve	1,734	1,662
Own shares	672	878
Revaluation reserve Royal Decree-Law 7/1996	43	43
Reserve for retired capital	11	11
Unrestricted reserves		
Voluntary reserves	6,128	4,603
	8,588	**7,197**

i. Legal reserve

According to the Consolidated Text of the Corporate Enterprise Act, Spanish entities that obtain profits in the financial year must provide 10% of the net profit for the financial year to the legal reserve. These allocations must be made until the reserve reaches 20% of the share capital. The legal reserve may be used to increase the share capital in the share of its balance exceeding 10% of the share capital already increased.

During 2020, Banco Santander allocated EUR 72 million of issue premium to Legal Reserve, EUR 38 million in 2019 (see note 28).

Thus, once the capital increases described in note 27 had been made, the amount of the Legal Reserve again reached 20% of the share capital figure, and that Reserve was fully constituted on 31 December 2020.

ii. Voluntary Reserve

During the year 2020 there was an increase in voluntary reserves amounting to EUR 1,525 million; which correspond to the application of the 2019 financial year result by EUR 1,869 million, an increase of EUR 206 million due to the release of reserves for own shares, a decrease of EUR 417 million by interest in the PPCC (see note 21) and a decrease of EUR 133 million for other.

iii. Reserve for treasury shares

According to the Consolidated Text of the Corporate Enterprise Act, an unavailable reserve equivalent to the amount for which Banco Santander's shares owned by subsidiaries are recorded. This reservation shall be freely available when the circumstances which have obliged its constitution disappear. In addition, this reserve covers the outstanding balance of loans granted by the Group with Banco Santander's share guarantee and the amount equivalent to the credits granted by the Group companies to third parties for the acquisition of own shares.

30. Other equity instruments and own shares

a) Equity instruments issued not capital and other equity instruments

It includes the amount corresponding to compound financial instruments with a nature of net worth, the increase in staff remuneration, and other items not recorded in other items of own funds.

On July 13, 2017, Banco Santander and Banco Popular Español, S.A.U. (hereinafter Banco Popular) reported that they had decided to launch a commercial action in order to loyalty retail customers in their networks affected by Banco Popular's resolution (the "Loyalty Action").

Under the Loyalty Action, customers who met certain conditions and have been affected by Banco Popular's decision could receive, without disbursement by their part, marketable securities issued by Banco Santander for a nominal amount equivalent to the investment in shares or in certain bonds subordinates of Banco Popular (with certain limits) of which they held at the date of Banco Popular's resolution. In order to avail itself of such action, it was necessary for the client to waive legal action against the Group.

The Loyalty Action would be carried out by providing the customer with contingently amortizable perpetual obligations ("Loyalty Bonds") of Banco Santander, S.A. Loyalty Bonds will accrue a cash coupon, discretionary, non-cumulative, payable for matured quarters.

This issue was made by Banco Santander, S.A. on 8 September 2017 for a nominal amount of EUR 981 million, fully subscribed by Banco Popular Español, S.A.U. As at 31 December 2020, the cost recorded under the heading 'Equity instruments' issued other than capital on Banco Santander balance sheet amounts to EUR 627 million (EUR 598 million as at 31 December 2019).

Loyalty Bonds are perpetual securities; however, they may be fully amortized at the will of Banco Santander, S.A., with prior authorization from the European Central Bank, on any of the dates of payment of the coupon, seven years after its issuance.

b) Own shares

'Shareholders' equity - Own shares' includes the amount of own equity instruments held by Banco Santander.

Transactions involving own 'Equity instruments', including their issuance and cancellation, are recognized directly in equity, and no profit or loss may be recognized on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

The Bank's shares owned by the consolidated companies accounted for 0.164% of issued share capital at 31 December 2020 (December 31, 2019 0.051%)

The average purchase price of Banco Santander`s shares in 2020 was EUR 2,51 per share and the average selling price was EUR 2,56 per share.

At the end of 2020, the purchase and sale of shares issued by Banco Santander have not generated any results (equally without result in the 2019 financial year).

31. Memorandum items

Memorandum items relate to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions although they may not impinge on its net assets.

a) Guarantees and contingent commitments granted

Guarantees include transactions for which an entity secures obligations of a third party arising from financial guarantees granted by the entity or other types of contracts. 'Contingent liabilities' include all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

EUR million

	2020	2019
Loans commitment granted	**96,959**	**85,840**
Available in lines of credit	96,870	83,977
Deposits in the future	89	1,863
Financial guarantees granted	**10,135**	**9,474**
Financial guarantees	189	207
Credit derivatives sold	9,946	9,267
Other commitments granted	**50,686**	**52,460**
Irrevocable documentary credits	1,947	1,981
Other guarantees and guarantees granted	24,675	23,107
Other	24,064	27,372
Total	**157,780**	**147,774**

The breakdown as at 31 December 2020 of the exposures and the provision fund (see note 23) out of balance sheet by impairment stage under Bank of Spain Circular 4/2017 are EUR 155,706 million and EUR 69 million in stage 1, EUR 1,630 million and EUR 45 million in stage 2 and EUR 444 million and EUR 43 million in stage 3, respectively. In addition, the breakdown at December 31, 2019 of exposures and the allowance were EUR 145,574 million and EUR 75 million in phase 1, EUR 1,497 million and 20 million in phase 2 and EUR 703 million and EUR 85 million in phase 3, respectively.

A significant portion of these guarantees will expire without any pay due obligation materialized from the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

'Income from guarantee instruments' is recognized under Fee and commission income in the income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include available credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees include, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Contingent commitments

Continent liabilities include all transactions under which an entity may recognize financial liabilities

Its composition is shown below:

EUR million

	2020	2019
Loan commitments grantee	**96,959**	**85,840**
Available on credit lines	96,870	83,977
Future deposits	89	1,863

iv. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

The detail is as follows:

EUR million

	2020	2019
Other commitments granted	**50,686**	**52,460**
Irrevocable documentary credits	1,947	1,981
Other guarantees and guarantees lent	24,675	23,107
Other commitments	24,064	27,372
Of which		
Subscribed values pending disbursement	*1*	*4*
Conventional procurement contracts assets	*4,593*	*6,530*
Other contingent commitments	*19,470*	*20,838*
	147,645	**138,300**

b) Other information

i. Assets advanced as collateral

In addition to collateral assets, there are assets owned by Banco Santander which guarantee both transactions carried out by the Bank or by third parties and various contingent liabilities and liabilities over which the assignee has the right, by contract or custom, to re-transfer and pledge them.

The carrying value of Banco Santander's financial assets delivered as collateral for such contingent and assimilated liabilities or liabilities:

EUR million

	2020	2019
Financial assets held for trading	8,540	21,192
Of which		
Public debt Public Sector Agencies	*314*	*611*
Fix rent instruments	*3,113*	*14,702*
Equity instruments	*5,113*	*5,879*
Non-trading financial assets mandatorily at fair value through profit or loss	329	224
Financial assets designated at fair value through profit or loss	3,642	4,783
Financial assets at fair value through other comprehensive income	2,293	5,329
Financial assets at amortized cost	2,607	2,640
	17,411	**34,168**

32. Hedging derivatives

Banco Santander, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This cover the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).
- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.
- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

The details of the coverage derivatives of Banco Santander, S.A. according to the type of coverage, the risk they cover and the product, can be found in the following table:

EUR million

	2020				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Balance sheet items
		Assets	Liabilities		
Fair value hedges	**49,371**	**2,357**	**(988)**	**366**	
Interest rate risk	**36,371**	**1,875**	**(723)**	**336**	
Interest Rate Swap	*35,983*	*1,855*	*(711)*	*336*	*Hedging derivatives*
Call money Swap	*7*	*—*	*—*	*—*	*Hedging derivatives*
Swaption	*51*	*11*	*(11)*	*—*	*Hedging derivatives*
Floor	*330*	*9*	*(1)*	*—*	*Hedging derivatives*
Exchange rate risk	**7,990**	**209**	**(34)**	**(1)**	
Fx forward	*7,990*	*209*	*(34)*	*(1)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,803**	**273**	**(228)**	**27**	
Interest Rate Swap	*426*	*9*	*(1)*	*1*	*Hedging derivatives*
Currency Swap	*4,377*	*264*	*(227)*	*26*	*Hedging derivatives*
Credit risk	**207**	**—**	**(3)**	**4**	
CDS	*207*	*—*	*(3)*	*4*	*Hedging derivatives*
Cash flow hedges	**40,140**	**92**	**(405)**	**(206)**	
Interest rate risk	**35,443**	**39**	**(271)**	**(204)**	
Interest rate swap	*30,000*	*39*	*(12)*	*39*	*Hedging derivatives*
Futures	*5,443*	*—*	*(259)*	*(243)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,697**	**53**	**(134)**	**(2)**	
Currency swap	*4,697*	*53*	*(134)*	*(2)*	*Hedging derivatives*
Net investment hedges abroad	**20,211**	**688**	**(387)**	**—**	
Exchange rate risk	**20,211**	**688**	**(387)**	**—**	
Fx forward	*20,211*	*688*	*(387)*	*—*	*Hedging derivatives*
	109,722	**3,137**	**(1,780)**	**160**	**—**

EUR million

	2019				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line items
		Assets	Liabilities		
Fair value hedges	**41,791**	**1,865**	**(831)**	**(248)**	
Interest rate risk	**28,445**	**1,571**	**(609)**	**(231)**	
Interest rate swap	*28,179*	*1,551*	*(600)*	*(208)*	Hedging derivatives
Inflation swap	*55*	*4*	—	—	*Hedging derivatives*
Swaption	*51*	*9*	*(9)*	—	*Hedging derivatives*
Floor	*160*	*8*	—	*(23)*	*Hedging derivatives*
Exchange rate risk	**8,891**	**49**	**(42)**	**(35)**	
Fx forward	*8,891*	*49*	*(42)*	*(35)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,197**	**246**	**(174)**	**23**	
Currency coverage	*869*	*10*	*(1)*	*8*	*Hedging derivatives*
Interest rate swap	*3,329*	*235*	*(173)*	*15*	*Hedging derivatives*
Credit risk	**258**	**—**	**(6)**	**(5)**	
Exchange swaps for non-payment	*258*	—	*(6)*	*(5)*	*Hedging derivatives*
Cash flow hedges	**23,831**	**112**	**(447)**	**(9)**	
Interest rate risk	**18,862**	**33**	**(48)**	**(2)**	
Interest rate swap	—	—	—	*13*	*Hedging derivatives*
Futures	*18,862*	*33*	*(48)*	*(16)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,970**	**79**	**(399)**	**(6)**	
Currency swap	*4,970*	*79*	*(399)*	*(6)*	*Hedging derivatives*
Net investment hedges abroad	**23,384**	**249**	**(766)**	**—**	
Exchange rate risk	**23,384**	**249**	**(766)**	**—**	
Fx forward	*23,384*	*249*	*(766)*	—	*Hedging derivatives*
	89,007	**2,226**	**(2,044)**	**(257)**	

Banco Santander, S.A. covers the risks of its balance sheet in a variety of ways. On the one hand, documented as fair value hedges, it covers the risk of both interest rate, exchange rate and credit of fixed-income portfolios (REPOs are included in this typology) and are therefore exposed to changes in fair value thereof due to changes in market conditions in based on the various risks covered, which has an impact on Banco Santander's income statement. To mitigate these risks, the Bank contracts hedging instruments (Derivatives), basically Interest rate Swaps, Cross Currency Swaps, Cap&Floors, Forex Forward and Credit Default Swaps.

On the other hand, the risk of both interest and exchange of loans granted to corporate clients at a fixed rate is generally covered. These hedges are made using Interest Rate Swaps, Cross Currency Swaps and exchange rate derivatives (Forex Swaps and Forex Forward).

In addition, Banco Santander manages the interest and exchange risk of debt issues in its various categories (mortgage, perpetual, subordinate and senior debt issuances) and in different currencies, denominated at fixed rate, and therefore subject to changes in fair value. These issues are covered by Interest Rate Swaps and Cross Currency Swaps or the combination of both through differentiated fair value hedging strategies for interest rate risk, and cash flows to cover exchange-rate risk.

The methodology used by Banco Santander, S.A. to measure the effectiveness of fair value hedge hedges is based on comparing the market values of hedged items, based on the objective risk of hedging, and hedging instruments in order to analyse that changes in that fair value of hedging the items covered by hedging are offset by the market value of hedging instruments, mitigating hedged risk and minimizing volatility in the income statement. Prospectively, the same analysis is performed, measuring theoretical market values in the face of parallel variations of market curves at a positive base point.

There is a structured loan macro-coverage covering the interest rate risk of fixed-rate loans (mortgage, personal or other collateral) granted to commercial or corporate legal entities and medium/long-term Wealth clients. This coverage is instrumented as a VR macro coverage being the main coverage instruments, Interest Rate Swap and Cap&Floors. In the event of total or partial early cancellation or amortization, the client is obliged to pay/receive the cost/income of the cancellation of the interest rate risk coverage that Banco Santander manages.

With regard to cash flow hedges, the objective is to be covered by the exposure of flows to changes in interest rate and exchange rates.

For retrospective purposes, the 'Hypothetical Derivate' methodology is used to measure efficacy. Through this methodology, the hedged risk is modelled as a derivative — not real — instrument created exclusively for the purpose of measuring the effectiveness of the hedging, and which must meet that its main characteristics match the critical terms of the hedged item for the entire period for which the ratio of coverage. This hypothetical derivative does not incorporate characteristics that are unique to the hedging instrument. In addition, it should be mentioned that, for the purpose of the effectiveness calculation, any risk component not associated with the target risk covered and actually documented at the beginning of the risk is excluded. The market value of the hypothetical derivative replicating the hedged item is compared with the market value of the hedging instrument, verifying that the hedged risk is effectively mitigated and that the impact on the income statement due to potential inefficiencies is residual.

Changes in the market values of the hedging instrument and the hedged item (represented by the hypothetical derivative) are prospectively measured for parallel movements of a positive base point in the market curves concerned.

There is also another macro-hedging, this time of cash flows, which aims to actively manage the risk-free interest rate risk (excluding credit risk) of a portion of the variable rate assets of Banco Santander, S.A., through the contracting of interest rate derivatives for which the bank exchanges interest flows at variable rate with others at a fixed rate agreed upon at the time of contract of transactions. Items affected by Macrocoverage have been designated as those in which their cash flows are exposed to interest rate risk, in particular mortgages of the Banco Santander, S.A. network at variable rate referenced to Euribor 12 Mones or Euribor Mortgage, with annual rate renewal, classified as healthy risk and which do not present a contractual floor (or otherwise, the floor is not activated). The hedged position affects the Macrocoverage of Cash Flows at the present time is EUR 30 billion.

Regarding net foreign investments hedges, basically, they are allocated in Banco Santander, S.A. and Santander Consumer Finance Group. The Group assumes, as a priority objective in risk management, to minimize – up to a determined limit set up by the responsible for the financial management of the Group- the impact on the calculation of the capital ratio of their permanent investments included within the consolidation perimeter of the Group, and whose shares are legally named in a different currency than the holding has. For this purpose, financial instruments (generally derivatives) on exchange rates are hired, that allow mitigating the impact on the capital ratio of changes in the forward exchange rate. The Group hedges the risk, mainly, for the following currencies: BRL, CLP, MXN, CAD, COP, CNY, GBP, CHF, USD, SAR and PLN.

The instruments used to hedge the risk of these investments are Forex Swaps, Forex Forward and Spot currency purchases/sales.

In the case of this type of coverage, ineffectiveness scenarios are considered to be low probability, since the hedging instrument is designated considering the position determined and the spot rate at which it is located.

Additionally, the profile information of maturities and the price/average rate for Banco Santander, S.A. is shown:

EUR million

	2020					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**2,906**	**4,848**	**5,999**	**20,242**	**15,377**	**49,372**
Interest rate risk						
Interest rate instruments						
Nominal	*2,073*	*409*	*2,165*	*17,430*	*14,294*	*36,371*
Average fixed interest rate (%) GBP	—	—	—	*1.38*	*4.07*	
Average fixed interest rate (%) EUR	*0.65*	*0.55*	*0.39*	*0.82*	*1.93*	
Average fixed interest rate (%) CHF	—	—	—	*0.80*	*0.40*	
Average fixed interest rate (%) JPY	—	—	—	*0.46*	—	
Average fixed interest rate (%) RON	—	—	—	*3.61*	—	
Average fixed interest rate (%) USD	*0.70*	*0.57*	*2.03*	*3.00*	*3.56*	
Exchange rate risk						
Exchange rate instruments						
Nominal	*833*	*4,149*	*3,008*	—	—	*7,990*
GBP / EUR average exchange rate	—	*0.90*	*0.92*	—	—	
USD / EUR average exchange rate	*1.16*	*1.17*	*1.18*	—	—	
USD / COP average exchange rate	*3,628.14*	*3,603.59*	—	—	—	
PEN / USD average exchange rate	—	*3.61*	—	—	—	
AUD / EUR average exchange rate	—	*1.61*	—	—	—	
SAR / EUR average exchange rate	*4.48*	*4.51*	—	—	—	
CNY / EUR average exchange rate	*8.11*	*8.10*	*8.00*	—	—	
JPY / EUR average exchange rate	—	*124.61*	—	—	—	
Interest rate and exchange risk						
Instruments of exchange rate and interest						
Nominal	—	*282*	*818*	*2,621*	*1,083*	*4,804*
Average fixed interest rate (%) AUD / EUR	—	—	—	*4.00*	*4.66*	
Average fixed interest rate (%) COP / USD	—	—	*6.00*	—	—	
Average fixed interest rate (%) CZK/EUR	—	—	—	*0.86*	—	
Average fixed interest rate (%) EUR/COP	—	—	*4.38*	—	—	
Average fixed interest rate (%) RON/EUR	—	—	—	*4.85*	—	
Average fixed interest rate (%) HKD/EUR	—	—	—	*2.58*	—	
Average fixed interest rate (%) JPY/EUR	—	—	*2.20*	*0.57*	*1.28*	
Average fixed interest rate (%) NOK/EUR	—	—	—	—	*3.61*	
Average fixed interest rate (%) CHF/EUR	—	—	—	—	*1.24*	
Average fixed interest rate (%) USD/CLP	—	—	*0.93*	—	—	
Average fixed interest rate (%) USD/COP	—	—	*8.03*	*6.66*	*7.23*	
AUD/EUR average exchange rate	—	—	—	*1.50*	*1.51*	
COP/USD average exchange rate	—	—	*3,437.20*	—	—	
CZK/EUR average exchange rate	—	—	—	*25.54*	—	
EUR/GBP average exchange rate	—	*1.11*	—	—	—	
EUR/COP average exchange rate	—	—	—	—	—	
EUR/USD average exchange rate	—	—	—	*0.89*	—	
HKD/EUR average exchange rate	—	—	—	*8.78*	—	
JPY/EUR average exchange rate	—	—	*113.30*	*133.84*	*125.88*	
MXN/EUR average exchange rate	—	—	—	*14.70*	—	
NOK/EUR average exchange rate	—	—	—	—	*9.61*	

EUR million

	2020					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
RON/EUR average exchange rate	—	—	—	4.73	—	
CHF/EUR average exchange rate	—	—	—	1.09	1.11	
USD/CLP average exchange rate	—	—	—	—	—	
USD/COP average exchange rate	—	—	—	—	—	
USD/MXN average exchange rate	—	—	0.05	—	—	
Credit risk						
Credit Risk Instruments						
Nominal	—	8	8	191	—	207
Cash flow hedges	**3,164**	**5,000**	**24,247**	**7,521**	**208**	**40,140**
Interest rate and exchange rate risk						
Interest rate and exchange instruments						
Nominal	—	—	1,247	3,242	208	4,697
EUR / GBP average exchange rate	—	—	1.08	1.10	—	
EUR / USD average exchange rate	—	—	—	0.88	—	
AUD / EUR average exchange rate	—	—	—	1.62	—	
RON / EUR average exchange rate	—	—	—	4.81	—	
JPY / EUR average exchange rate	—	—	—	120.57	—	
CHF / EUR average exchange rate	—	—	—	—	1.10	
Interest rate risk						
Interest Rate Swaps						
Nominal	3,164	5,000	23,000	4,279	—	35,443
Average fixed interest rate (%) EUR	—	(0.26)	(0.25)	(0.24)	—	
Bond Forward Instruments						
Nominal						
Net investment hedges abroad	**2,229**	**4,554**	**11,570**	**1,858**	**—**	**20,211**
Exchange rate risk						
Exchange rate instruments						
Nominal	2,229	4,554	11,570	1,858	—	20,211
BRL / EUR average exchange rate	5.27	5.31	6.33	—	—	
CLP / EUR average exchange rate	869.63	861.55	864.34	932.22	—	
COP / EUR average exchange rate	—	—	4,471.31	—	—	
GBP / EUR average exchange rate	0.91	0.92	0.91	—	—	
MXN / EUR average exchange rate	23.12	25.46	26.79	—	—	
PLN / EUR average exchange rate	4.43	4.42	4.52	—	—	
Total	**8,299**	**14,402**	**41,816**	**29,621**	**15,585**	**109,723**

EUR million

	2019					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**233**	**4,311**	**6,529**	**19,550**	**11,168**	**41,791**
Interest rate risk						
Interest rate instruments						
Nominal	*8*	*106*	*1,406*	*16,707*	*10,219*	*28,446*
Average fixed interest rate (%) GBP	—	—	—	*1.43*	*6.82*	
Average fixed interest rate (%) EUR	*5.30*	*2.41*	*3.20*	*0.79*	*2.58*	
Average fixed interest rate (%) CHF	—	—	—	*0.80*	*0.40*	
Average fixed interest rate (%) JPY	—	—	—	*0.46*	—	
Average fixed interest rate (%) USD	—	—	*2.05*	*3.12*	*3.93*	
Exchange rate risk						
Exchange rate instruments						
Nominal	*211*	*3,903*	*4,777*	—	—	*8,891*
GBP / EUR average exchange rate	—	*0.86*	*0.87*	—	—	
USD / EUR average exchange rate	—	*1.12*	*1.12*	—	—	
USD / CLP average exchange rate	*747.72*	*747.90*	*746.70*	—	—	
CNY / EUR average exchange rate	—	*7.91*	*8.01*	—	—	
SAR / EUR average exchange rate	*4.16*	*4.18*	—	—	—	
Interest rate and exchange risk						
Instruments of exchange rate and interest						
Nominal	*14*	*289*	*346*	*2,599*	*949*	*4,197*
Average fixed interest rate (%) AUD / EUR	—	—	—	*4.00*	*4.66*	
Average fixed interest rate (%) CZK / EUR	—	—	—	*0.86*	—	
Average fixed interest rate (%) EUR / COP	—	—	*6.16*	—	—	
Average fixed interest rate (%) RON / EUR	—	—	—	*4.85*	—	
Average fixed interest rate (%) HKD / EUR	—	—	*2.52*	*2.58*	—	
Average fixed interest rate (%) JPY / EUR	—	—	*0.54*	*0.66*	*1.28*	
Average fixed interest rate (%) NOK / EUR	—	—	—	—	*3.61*	
Average fixed interest rate (%) CHF / EUR	—	—	—	—	*1.24*	
Average fixed interest rate (%) USD / COP	*7.54*	—	*5.67*	*7.62*	*7.22*	
AUD / EUR average exchange rate	—	—	—	*1.50*	*1.51*	
CZK / EUR average exchange rate	—	—	—	*25.41*	*26.03*	
EUR / GBP average exchange rate	—	*1.17*	—	—	—	
EUR / USD average exchange rate	—	—	—	—	—	
EUR / COP average exchange rate	—	—	—	—	—	
HKD / EUR average exchange rate	—	—	*8.72*	*8.78*	—	
JPY / EUR average exchange rate	—	—	*130.47*	*132.46*	*125.88*	
MXN / EUR average exchange rate	—	—	—	*14.70*	—	
NOK / EUR average exchange rate	—	—	—	—	*9.61*	
RON / EUR average exchange rate	—	—	—	*4.73*	—	
CHF / EUR average exchange rate	—	—	—	*1.09*	*1.11*	
USD / COP average exchange rate	—	—	—	—	—	
USD / MXN average exchange rate	—	—	—	*0.05*	—	
Credit risk						
Credit Risk Instruments						
Nominal	—	*13*	—	*244*	—	*257*

EUR million

	2019					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Cash flow hedges:	**11,626**	**—**	**2,145**	**9,853**	**207**	**23,831**
Interest rate and exchange rate risk						
Interest rate and exchange instruments						
Nominal	—	—	353	4,410	207	4,970
EUR / GBP average exchange rate	—	—	—	—	—	
EUR / USD average exchange rate	—	—	—	—	—	
AUD / EUR average exchange rate	—	—	—	—	—	
JPY / EUR average exchange rate	—	—	—	—	—	
CHF / EUR average exchange rate	—	—	—	—	—	
Interest rate risk						
Interest Rate Swaps						
Nominal	11,626	—	1,792	5,443	—	18,861
Average fixed interest rate (%) EUR	—	—	—	—	—	
Bond Forward Instruments						
Nominal	—	—	—	—	—	
Net investment hedges abroad	**2,592**	**3,838**	**13,595**	**3,359**	**—**	**23,384**
Exchange rate risk						
Exchange rate instruments						
Nominal	2,592	3,838	13,595	3,359	—	23,384
BRL / EUR average exchange rate	4.59	4.74	4.74	4.88	—	
CLP / EUR average exchange rate	822.13	822.32	811.64	824.36	—	
COP / EUR average exchange rate	—	—	3,828.61	—	—	
GBP / EUR average exchange rate	0.89	0.91	0.94	—	—	
MAD/EUR average exchange rate	—	10.77	10.87	—	—	
MXN / EUR average exchange rate	23.49	23.10	23.27	—	—	
PLN / EUR average exchange rate	4.37	4.38	4.39	—	—	
Total	**14,451**	**8,149**	**22,269**	**32,762**	**11,375**	**89,006**

The following table contains details of the hedged exposures covered by Banco Santander, S.A. hedging strategies of 31 December 2020 and 2019:

EUR million

	2020						
	Amount in books of the item covered		Cumulative amount of fair value adjustments on the covered line		Change in the fair value of the item covered for inefficiency assessment	Cash flow hedge reserve / foreign currency conversion	
	Assets	Liabilities	Assets	Liabilities		Coverage continues	Discontinuous coverage
Fair value hedges	**23,964**	**20,775**	**321**	**1,440**	**(356)**	**—**	**—**
Interest rate risk	**13,939**	**18,278**	**264**	**1,360**	**(328)**	**—**	**—**
Deposits	*7,276*	*—*	*310*	*—*	*76*	*—*	*—*
Bonds	*4,469*	*18,278*	*(64)*	*1,360*	*(398)*	*—*	*—*
Repo	*2,194*	*—*	*18*	*—*	*(6)*	*—*	*—*
Fixed income securities loans	*—*	*—*	*—*	*—*	*—*	*—*	*—*
Exchange rate risk	**8,030**	**—**	**40**	**—**	**1**	**—**	**—**
Deposits	*1,227*	*—*	*22*	*—*	*—*	*—*	*—*
Bonds	*6,685*	*—*	*14*	*—*	*(1)*	*—*	*—*
Liquidity lines	*118*	*—*	*4*	*—*	*2*	*—*	*—*
Interest rate and exchange rate risk	**1,775**	**2,497**	**14**	**80**	**(27)**	**—**	**—**
Deposits	*946*	*—*	*13*	*—*	*9*	*—*	*—*
Bonds	*—*	*2,400*	*—*	*78*	*(33)*	*—*	*—*
Repo	*829*	*97*	*1*	*2*	*(3)*	*—*	*—*
Credit risk	**220**	**—**	**3**	**—**	**(2)**	**—**	**—**
Bonds	*220*	*—*	*3*	*—*	*(2)*	*—*	*—*
Cash flow hedges	**—**	**—**	**—**	**—**	**231**	**(274)**	**3**
Interest rate risk	**—**		**—**	**—**	**231**	**(266)**	**3**
Deposits	*—*	*—*	*—*	*—*	*(28)*	*27*	*3*
Bonds	*—*	*—*	*—*	*—*	*259*	*(293)*	*—*
Interest rate and exchange rate risk	**—**	**—**	**—**	**—**	**—**	**(8)**	**—**
Deposits	*—*	*—*	*—*	*—*	*—*	*(10)*	*—*
Bonds	*—*	*—*	*—*	*—*	*—*	*2*	*—*
Net investment hedges abroad	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
Exchange rate risk	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
Equity	**20,211**	**—**	**—**	**—**	**—**	**—**	**—**
	44,175	**20,775**	**321**	**1,440**	**(125)**	**(274)**	**3**

EUR million

	2019						
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item		Change in the fair value of the item covered for inefficiency assessment	Cash flow hedge reserve / foreign currency conversion	
	Assets	Liabilities	Assets	Liabilities		Coverage continues	Discontinuous coverage
Fair value hedges	**13,342**	**(22,474)**	**502**	**(1,216)**	**198**	**—**	**—**
Interest rate risk	**4,304**	**(19,753)**	**461**	**(1,169)**	**184**	**—**	**—**
Deposits	*1,300*	*—*	*281*	*—*	*28*	*—*	*—*
Bonds	*1,043*	*(19,753)*	*149*	*(1,169)*	*152*	*—*	*—*
Repo	*1,936*	*—*	*29*	*—*	*4*	*—*	*—*
Fixed income securities loans	*25*	*—*	*2*	*—*	*—*	*—*	*—*
Exchange rate risk	**7,612**	**—**	**40**	**—**	**35**	**—**	**—**
Deposits	*1,912*	*—*	*22*	*—*	*14*	*—*	*—*
Bonds	*5,643*	*—*	*15*	*—*	*18*	*—*	*—*
Liquidity lines	*57*	*—*	*3*	*—*	*3*	*—*	*—*
Interest rate and exchange rate risk	**1,173**	**(2,721)**	**(5)**	**(47)**	**(26)**	**—**	**—**
Deposits	*363*	*—*	*—*	*—*	*1*	*—*	*—*
Bonds	*—*	*(2,621)*	*—*	*(49)*	*(23)*	*—*	*—*
Repo	*810*	*(100)*	*(5)*	*2*	*(4)*	*—*	*—*
Credit risk	**253**	**—**	**6**	**—**	**5**	**—**	**—**
Bonds	*253*	*—*	*6*	*—*	*5*	*—*	*—*
Cash flow hedges	**—**	**—**	**—**	**—**	**17**	**(23)**	**(42)**
Interest rate risk	**—**	**—**	**—**	**—**	**16**	**(16)**	**(42)**
Deposits	*—*	*—*	*—*	*—*	*—*	*—*	*14*
Bonds	*—*	*—*	*—*	*—*	*16*	*(16)*	*(56)*
Interest rate and exchange rate risk	**—**	**—**	**—**	**—**	**1**	**(7)**	**—**
Deposits	*—*	*—*	*—*	*—*	*2*	*(7)*	*—*
Bonds	*—*	*—*	*—*	*—*	*(1)*	*—*	*—*
	13,342	**22,474**	**502**	**(1,216)**	**215**	**(23)**	**(42)**

The cumulative amount of adjustments of the fair value hedging instruments that remain in the balance for covered items that are no longer adjusted by profit and loss of coverage as of 31 December 2020 is EUR 150 million (December 31, 2019 is EUR 204 million).

The following table contains information regarding the effectiveness of the hedging relationships designated by Banco Santander, S.A, as well as the impacts on profit or loss and other comprehensive income as of 31 December 2020 and 2019:

EUR million

	2020				
				Reclassified amount of reserves to the income statement due to	
	Earnings / (losses) recognized in Other accumulated global income	Coverage inefficiency recognized in the income statement	Line of the income statement that includes ineffective coverage	Covered transaction that affects the income statement	Line of the income statement that includes reclassified amounts
Fair value hedges	**—**	**10**		**—**	**N/A**
Interest rate risk	**—**	**4**		**—**	**N/A**
Deposits	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*6*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Repo	*—*	*(2)*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Exchange rate risk	**—**	**—**		**—**	**N/A**
Deposits	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Interest and Exchange rate risk	**—**	**4**		**—**	**N/A**
Deposits	*—*	*(6)*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Bonds	*—*	*7*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Repo	*—*	*3*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Credit risk	*—*	*2*		*—*	*N/A*
Bonds	*—*	*2*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Cash flow hedges	**(206)**	**—**		**33**	**N/A**
Interest rate risk	**(204)**	**—**		**(10)**	**N/A**
Deposits	*17*	*—*	*Gains or losses of financial assets/liabilities*	*(10)*	*N/A*
Bonds	*(221)*	*—*	*Gains or losses of financial assets/liabilities*	*—*	*N/A*
Interest rate and exchange rate risk	**(2)**	**—**		**43**	**N/A**
Deposits	*(3)*	*—*	*Gains or losses of financial assets/liabilities*	*42*	*NET INTEREST INCOME*
Bonds	*1*	*—*	*Gains or losses of financial assets/liabilities*	*1*	*NET INTEREST INCOME*
	(206)	**10**		**33**	

EUR million

	2019				
				Reclassified amount of reserves to the income statement due to	
	Earnings / (losses) recognized in Other accumulated global income	Coverage inefficiency recognized in the income statement	Line of the income statement that includes ineffective coverage	Covered transaction that affects the income statement	Line of the income statement that includes reclassified amounts
Fair value hedges	**—**	**(50)**		**—**	**N/A**
Interest rate risk	**—**	**(48)**		**—**	**N/A**
Deposits	*—*	*(15)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(32)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Loans of fixed income securities	*—*	*(1)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Exchange rate risk	**—**	**(1)**		**—**	**N/A**
Deposits	*—*	*1*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(2)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Interest and Exchange rate risk	**—**	**(1)**		**—**	**N/A**
Deposits	*—*	*1*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Bond	*—*	*(2)*	*Gains or losses of financial assets/ liabilities*	*—*	*N/A*
Financial Repo	*—*			*—*	*N/A*
Cash flow hedges	**(117)**	**—**		**88**	**N/A**
Interest rate risk	**(112)**	**—**		**67**	
Deposits	*(13)*	*—*	*Gains or losses of financial assets/ liabilities*	*(10)*	*NET INTEREST INCOME*
Bonds	*(99)*	*—*	*Gains or losses of financial assets/ liabilities*	*77*	*NET INTEREST INCOME*
Interest rate and exchange rate risk	**(5)**	**—**		**21**	
Deposits	*(5)*	*—*	*Gains or losses of financial assets/ liabilities*	*21*	*NET INTEREST INCOME*
	(117)	**(50)**		**88**	

The following table shows a reconciliation of each component of equity and an analysis of other comprehensive income in relation to hedge accounting as of December 31, 2020:

EUR million

	2020
Balance at the end of the previous year	**(45)**
Amount recognized in Other accumulated global income	
Cash flow hedges	(206)
Interest rate risk and interest rate and exchange rate risk	(206)
Changes in equity by discharge at P&L	*33*
Remains of equity movements	*(239)*
Taxes	62
Balance at year end	**(189)**

33. Off-balance-sheet funds under management

At 31 December 2019, Banco Santander held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 81,964 million (31 December 2019: EUR 76,477 million). Also, at 31 December 2019, the funds marketed but not held under management amounted to EUR 20,503 million (31 December EUR 26,248 million).

34. Interest income

Interest and similar income in the accompanying income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value, and the rectifications of income as a result of hedge accounting, Interest is recognized gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2020 and 2019 is as follows:

EUR million

	2020	2019
Debt instruments	**777**	**1,169**
Central Banks	2	6
Public sector	210	430
Credit entities	342	328
Other financial companies	169	284
Non-financial companies	54	121
Loans and advances	**5,095**	**5,855**
Central Banks	41	130
Public sector	162	225
Credit entities	406	461
Other financial companies	467	705
Non-financial companies	2,607	2,704
Households	1,412	1,630
Other assets	**85**	**178**
Of which, insurance contracts linked to pensions (note 23.c)	*6*	*24*
Deposits	**520**	**274**
Central Banks	375	177
Public sector	2	3
Credit entities	105	71
Other financial companies	30	18
Non-financial companies	8	5
Households	—	—
Hedging derivatives - Interest rate risk	**34**	**80**
Other financial liabilities	**12**	**7**
Debt securities issued	**5**	**3**
	6,528	**7,566**

Most of the interest and similar income was generated by Banco Santander's financial assets that are measured either at amortized cost or at fair value through Other comprehensive income.

35. Interest expense

Interest expense and similar charges in the accompanying income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2020 and 2019 is as follows:

EUR million

	2020	2019
Debt securities Issued	**1,507**	**1,559**
Debt securities	**97**	**98**
Central Banks	—	—
Public sector	49	38
Credit entities	40	41
Other financial companies	8	18
Non-financial companies	—	1
Loans and advances	**361**	**278**
Central Banks	101	94
Public sector	9	10
Credit entities	198	145
Other financial companies	48	23
Non-financial companies	5	6
Households	—	—
Deposits	**1,006**	**1,906**
Central Banks	111	216
Public sector	145	153
Credit entities	351	513
Other financial companies	279	590
Non-financial companies	94	250
Households	26	184
Other financial liabilities	**190**	**205**
Hedging derivatives - Interest rate risk	**(35)**	**(14)**
Pensions and other obligations of defined post-employment benefits (note 23)	**34**	**66**
Others	**—**	**9**
	3,160	**4,107**

Most of the interest expense and similar charges was generated by Banco Santander's financial liabilities that are measured at amortized cost.

36. Dividend income

'Dividend income' includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of income from equity instruments is as follows:

EUR million

	2020	2019
Financial assets held for trading	264	381
Of which		
Spain	*105*	*140*
Rest of Europe	*156*	*238*
America	*1*	*1*
Rest of the world	*2*	*2*
Non-trading financial assets mandatorily at fair value through profit or loss	—	9
Financial assets available for sale		
Financial assets at fair value through other comprehensive income	62	53
Investments in subsidiaries, jointly controlled entities and associates	5,316	5,959
Group entities	*5,221*	*5,679*
Associates	*95*	*280*
	5,642	**6,402**

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognized in 2020 and 2019 is as follows:

EUR million

	2020	2019
Detail of the companies:		
SANTANDER HOLDING INTERNATIONAL, S.A.	1,270	1,100
STERREBEECK B.V.	1,260	1,000
SANTUSA HOLDING, S.L.	1,019	—
TEATINOS SIGLO XXI INVERSIONES, S.A.	733	63
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C	200	201
SANTANDER HOLDING USA, Inc.	112	358
SANTANDER UK GROUP HOLDINGS PLC	88	233
SANTANDER UK GROUP HOLDINGS PLC (AT1)	72	—
ZURICH SANTANDER INSURANCE AMÉRICA, S.L.	80	158
SAM INVESTMENT HOLDINGS LIMITED, S.L.	72	—
SANTANDER CONSUMER FINANCE, S.A. (AT1)	65	926
SANTANDER TOTTA, SGPGS, S.A.	61	61
BANCO SANTANDER (BRASIL) S.A.	59	335
BANCO SANTANDER S.A.	37	49
SANTANDER INVESTMENT, S.A.	30	—
SANTANDER GLOBAL TECHNOLOGY, S.L.	20	73
SANTANDER TOWARZYSTTWO FUNDUSZY INMESTYCJNYCH, S.A.	20	—
SANTANDER GLOBAL OPERATIONS, S.A.	17	—
SOCUR, S.A.	17	15
SANTANDER CHILE HOLDING, S.A.	16	37
SAM INVESTMENT HOLDINGS, S.L. (before SAM UK INVESTMENT HOLDINGS LIMITED)	1	149
GRUPO FINANCIERO SANTANDER MÉXICO, S.A. de C.V.	—	357
SANTANDER BANK POLSKA S.A.	—	317
SANTANDER SEGUROS Y REASEGUROS, COMPAÑÍA ASEGURADORA, S.A.	—	200
POPULAR SPAIN HOLDING DE INVERSIONES, S.L.U. (before ALLIANZ POPULAR, S.L.)	—	52
SANTANDER LEASE, S.A., E.F.C.	—	42
BANCO SANTANDER MEXICO, S.A., INSTITUCIÓN DE BANCA MÚLTIPLE, GRUPO FINANCIERO SANTANDER MÉXICO	—	42
Other companies	67	191
	5,316	**5,959**

37. Commission income

Fee and commission income comprise the amount of all fees and commissions accruing in favour of Banco Santander in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of fee and commission income in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Collection and payment services:		
Current Accounts	300	250
Credit and debit cards	194	307
Transfers and other payment orders	84	89
Other commission income in connection with payment services	71	90
	649	**736**
Marketing of non-banking financial products:		
Collective Investment	465	456
Insurance	232	262
Other	—	—
	697	**718**
Securities services:		
Securities underwriting and placement	138	129
Transfer orders	12	—
Other	90	10
	240	**139**
Clearing and settlement	**78**	**60**
Asset management	**78**	**58**
Custody	**67**	**67**
Structured finance	**229**	**206**
Loan granted commitments granted	**217**	**164**
Financial granted guarantees granted	**222**	**238**
Other:		
Foreign currency exchange	88	83
Other concepts	246	311
	334	**394**
	2,811	**2,780**

38. Commission expense

Fee and commission expense show the amount of all fees and commissions paid or payable by Banco Santander in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of fee and commission expense in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Clearing and settlement	73	83
Loan commitments received	—	25
Financial guarantees received	113	138
Custody	—	2
Other *	308	268
	494	**516**

* Other Includes mainly commissions paid for financial and mediation services, as well as credit cards.

39. Gains or losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the 'Other comprehensive income' of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by classification of the related instrument, of Gains/losses on financial assets and liabilities in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	578	891
Financial assets at amortized cost	10	296
Other financial assets and liabilities	568	595
Of which, debt instruments	*565*	*592*
Of which, equity instruments	—	—
Gains or losses on financial assets and liabilities held for trading, net*	(29)	(12)
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	(290)	35
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net*	4	(54)
Gains or losses from hedge accounting, net	10	(50)
	273	**810**

* Includes the net income obtained from transactions with debt securities, capital instruments, derivatives and short positions included in this portfolio when the Bank jointly manages its risk in those instruments.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

EUR million

	2020	2019
Loans and receivables	35,222	51,246
Central Banks	482	138
Credit institutions	9,891	18,543
Customers	24,849	32,565
Debt instruments*	18,914	20,193
Equity instruments	10,063	11,928
Derivatives	53,362	55,694
	117,561	**139,061**

* Include EUR 13,842 million related to Spanish and foreign government debt securities at 31 December 2020 (31 December 2019 EUR 14,741 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2020 and 2019, respectively, Banco Santander mitigates and reduces this exposure as follows.

With respect to derivatives, Banco Santander has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment. Banco Santander also applies a risk premium accrual policy for derivatives arranged with customers.

Loans and receivable' to credit institutions and loans and receivable to customers included reverse repos amounting to EUR 31,070 million at 31 December 2020 (December 2019: EUR 45,807 million).

In addition, assets amounting to EUR 1,408 million have a mortgage guarantee at 31 December 2020 (December 2019: EUR 1,853 million).

At 31 December 2020 the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

EUR million

	2020	2019
Deposits	16,890	24,264
Central Banks	*1,469*	*7,596*
Credit Institutions	*4,496*	*6,152*
Customers	*10,925*	*10,516*
Short positions	10,338	8,288
Derivatives	50,676	56,068
	77,904	**88,620**

At 31 December 2020, the amount of the change in the fair value of financial liabilities at fair value through profit or loss attributable to changes in their credit risk during the year is not material.

40. Exchange differences, net

This chapter basically includes the results obtained in the purchase and sale of currencies, the differences that arise when converting monetary items in foreign currency to functional currency and those from non-monetary assets in foreign currency at the time of disposal.

The detail of 'Exchange differences (net)' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Net gains/losses on		
Foreign currency purchases and sales	240	33
Translation of monetary items to the functional currency	132	(488)
	372	**(455)**

Banco Santander manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analyzed together with those recognized under Gains/losses on financial assets and liabilities (see note 39).

41. Other operating income and other operating expenses

The detail of 'Other operating income' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Exploitation of real estate investments and operating leases	241	199
Others	163	175
	404	**374**

The detail of 'Other operating expenses' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Contribution to Deposit Guarantee Fund (note 1.h)	(239)	(234)
Real estate investment expenses		
Contribution to Resolution Fund* (note 1.h)	(262)	(187)
Other operating expenses	(284)	(195)
	(785)	**(616)**

*Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund.

42. Staff costs

a) Breakdown

The detail of 'Staff costs' in 2020 and 2019 is as follows:

EUR million

	2020			2019		
	Of which, in Spain	Of which, foreign branches	Total	Of which, in Spain	Of which, foreign branches	Total
Wages and salaries	1,639	241	1,880	1,856	218	2,074
Social security costs	381	27	408	424	25	449
Additions to provisions for defined benefit pension plans (note 23)	11	—	11	12	1	13
Contributions to defined contribution pension funds	72	8	80	74	8	82
Equity-instrument-based remuneration	—	—	—	—	—	—
Other staff costs	191	16	207	243	13	256
	2,294	**292**	**2,586**	**2,609**	**265**	**2,874**

b) Headcount

The average number of employees at the Bank, by professional category, is as follows:

Average number of employees

	2020	2019
Executive and Senior management	21	20
Other line personnel	26,527	29,147
Staff at branches abroad	955	842
	27,503	**30,009**

The functional breakdown, by gender, at 31 December 2020 is as follows:

	Breakdown by gender			
	Executives		Other line personnel	
	Men	Women	Men	Women
Breakdown by gender	75 %	25 %	52 %	48 %

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

The number of employees with disabilities greater than or equal to 33%, distributed by professional categories at December 31, 2020 and 2019, is as follows:

	2020	2019
Senior management	—	—
Other management	30	28
Other staff	287	267
	317	**295**

The average number of Santander Bank employees with disabilities greater than or equal to 33%, at the end of 2020 was of 319 (31 December 2019 was of 318).

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December, 2020, 2019 and 2018 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject.

These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are as follows: (i) Deferred and Conditional Variable Remuneration Plan; (ii) Performance Shares Plan (iii) Deferred Multiyear Objectives Variable Remuneration Plan; (iv) Digital Transformation Award. The characteristics of the plans are set forth below:

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(i) Deferred and conditional variable remuneration plan (2015, 2016, 2017, 2018, 2019 and 2020)	The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three years for the sixth cycles, and over three or five years for the fifth, seventh, eighth, ninth and tenth cycles, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below. Beneficiaries: Executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (fifth cycle) In the case of the sixth, seventh, eighth, ninth and tenth cycle, the beneficiaries are Material Risk Takers (Identified staff) that are not beneficiaries of the Deferred Multiyear Objectives Variable Remuneration Plan.	For the fifth and sixth cycles (2015 to 2016), the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations upon none of the following circumstances existing during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: Poor financial performance of the Group. breach by the beneficiary of internal regulations, including, in particular, those relating to risks. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards. Significant changes in the Group's economic capital or risk profile In the case of the seventh, eight, ninth and tenth cycles (2017 to 2020), the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered: significant failures in risk management committed by the entity , or by a business unit or risk control unit. the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures. Regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity. Irregular behaviours, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions.	Fifth cycles (2015): Executive directors and members of the Identified Staff with total variable remuneration higher than 2.6 million euros: 40% paid immediately and 60% deferred over 3 years (fourth cycle) or 5 years (fifth cycle). Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration between 1.7 million euros (1.8 million in fourth cycle) and 2.6 million euros: 50% paid immediately and 50% deferred over 3 years (fourth cycle) or 5 years (fifth cycle) Other beneficiaries: 60% paid immediately and 40% deferred over 3 years. Sixth cycle (2016): 60% of bonus will be paid immediately and 40% deferred over a three year period. Seventh, eight, ninth and tenth cycle (2017, 2018, 2019 and 2020): Beneficiaries of these plans with target total variable remuneration higher or equal to 2.7 million euros: 40% paid immediately and 60% deferred over 5 years Beneficiaries of these plans with target total variable remuneration between 1.7 million euros and 2.7 million euros: 50% paid immediately and 50% paid over 5 years Other beneficiaries of these plans: 60% paid immediately and 40% deferred over 3 years.
(ii) Performance shares plans (2014 and 2015)	The purpose is to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on the Bank's performance over a multiannual period. In addition, the second cycle also applies to other Bank employees not included in the Identified Staff or Material Risk Takers, in respect of whom it is deemed appropriate that the potential delivery of Bank shares be included in their remuneration package in order to better align the employee's interests with those of the Bank. Beneficiaries i. Executive Directors and senior managers ii. Other Material Risk Takers or Identified Staff iii. Other beneficiaries	In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances existing, in the opinion of the board of directors, subject to a proposal of the remuneration committee, during the period prior to each delivery: Poor financial performance of the Group; breach by the beneficiary of internal regulations, including, in particular, those relating to risks. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards. significant changes in the Group's economic capital or risk profile. For the second cycle (2015), based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.	For the second cycle (2015), the basis of calculation is the fulfilment of the following objectives: Relative performance of the earning per share growth (EPS) growth of the Santander Group for the 2015-2017 period compared to a peer group of 17 credit institutions. RoTE of the Santander Group for financial year 2017 Employee satisfaction, measured by whether or not the corresponding Group company is included in the "top 3" of the best banks to work for. number of principal markets in which Santander is in the op 3 top the best banks on the customer satisfaction index in 2017 Retail loyal clients SME and corporate loyal clients As a result of the process described above the board of directors approved, further to a proposal from the remuneration committee, a 65.67% achievement for the plan. This plan terminated in 2019.

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iii)Deferred Multiyear Objectives Variable Remuneration Plan (2016, 2017, 2018, 2019 and 2020)	The aim is simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the impact of the long-term objectives on the Group's most relevant roles. The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three or five years, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below. The accrual of the last third of the deferral (in the case of 3 years deferral) of the last three fifths (in the case of 5 years deferral) is also subject to long-term objectives. Beneficiaries Executive directors, senior managers and certain executives of the Group's first lines of responsibility.	In 2016 the accrual is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations that none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: Poor performance of the Group. breach by the beneficiary of the internal regulations, including in particular that relating to risks. material restatement of the Group's consolidated financial statements, except when appropriate under a change in accounting regulations. Significant changes in the Group's economic capital or risk profile. In 2017, 2018, 2019 and 2020 the accrual is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: Significant failures in risk management committed by the entity, or by a business unit or risk control unit. the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures. Regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity. Irregular behaviours, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions. Paid half in cash and half in shares. The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank.	First cycle (2016): Executive directors and members of the Identified Staff with total variable remuneration higher than or equal to 2.7 million euros: 40% paid immediately and 60% deferred over a 5 year period. Senior managers, country heads of countries representing at least 1% of the Group´s capital and other members of the identified staff whose total variable remuneration is between 1.7 million and 2.7 million euros: 50% paid immediately and 50% deferred over a5 year period. Other beneficiaries: 60% paid immediately and 40% deferred over a 3 year period. The second, third and fourth cycles (2017, 2018 and 2019, respectively) are under the aforementioned deferral rules, except that the variable remuneration considered is the target for each executive and not the actual award. In 2016 the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: Earnings per share (EPS) growth in 2018 over 2015. Relative Total Shareholder Return (TSR) in the 2016-2018 period measured against a group of credit institutions. Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial year 2018. Compliance with Santander Group's underlying return on risk-weighted assets ("RoRWA") growth target for financial year 2018 compared to financial year 2015. In the second, third and fourth cycle (2017, 2018 and 2019) the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: EPS growth in 2019, 2020, 2021 and 2022 (over 2016, 2017, 2018 and 2019, for each respective cycle) Relative Total Shareholder Return (TSR) measured against a group of 17 credit institutions (second and third cycles) in the periods 2017-2019 and 2018.-2019, respectively, and against a group of 9 entities (fourth and fifth cycle) for the 2019-2021 and 2020-2022 period. Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial years 2019, 2020, 2021 and 2022, respectively.

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iv) Digital Transformation Award (2019 y 2020)	The 2019 and 2020 Digital Transformation Incentive (the "Digital Incentive") is a variable remuneration system that includes the delivery of Santander shares and share options. The aim of the Digital Incentive is to attract and retain the critical skill sets to support and accelerate the digital transformation of the Group. By means of this program, the Group offers a remuneration element which is competitive with the remuneration systems offered by other market operators who also compete for digital talent. The number of beneficiaries is limited to a maximum of 250 employees and the total amount of the incentive is limited to 30 million euros.	The funding of this incentive is subject to meeting important milestones that are aligned with the Group´s digital roadmap and have been approved by the board of directors, taking into account the digitalization strategy of the Group, with the aim of becoming the best open, responsible global financial services platform. Performance of incentive shall be measured based on achievement of the following milestones: Launch of a Global Trade Services (GTS) platform. Launch of a Global Merchant Services (GMS) platform. Migration of our fully digital bank, OpenBank, to a "next generation" platform and launch in 3 markets. Extension of SuperDigital in Brazil to at least one other country. Launch of our international payments app based on blockchain Pago FX to non-Santander customers. The milestones for the 2020 Digital Transformation Award were: (i) rolling out the global merchant services (GMS) platform in 3 new geographies, enhancing the platform functionality and achieving volume targets for transactions and participating merchants; (ii) doing the commercial rollout of the global trade services (GTS) platform in 8 new geographies, enhancing platform functionality, and achieving volume targets for on-boarded clients and monthly active users; (iii) launching OpenBank in a new market and migrating the retail banking infrastructure to "new-mode" bank; (iv) launch the global platform SuperDigital in at least 4 countries, driving target active user growth; (v) deploying machine learning across pre-defined markets for 4 priority use cases, rolling out Conversion Rate Optimization (Digital marketing) for at least 40 sales programs, delivering profit targets, and driving reduction of agent handled calls in contact centers; (vi) successfully implementating initiatives related to on-board and identity services, common API (application programming interface) layer, payment hubs, mobile app for SMEs and virtual assistant services; and (vii) launching the PagoFX global platform in at least 4 countries. Any delivery of shares, either directly or via exercise of options overs shares, will be subject generally to the Group's general malus & clawback provisions as described in the Group's remuneration policy and to the continuity of the beneficiary within the Santander Group. In this regard, the board may define specific rules for non-Identified Staff	The Digital Incentive is structured 50% in Santander shares and 50% in options over Santander shares, taking into account the fair value of the option at the moment in which they are granted. For Material Risk Takers subject to five year deferrals, the Digital Incentive (shares and options over shares) shall be delivered in thirds, on the third, fourth and fifth anniversary from their granting. For Material Risk Takers subject to three year deferrals and employees not subject to deferrals, delivery shall be done on the third anniversary from their granting. Vested share options can be exercised until maturity, with all options lapsing after ten years and eight years from granting for the 2019 and 2020 incentive, respectively.

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousand)	Exercise price in pounds sterling*	Year granted	Employee group	Number of persons**	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 01/01/2018	**27.201**						
Options granted (sharesave)	6,210	3.46	2018	Employees	4,880	01/11/18	01/11/21
						01/11/18	01/11/23
Options exercised	(3,340)	3.16					
Options cancelled (net) or not exercised	(3,233)	3.76					
Plans outstanding at 31/12/2018	**26,838**						
Options granted (sharesave)	9,594	2.83	2019	Employees	5,606	01/11/19	01/11/22
						01/11/19	01/11/24
Options exercised	(7,978)	2.83					
Options cancelled (net) or not exercised	(5,081)	3.42					
Plans outstanding at 31/12/2019	**23,373**						
Options granted (sharesave)	11,642	1.65	2020	Employees	5,012	01/11/20	01/11/23
						01/11/20	01/11/25
Options exercised	(860)	2.75					
Options cancelled (net) or not exercised	(12,993)	2.96					
Plans outstanding at 31/12/2020	**21,162**						

* At 31 December, 2020, 2019 and 2018, the euro/pound sterling exchange rate was EUR 1.1168 GBP 1, EUR 1.1754 GBP 1; EUR 1.1179 GBP 1, respectively.
** Number of accounts/contracts. A single employee may have more than one account/contract.

IIn 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. At the end of the chosen period, the employee may choose between collecting the amount contributed, the interest accrued and a bonus (tax-exempt in the United Kingdom) or exercising options on shares of the Bank in an amount equal to the sum of such three amounts at a fixed price. The exercise price will be the result of reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on June 21, 2008. Also, the scheme was authorized by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the Annual General Meetings held on June 19, 2009, June 11, 2010, June 17, 2011, March 30, 2012, March 22, 2013, March 28, 2014, March 27, 2015, March 18, 2016, April 7, 2017, March 23, 2018, April 12, 2019, and April 3, 2020 respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) Deferred variable compensation plan linked to multi-year objectives 2018, 2019 and 2020:

The Group calculates at the grant date the fair value of the plan based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2018, 2019 and 2020 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60%-80%. It has been considered that the fair value is 70% of the maximum.

b) Santander UK sharesave plans:

The fair value of each option at the date of grant is estimated using a partial differentiation equation model. This model uses assumptions on the share price, the EUR/GBP FX rate, the risk free interest rate, dividend yields, the expected volatility of the underlying shares and the expected lives of options granted. The weighted average grant-date fair value of options granted during the year was GBP 0.21 (GBP 0.49 and GBP 0.53 in 2019 and 2018, respectively).

43. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Technology and systems	666	652
Fixtures and supplies	258	310
Other administrative expenses	630	608
Technical reports	194	204
Advertising	101	107
Per diems and travel expenses	19	60
Surveillance and cash courier services	42	58
Communications	31	25
Taxes other than income tax	58	106
Insurance premiums	17	19
	2,016	**2,149**

b) Technical reports and other

Technical reports includes the fees paid by the various Group companies (detailed in the accompanying appendices) for the services provided by their respective auditors, the detail being as follows:

EUR million

	2020*	2019*
Audit fees	95.8	102.4
Audit-related fees	6.0	7.8
Tax fees	0.8	0.7
All other fees	1.2	2.3
Total	**103.8**	**113.2**

* Of which Banco Santander, S.A., EUR 27.5 million, EUR 2.1 million, EUR 0 million and EUR 0.4 million respectively as at December 31, 2020 (EUR 28.4 million, EUR 2.4 million, EUR 0 million and 0.2, respectively as at December 31, 2019).

The 'Audit fees' heading includes mainly, audit fees for the Banco Santander, S.A. individual and consolidated financial statements, as the case may be, of the companies forming part of the Group, the integrated audits prepared for the annual report filling in the Form 20-F required by the U.S. Securities and Exchange Commission (SEC) for those entities currently required to do so, the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of 30 June and, the regulatory reports required by the auditor corresponding to the different locations of Grupo Santander.

The main concepts included in '*Audit-related fees*' correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, Securitization.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB), applicable to the Group, and they did not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 172.4 million in 2020 (EUR 227.6 million and EUR 173.9 million in 2019 and 2018, respectively).

The Audit fees and Audit-related fees caption includes the fees corresponding to the audit for the year, regardless of the date on which the audit was completed. In the event of subsequent adjustments, which are not significant in any case, and for purposes of comparison, they are presented in this note in the year to which the audit relates. The rest of the services are presented according to their approval by the Audit Committee.

c) Number of branches

The number of offices at 31 December 2020 and 2019 is as follows:

Number of branches

	Group	
	2020	2019
Spain	2,989	3,286
Group	8,247	8,666
	11,236	**11,952**

Number of branches

	Of which, Banco Santander	
	2020	2019
Spain	2,905	3,202
International	9	9
	2,914	**3,211**

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates

The detail of 'Impairment losses on other assets (net)' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Investments in subsidiaries, joint ventures and associates (note 13)	5,921	434
	5,921	**434**

45. Gains or losses on non-financial assets and investments, net

The detail of 'Gains/(losses) on disposal of assets not classified as non-current assets held for sale' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
On disposal of tangible assets	7	2
On disposal of investments in subsidiaries, jointly controlled entities and associates	1,135	50
Of which (note 13)		
Capital reductions and refunds of share premium by subsidiaries (note 13.b)	—	—
Banco Santander Brasil (sale to company de Grupo Santander)	*1,127*	
Grupo Financiero Ve por Mas	—	*12*
	1,142	**52**

46. Gains or losses on non-current assets held for sale not classified as discontinued operations

The detail of 'Gains/(losses) on non-current assets held for sale not classified as discontinued operations' in the accompanying income statements for 2020 and 2019 is as follows:

EUR million

	2020	2019
Impairment of non-current assets held for sale (note 12)	(68)	(70)
Gain / (loss) on disposal*	(9)	(109)
	(77)	**(179)**

* Year 2019: includes the result of extraordinary sales of real estate portfolio.

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47. Related parties

The parties related to Banco Santander are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, Banco Santander's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by Banco Santander with its related parties at 31 December 2020, distinguishing between subsidiaries, associates and jointly controlled entities, members of Banco Santander's board of directors, Banco Santander's executive vice presidents, and other related parties, Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognized.

EUR million

	Subsidiaries, associates and jointly controlled entities	Members of the board of directors*	Executive vice presidents*	Other related parties*
Assets	**144,956**	**—**	**24**	**90**
Equity instruments	85,329	—	—	—
Debt instruments	10,803	—	—	—
Loans and advances	48,824	—	24	90
From which: impaired financial assets	138	—	—	—
Liabilities	**19,740**	**4**	**16**	**158**
Deposits credit institution and clients	19,123	4	16	158
Marketable debt securities	617	—	—	—
Income statement	**6,977**	**—**	**—**	**3**
Interest and similar income	671	—	—	2
Interest expense and similar charges	62	—	—	—
Interest from equity instruments	5,318	—	—	—
Gains / (Losses) on financial instruments and other	7	—	—	—
Fee and commission income	770	—	—	1
Fee and commission expense	149	—	—	—
Other	**347,736**	**1**	**1**	**45**
Contingent liabilities	5,521	—	—	3
Contingent commitments	9,070	1	1	13
Financial instruments - derivatives	333,145	—	—	29

* Includes transactions carried out with both Banco Santander and with other entities of Grupo Santander.

Additionally, the above-mentioned breakdown shows pension insurance contracts with Grupo Santander insurance companies amounting to EUR 249 million on December 31 of 2020.

48. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the balance sheets as of 31 December 2020 and 2019 is as follows:

EUR million

	2020							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Average iterest rate
Assets								
Cash, cash balances at central banks and other demand deposits	67,561	—	—	—	—	—	67,561	(0.44)%
Financial assets at fair value with changes in other comprehensive income								
Representative values of debt	—	50	1,466	234	1,723	11,673	15,146	1.24 %
Financial assets at amortised cost								
Representative values of debt	—	107	122	276	2,366	8,542	11,413	2.87 %
Loans and advances								
Central banks	—	20	—	1	—	—	21	— %
Credit institutions	12,082	2,489	4,233	8,998	5,539	818	34,159	0.17 %
Customer	19,238	10,345	28,981	22,142	79,552	105,169	265,427	2.06 %
	98,881	**13,011**	**34,802**	**31,651**	**89,180**	**126,202**	**393,727**	
Liabilities								
Financial liabilities at amortised cost								
Deposits								
Central banks	42	—	3,368	404	56,558	—	60,372	(1.00)%
Credit institutions	25,495	4,863	2,055	2,434	4,930	948	40,725	0.07 %
Customer	247,219	6,740	5,677	9,513	5,611	980	275,740	0.01 %
Debt securities issued	1,401	2,380	4,791	5,865	32,120	41,345	87,902	2.15 %
Other financial liabilities	123	3,453	3,935	472	778	1,119	9,880	N/A
	274,280	**17,436**	**19,826**	**18,688**	**99,997**	**44,392**	**474,619**	
Difference (assets less liabilities)	**(175,399)**	**(4,425)**	**14,976**	**12,963**	**(10,817)**	**81,810**	**(80,892)**	

EUR million

	2019							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total	Average iterest rate
Assets								
Cash, cash balances at central banks and other demand deposits	32,471	—	—	—	—	—	32,471	(0.29)%
Financial assets at fair value with changes in other comprehensive income								
Representative values of debt	—	1,229	786	590	3,055	20,646	26,306	1.85 %
Financial assets at amortized cost								
Representative values of debt	—	98	206	209	1,335	12,680	14,528	3.27 %
Loans and advances								
Central banks	—	20	—	2	—	—	22	— %
Credit institutions	13,097	4,734	2,343	8,100	5,875	598	34,747	0.22 %
Customer	21,332	14,529	26,931	21,125	49,199	106,882	239,998	2.09 %
	66,900	**20,610**	**30,266**	**30,026**	**59,464**	**140,806**	**348,072**	
Liabilities								
Financial liabilities at amortized cost								
Deposits								
Central banks	95	454	64	19,277	17,006	—	36,896	(0.40)%
Credit institutions	27,285	12,196	1,977	2,495	5,867	1,360	51,180	1.12 %
Customer	217,441	5,415	4,687	13,393	6,435	3,150	250,521	0.20 %
Debt securities issued	—	3,478	8,045	9,338	28,086	38,620	87,567	2.16 %
Other financial liabilities	5,616	1,655	241	43	1,491	1,808	10,854	N/A
	250,437	**23,198**	**15,014**	**44,546**	**58,885**	**44,938**	**437,018**	
Difference (assets less liabilities)	**(183,537)**	**(2,588)**	**15,252**	**(14,520)**	**579**	**95,868**	**(88,946)**	

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the balance sheets as of 31 December 2020 and 2019, based on the nature of the related items, is as follows:

Countervalue in EUR million

	2020	2019
Assets	**162,058**	**185,960**
Cash and balances at central banks and other deposits on demand	5,168	7,534
Financial assets held for trading	29,422	35,271
Non-trading financial assets mandatorily at fair value through profit or loss	768	15,062
Financial assets designated at fair value through profit or loss	11,107	14,529
Financial assets at fair value through other comprehensive income	5,419	5,494
Financial assets at amortized cost	70,802	62,272
Hedging derivatives	1,116	750
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	—	—
Investments	37,215	44,011
Tangible assets	21	34
Intangible assets	4	4
Tax assets	28	5
Other assets	988	994
Non-current assets and disposal groups which have been classified as assets held-for-sale	—	—
Liabilities	**100,734**	**109,543**
Financial liabilities held for trading	26,178	27,801
Financial liabilities designated at fair value through profit or loss	6,143	12,773
Financial liabilities at amortized cost	67,101	67,989
Hedging derivatives	362	325
Changes in the fair value of hedged items in portfolio hedges of interest risk rate	—	—
Provisions	88	68
Tax liabilities	—	—
Refundable equity on demand	—	—
Other liabilities	862	587
Liabilities included as disposal groups which have been classified as liabilities held-for-sale	—	—

c) Fair value of financial assets and liabilities not measured at fair value

Financial assets are measured at fair value in the accompanying balance sheets, except for loans and receivables under a business model whose objective is to collect the flows of principal and interest , equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlying and are settled by delivery thereof.

Similarly, financial liabilities except for financial liabilities held for trading, those measured at fair value and derivatives having equity instruments whose market value cannot be estimated reliably as their underlying- are measured at amortized cost in the accompanying balance sheets.

The following is a comparison between the value of Grupo Santander's financial instruments valued using other criteria rather than fair value and their corresponding fair value at year-end:

Financial assets and liabilities measured at other than fair value

The fair value of financial instruments measured at amortized cost as of 31 December 2020 was as follows:

a. The fair value of debt securities is 7.69% higher than the carrying amount.

b. The fair value of the loans and advances is 1.03% lower than the carrying amount.

c. The fair value of deposits is 0.06% lower than the carrying amount.

d. The fair value of marketable debt securities is 6.27% greater than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2020 to determine the fair values of the financial assets and liabilities recognized at cost detailed above:

- Loans and receivables: The fair value has been estimated using the present cost method, the estimation has considered factors such as the expected maturity of the portfolio, market interest rates, spreads of new concession of operations, or market spreads – If these were available.
- Held to maturity portfolio: The fair value has been determined based on market prices for those instruments.
- Financial liabilities at amortized cost:

  a. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

  b. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

  c. Customer deposits: Fair value has been estimated using the present value technique. The estimation has considered factors such as the expected maturity of the operations and the current financing cost of Grupo Santander in similar operations.

  d. Marketable debt securities: Fair value has been determined based on market prices for these instruments, when available, or using the present value technique, by applying interest rates and market spreads.

Additionally, the fair value of Cash, Cash Balances at central banks and other deposits on demand has been assimilated to its carrying amount, mainly because of short-term balances.

49. Risk management

a) Cornerstones of the risk function

Risk principles below are compulsory. They comply with regulatory requirements and are inspired by best market practices:

1. All employees are risk managers. Employees must understand the risks inherent in their jobs, avoiding them wherever the impact is unknown or exceeds our risk appetite.
2. Engagement of top management, who must act and communicate to manage risks consistently, supervise our risk culture and make sure we keep our risk profile within our risk appetite.
3. Independent risk management and control functions, consistent with our model of three lines of defence, which is further explained in section
4. A forward-looking, comprehensive approach to risk management and control for all businesses and risk types.
5. Detailed, timely information to detect, assess, manage and report risks to the appropriate level of management.

Holistic control structure stands on these principles, plus a series of strategic tools and procedures embedded in Grupo and Banco Santander risk appetite statement, such as risk profile assessment, scenario analysis, risk reporting structure and the annual planning and budget process.

1. Main risks of Grupo and Banco Santander financial instruments

The classification of risks ensures effective risk management, control and reporting. Our risk framework distinguishes these key risk types:

- Credit risk relates to financial loss arising from the default or credit quality deterioration of a customer or counterparty, to which Santander has directly provided credit or assumed a contractual obligation.
- **Market risk** results from changes in interest rates, exchange rates, equities, commodities and other market factors, and from their effect on profit or capital.
- Liquidity risk occurs if liquid financial resources are not enough to meet due obligations or can only be obtained at a high cost.
- Structural risk relates to the changing value or margin of assets or liabilities in the banking book owing to changes in market factors and balance sheet behaviour. It includes risks from insurance, pension activities or an inadequate quantity or quality of capital to fulfil internal business objectives, regulatory requirements or market expectations.
- Operational risk is the possibility of losses from inadequate or failed internal processes, people and systems or from external events. It includes legal risk and conduct risk.
- Regulatory compliance risk is the risk of not fulfilling legal and regulatory requirements and supervisors

´expectations, and may lead to fines, financial penalties or other sanctions.

- Model risk involves potential losses resulting from inaccurate predictions that lead to sub-optimal decision-making, or from a misuse or inadequate implementation of a model.
- Reputational risk consists of potential losses from damage to its reputation amongst employees, customers, shareholders/investors and the wider community.
- Strategic risk relates to losses or damage to the medium- and long-term interests of key stakeholders owing to strategic decision-making, poor execution of strategy or failure to adapt to external developments.

Grupo and Banco Santander, also consider environmental and climate-related risk drivers (whether physical or transition-led) as factors that could impact the exiting risks in the medium and long-term.

2. Risk governance

Grupo and Banco Santander, a robust risk governance structure, aimed at ensuring the effective control of its risk profile in accordance with the risk appetite defined by the board of directors.

The board of directors is responsible for approving the general framework for risk management and control.

This governance structure is underpinned by the distribution of roles among the three lines of defence, a robust structure of committees and a strong relationship between the Group and its subsidiaries. All led by the Group-wide risk culture, *Risk Pro*.

2.1 Lines of defense

Grupo and Banco Santander, follow a three lines of defence model to ensure effective risk management and control:

- First line: Businesses and functions that originate risks make up the first line of defence, which identifies, measures, controls, monitors and reports risks. It adheres to all risk management policies and procedures, making sure risks fit within risk appetite and other limits.
- Second line: The Risk and Compliance & Conduct functions form the second line of defence to provide independent oversight and challenge to risk management decisions from the first line. The second line of defence ensures risks are managed according to risk appetite, strenghtening our risk culture across Grupo Santander.
- Third line: The Internal Audit function is independent to assure senior management about the quality and effectiveness of internal controls, risk management. governance and systems, helping to safeguard our value, solvency and reputation.

The Risk, Compliance & Conduct and Internal Audit functions are separate and independent. Each has its own direct access to the board of directors and its committees.

2.2 Risk and Compliance committee structure

The **board of directors'** duties include risk and compliance management and control. It regularly revises and approves risk appetite and frameworks, strengthening and promoting our risk culture. In its duties, the board is supported by the risk supervision, regulation and compliance committee and the Grupo Santander executive committee.

The **Group chief risk officer (Group CRO)** is responsible for devising risk strategy, overseeing all risks, and challenging and advising business lines on their risk management.

The **Group chief compliance officer (Group CCO)** promotes the adherence to rules, supervisory requirements, principles of good conduct and values. This role determines the compliance and conduct strategy, and independently oversees and challenges the compliance and conduct risk management of the first line of defence.

Both the Group CRO and CCO have direct access, and report to, the risk supervision, regulation and compliance committee and the board of directors.

The executive risk, risk control and general compliance committees are also at the top of Grupo and Banco Santander risk and compliance governance, with authority delegated by the board of directors. Further detail is provided in the table below:

	Executive risk committee (ERC)	Risk control committee (RCC)	General compliance committee
Duties:	This committee is responsible for risk management duties delegated by the board, being authorized to accept, modify or scale those actions or transactions that may expose the entity to a relevant risk as well as the most significant models. It takes the highest-level risk-related decisions within the group's risk appetite.	This committee is responsible for risk control and for providing a holistic view of all risks. It determines if the risks business lines are being managed according to risk appetite. It also identifies, monitors and evaluates the impact of current and emerging risks on the group's risk profile.	The committee is responsible for reviewing significant compliance and conduct risk events, and evaluating related measures. It devises and assesses corrective actions for compliance risks owing to shortcomings in management and control or new risks.
Chair:	CEO	Group CRO	Group CCO
Composition:	Nominated executive directors and other senior managers from the Risk, Finance and Compliance & Conduct functions (the Group CRO has veto power over committee resolutions).	Senior managers from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions (CRO from subsidiaries regularly report on their own risk profiles).	Senior managers from the Compliance & Conduct, Risk, Accounting and Management functions. The committee chair has a casting vote over committee resolutions.

Risk functions have forums and regular meetings to manage and control the risks under their scope. Their responsibilities include:

- Reporting to the Group CRO, Group CCO, the risk control committee and general compliance committee on risk management according to risk appetite.
- Monitoring each risk factor regularly.
- Overseeing measures to meet supervisor and auditor expectations.

Grupo and Banco Santander may set up additional government for special cases.

- Amid the covid-19 pandemic, coordination and communication with our subsidiaries is essential to making sure our actions were effective, underpinned by written communication, meetings, reporting and enhanced governance. In early March, we implemented specific weekly reporting mechanisms so all units could provide detailed, standardized information.

Grupo Santander monitored the pandemic intensively through special situation forums such as the credit risk war room, in addition to our regular governance framework. Close coordination between our subsidiaries and Group-wide and local contingency plans (including scenario analysis) strengthened resources and governance. As the crisis developed, it became a multidisciplinary task force composed of members from relevant functions to steer units in managing credit risk with these special work streams in place: i) monitoring and reporting; ii) sectorial intelligence; iii) portfolio management; iv) credit strategy; v) regulatory assurance; vi) credit forecasting and vii) collections and recoveries.

- Furthermore, in view of Brexit, Grupo Santander and Santander UK set up steering committees and separate working groups to monitor the transition; develop contingency plans; and escalate and make decisions to minimise impact on our business and customers.

2.3 The Group's relationship with subsidiaries regarding risk management

In all Grupo Santander's subsidiaries, the risk and compliance management and control models are aligned with the frameworks established by the group's board of directors. The local units adhere to them through their respective boards and adapt them to their own market conditions and regulation.

As part of the aggregate supervision function for all risks, Grupo Santander challenges and validates subsidiaries' policies and transactions. This creates a common risk management and control model across the group.

In 2020, a new approach was taken in the relationship with the Group´s subsidiaries with the creation of three regions (Europe, North America and South America) and the appointment of three risk regional leaders. The aim is to enhance the identification of synergies under a common operating model and common platforms, leveraging the Group's global and regional scale, as well as simplifying processes and strengthening control mechanisms to support business growth while optimizing capital allocation and better serving Group´s customers.

In this sense, each local CRO must regularly interact with, and report to, the risk regional leaders, the Group CRO and the Group CCO. Additionally, periodic follow-up meetings are held between the different risk areas and the local counterparts.

Furthermore, the Group CRO, the Group CCO, and Risk Regional Leaders take part in appointments, target setting and local CRO evaluations and remuneration to make sure risks are appropriately controlled.

Grupo Santander undertook various initiatives to enhance the relationship between the Group and its subsidiaries and apply an advanced risk management mode:

- It is worth highlighting, the close collaboration in relation to covid-19 to share best practices, experiences, provide support in scenario analysis, additional provision estimations, etc.
- Development of organizational structures, subsidiary benchmarks and a strategic vision of the Risk and Compliance function to promote the most advanced and efficient risk management infrastructures and practices.
- Cooperation to share best practices, strengthen processes and drive innovation for a quantitative impact.
- Identification of talent in the Risk and Compliance teams, encouraging international mobility through the global risk talent programme.
- Risk Subject Matter Experts to bring together a community of specialists.

3. Management processes and tools

Grupo Santander has these effective risk management processes and tools:

3.1 Risk appetite and structure of limits

Risk appetite is the volume and type of risks deemed prudent to assume for the business strategy of the Group, even under unexpected circumstances. It considers adverse scenarios that could have a negative impact on capital and liquidity, profitability and/or the share price.

The board sets the group's risk appetite statement (RAS) every year. The boards of Grupo Santander's subsidiaries also set their own risk appetites annually, in line with the consolidated Group-wide RAS. Each of those risk appetites cascades down into specific, detailed limits and policies based on risk type, portfolio and segment.

Business model and risk appetite fundamentals

Grupo Santander's risk appetite is consistent with the risk culture and its unique business model built on customer focus, scale and diversification. At the core of our risk appetite are:

- A medium-low, target risk profile that is predictable. centred on retail and commercial banking, internationally diversified operations and strong market share;
- Stable, recurrent earnings and shareholder remuneration, sustained by sound capital, liquidity and sources of funding;
- Self-run subsidiaries with their own sources of capital and liquidity and risk profiles that do not compromise Grupo Santander's solvency;
- An independent risk function with active senior management that embeds a strong risk culture and drives a sustainable return on capital;
- A global, holistic view through extensive control and monitoring of risks, businesses and markets;
- A focus on products the Group knows well;
- A conduct model that protects Grupo Santander's customers;
- A remuneration policy that reconciles employees and executives' interests to risk appetite and long-term results.

Santander risk appetite principles

The principles informing our risk appetite are:

- **The board and senior management's responsibility** for risk appetite.
- **An enterprise-wide view, risk profile back-testing and challenge,** using quantitative metrics and qualitative indicators.
- **A forward-looking approach** based on plausible assumptions and adverse/stress scenarios to reflect our desired risk profile in the short and medium term.
- **Strategic and business plans** embedded in daily management by policies and limits.
- **Common standards** aligning each subsidiary with Grupo Santander.
- **Regular reviews, regulatory requirements and best practices** with mechanisms in place to keep the risk profile stable and mitigate non-compliance.

Limits structure, monitoring and control

Grupo Santander risk appetite is expressed in qualitative terms and limits structured on these five core elements.

1 **Earnings volatility**
The maximum loss Grupo Santander can tolerate in an acute stress scenario.

2 **Solvency**
- The minimum capital position Grupo Santander can tolerate in an acute stress scenario.
- The maximum leverage we can accept in an acute scenario.

3 **Liquidity**
- Minimum structural liquidity position.
- Minimum liquidity horizon Grupo Santander is willing to accept in an acute stress scenario.
- Minimum liquidity coverage position.

4 **Concentration**
- Concentration in single names, sectors and portfolios.
- Concentration in non-investment grade counterparties.
- Concentration in large exposures.

5 **Non-financial risks**
- Qualitative non-financial risk indicators:
  - Fraud
  - Technological
  - Security and cyberrisk
  - Reputational
  - Others
- Maximum operational risk losses.
- Maximum risk profile.

While risk appetite limits are regularly monitored, specialized control functions report on risk profile and compliance with limits to the board and its committees every month.

Risk appetite limits cascade down to business units, risk types and portfolios. This makes risk appetite an effective tool for managing risks. Management policies and limits are directly based on the principles and limits in the risk appetite statement.

Key 2020 developments

Grupo Santander thoroughly reviewed the impact of covid-19 and the adequacy of our risk appetite to cope with the new environment. Risk appetite limits remained broadly unchanged despite extraordinarily challenging conditions. Management focused on enhancing control over market volatility, better representation and visibility of emerging risks such as cyber security and other non-financial risks.

Grupo Santander's risk appetite statement also strengthened our commitment to corporate social responsibility (CSR), the environment and the Paris Agreement's transition to a low-carbon and climate-resilient economy.

3.2. Risk profile assessment (RPA)

Grupo Santander routinely identifies risk types to systematically and objectively evaluate its risk profile. This helps address major threats to is business plan and strategic objectives.

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Risk identification results inform Group´s risk profile assessment (RPA), which involves all lines of defence. It reinforces Group´s risk culture in analysing how risks evolve and identifying improvement areas. Grupo Santander´s RPA methodology covers these areas:

- **Risk performance**, to understand residual risks by type with international standard and indicators.
- **Control environment**, to measure the target-operating model of Grupo Santander's advanced risk management according to regulatory requirements and best market practices.
- **Forward-looking**, based on stress metrics and top risks to the strategic plan.

In 2020, Grupo Santander upgraded its control environment standards and reviewed risk performance metrics, focusing on strategic, compliance and conduct metrics. The inclusion of the 'control score' in the non-financial risks control environment enabled the Group to better capture its risk profile.

Covid-19 had a negative impact on Grupo Santander's risk performance. In triggering all scenarios the Group consider (including those most severe), it led to a higher risk profile, driven by higher provisions and budgetary deviations with respect to profits. Non-financial risk profile remained stable, with operational losses below 2019 figures, and better liquidity performance.

The impact of covid-19 as a catalyst for relevant and emerging risks was also key in the deterioration of our risk profile in 2020. This deterioration has been contained by a solid control environment, especially in credit risk, driven by ATOMiC and collections and recovery preparation plans. All of this has allowed us to maintain our risk profile at a 'medium-low' level.

3.3. Scenario analysis

The scenarios that Grupo Santander analyse include macroeconomic and other variables that can affect the risk profile in those markets in which Grupo Santander operate. Scenario analysis is a useful tool for managing risks at all levels, so Grupo Santander can gauge our resilience under stressed conditions and formulate mitigating actions on income, capital and liquidity if needed. For this, the Research and Public Policy team is key in defining scenarios, as well as our governance and control, including the review of our top management and the three lines of defence.

Grupo Santander's scenario analyses are consistent and robust because the Group:

- Creates and runs models that estimate how metrics such as credit losses will perform in the future.
- Back-tests and regularly challenges model results.
- Relies on expert opinions and a vast understanding of our portfolios.
- Exerts robust control over models, scenarios, assumptions, results and mitigating management actions.

Grupo Santander has recurrently achieved excellent quantitative and qualitative results in the European Banking Authority (EBA) stress tests.

The global economic uncertainty caused by the covid-19 crisis made it exceptionally difficult for businesses to plan ahead. Our scenario analyses were key in identifying new action points, developing business responses, adjusting our risk strategy and preserving our strength and solvency.

Applications of scenario analysis

Grupo Santander run scenario analysis at all levels under a forward-looking approach that helps Grupo Santander anticipate potential impacts on its solvency or liquidity. Grupo Santander run a systematic review of our risk exposure under a baseline scenario and various adverse and favourable scenarios.

Scenario analysis forms an integral part of several key Group processes:

- Regulatory exercises under the guidelines of the EU supervisor and national supervisors.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP), for which Grupo Santander follows its own methodology to assess capital and liquidity under stress scenarios and support planning and management.
- **Risk appetite**, which includes stressed metrics to set the maximum risk we can assume. The risk appetite and capital and liquidity scenario exercises are closely interrelated but have different frequencies and granularity.
- **Climate change analyses** to identify scenarios of risks and opportunities. Pilot analyses are covering the wholesale portfolio.
- **Recurrent risk management:**
  - **Budget and strategic planning**: when implementing a new risk approval policy, in Grupo Santander's risk profile assessment by senior management or when monitoring specific portfolios or lines of business

- The systematic process of identifying and analysing our **top risks,** each of which is associated with a macroeconomic or idiosyncratic scenario to assess their potential impact.
- **The recovery plan**, which is drawn up every year to determine Grupo Santander's tools to overcome an extremely severe financial crisis. The plan provides financial and macroeconomic stress scenarios with degrees of severity as well as idiosyncratic and systemic events.
- **Bank of Spain Circular 4/2017,** since 1 January 2018, the processes, models and methodologies for the analysis of scenarios have been incorporated into the regulatory requirements related to the estimation of provisions.
- **Credit and market risk stress test exercises** not only as a response to regulatory exercises but also as a key tool integrated in Grupo Santander's risk management.
- Amid the **covid-19 pandemic** and following supervisory guidelines, the Research department created a set of additional macroeconomic scenarios under a long-term stable outlook approach to account for the observed worsening in most indicators and assess expected losses. Grupo Santander developed the scenarios through a robust process with great effort from the teams involved, ensuring their consistency.

3.4. Risk Reporting Structure (RRS)

Grupo Santander´s reporting continues to streamline processes, controls and reports to senior management. The Enterprise Wide Risk Management team updates and compiles the risk profile overview under a forward-looking approach so senior management can assess actual and future risks and take appropriate actions.

There are three main types of risk reports: the weekly and monthly risk reports distributed to senior management; subsidiaries' risk reports; and reports on each risk factor identified in the risk framework.

Grupo Santander's strong risk reporting structure is characterized by:

- Balancing data, analysis and qualitative comments, including forward-looking measures, risk appetite alerts, limits and emerging risks.
- Covering all risk factors in the risk framework.
- Combining a holistic and reliable view with deeper analysis of each risk factor, our subsidiaries and markets.
- Following the same structure and criteria and provides a consolidated view to analyse all risks.
- Following risk data aggregation (RDA) criteria to report on metrics, ensuring data quality and consistency.

To respond to the covid-19 crisis, the reporting function, as acknowledged by the ECB's Single Supervisory Mechanism (SSM), increased the frequency, customized reports and produced new ones for the board and senior committees. It focused on critical topics such as macroeconomic conditions, health indicators, customer support measures and risk areas to enable close monitoring and easier decision-making.

b) Credit risk

1. Introduction to the credit risk treatment

Credit risk refers to a potential financial loss from the default or credit quality deterioration of a customer or other third party with whom Grupo and Banco Santander has a contractual obligation. It is our most important risk, both in terms of exposure and capital consumption. It also includes counterparty risk, country risk and sovereign risk.

Credit risk management

Grupo Santander identifies, analyses, controls and decides on credit risk based on holistic view of the credit risk cycle, which includes the transaction, the customer and the portfolio. Business and risk areas and top managers are part of this process.

Credit risk identification is key to managing and controlling Grupo Santander's portfolios effectively. Grupo Santander classify external and internal risks in each business and adopt corrective and mitigating measures when needed through these processes:

1.1. Planning

Grupo Santander´s planning helps to set business targets and define specific action plans within our risk appetite framework.

Strategic commercial plans (SCP) are a management and control tool the business and risk areas prepare for Grupo Santander's credit portfolios. They determine commercial strategies, risk policies, resources and infrastructure, ensuring a holistic view of the portfolios. They provide managers with an updated view of credit portfolio quality to measure credit risk, run internal controls over the defined strategy coupled with regular monitoring, detect significant deviations in risk and potential impacts, and take corrective actions when necessary. They also align with Grupo Santander's risk appetite and its subsidiaries' capital targets, and are approved and monitored by senior managers at each subsidiary before being reviewed and validated by the Group and the Bank.

1.2. Risk assessment and credit rating process

To analyse customers' ability to meet contractual obligations, Grupo Santander uses valuation and parameter estimation models in each of the segments. Grupo Santander's credit quality valuation models are based on credit rating drivers, which Grupo Santander monitors to calibrate and adjust the decisions and ratings they assign. Depending on each segment, drivers can be:

- Rating: from mathematical algorithms that have a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. It is used for SCIB, corporate, institutional and SME segments (with individualised treatment).
- Scoring: an automatic system to evaluate credit applications that assigns an individual score to customers for subsequent decision-making, generally in the retail and smaller SME segments.

Grupo Santander's parameter estimation models follow econometric models built on Grupo Santander's portfolios' historical defaults and losses. Grupo Santander uses them to calculate economic and regulatory capital as well as IFRS 9 provisions for each portfolio.

Grupo Santander regularly monitoring and evaluate models' appropriateness, predictive capacity, performance, granularity, compliance with policies and other related factors. Grupo Santander reviews ratings with the latest available financial and economic information. Grupo Santander has also increased the reviews for customers who are under closer observation or have automatic warnings in the risk management systems.

1.3. Credit risk mitigation techniques

We approve risks generally on the basis of borrowers' ability to pay in fulfilment of financial obligations, notwithstanding any additional collateral or personal guarantees we can require from them. To determine this, we analyse funds or net cash flows from their businesses or income with no guarantors or the assets pledged as collateral. We always consider guarantors and collateral when deciding to approve a loan as a secondary means of recourse if the first channel fails.

In general, a guarantee is as a reinforcement measure added to a credit transaction to mitigate a loss due to a failure to meet a payment obligation.

Grupo Santander has credit risk mitigation techniques for various types of customer and products. Some are for specific transactions (e.g., property) while others apply to a series of transactions (e.g., derivatives netting and collateral). Grupo Santander can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

1.4. Definition of limits, pre-classifications and pre-approvals

Grupo and Banco Santander use SCPs to manage credit portfolios, defining limits for each of them and for new originations, in line with the Group´s credit risk appetite and its target risk profile. Transposing the risk appetite to portfolio management strengthens controls over our credit portfolios.

Grupo and Banco Santander limits, pre-classifications and pre-approvals processes determine the risk we can assume with each customer. The business and risk areas set risk limits that are approved by the executive risk committee (or delegated committees) and should reflect a transaction's expected risk-return.

Grupo and Banco Santander apply various limits models to each segment:

- Large corporate groups: are subject to a pre-classification model based on a system for measuring and monitoring economic capital. Pre-classification models express the level of risk Grupo and Banco Santander and are willing to assume in transactions with customers/groups in terms of capital at risk, nominal cap and maximum tenors. To manage limits with financial entities, Grupo Santander uses Credit Equivalent Risk (CER), which includes actual and expected risks with customers according to risk appetite and credit policies.
- Corporates and institutions: that meet certain requirements (strong relationships, rating, etc.): Grupo Santander uses simpler pre-classification model with an internal limit. It establishes a reference point in a customer's level of risk based on repayment capacity, overall indebtedness and a pool of banks.

  Transactions with large corporates, corporates and institutions above certain limits or with special characteristics could require approval from a senior credit analyst or a committee.
- For **individual customers and SMEs** with low turnover, Grupo Santander manages large volumes of credit transactions with automatic decision models to classify customers and transactions.

1.5. Scenario analysis

Grupo Santander´s scenario analyses determine the potential risks in its credit portfolios and provide a better understanding of our portfolios' performance under various macroeconomic conditions. They allow us to anticipate management strategies that will avoid future deviations from defined plans and targets. They simulate the impact of alternative scenarios in portfolios' credit parameters (PD, LGD) and expected credit losses. We compare findings with portfolios' credit profile indicators to find the right measures for managers to take. Credit risk management of portfolios and SCPs incorporate scenario analyses.

1.6. Monitoring

Regularly monitoring business performance and comparing it to pre-defined plans is key to our management of risk.

Grupo and Banco Santander are holistic monitoring of customers helps detect impacts on risk performance and credit quality early. Grupo and Banco Santander assign customers a classification with a pre-defined course of action and ad hoc measures to correct any deviations. Monitoring, which considers transaction forecasts and characteristics, in addition to changes in classification, is performed by local and global risk teams supported by the Internal Audit unit and is based on customer segmentation:

- For SCIB, monitoring is initially a function of business managers and risk analysts who maintain direct relationships with customers, manage portfolios and provide Grupo Santander with an up-to-date view of customers' credit quality to anticipate concerning situations.
- For commercial banking, institutions and SMEs assigned a credit analyst, tracks customers requiring closer monitoring and review their ratings based on relevant indicators.
- Monitoring of individual customers, businesses and smaller SMEs follows a system of automatic alerts to detect shifts in portfolios' performance.

Monitoring uses the Santander Customer Assessment Note (SCAN) tool. Grupo Santander fully rolled it out in our subsidiaries in 2019. It helps set individual monitoring levels and frequencies, policies, and actions for customers based on credit quality and particular circumstances.

In addition to monitoring customer credit quality, Grupo Santander defines control procedures to analyse portfolios and performance, as well as any deviations from planning or approved alert levels.

1.7. Recovery and collections management

The Collections & Recoveries area carries out recoveries, which are important to risk management. It defines a global, enterprise-wide management strategy with guidelines and general lines of action for Grupo and Banco Santander subsidiaries based on the economic environment. business model and other local recovery conditions. Recovery management follows regulatory requirements set out in the EBA Guidelines on the management of non-performing and forborne exposures. In addition, Grupo and Banco Santander appy specific policies on recovery management that include the principles of the different strategies.

The Collections & Recoveries areas directly manage customers. As sustained value creation is based on effective and efficient collections, digital channels that develop new customer relations are gaining importance. Grupo and Banco Santander diverse customer base requires segmentation to manage recoveries appropriately. The highly technological and digital processes Grupo and Banco Santander follows help us attend to large groups of customers with similar profiles and products. Grupo and Banco Santander personalized management, however, focuses on customer profiles that require a special manager and approach.

Grupo and Banco Santander splits recovery management into four phases: arrears, non-performing loans, write-offs and foreclosed assets. Grupo and Banco Santander may use mechanisms to rapidly reduce assets like sales of foreclosed assets or non-performing loans pool sales. Grupo and Banco Santander constantly seek alternatives to legal action in order to collect debt.

Grupo Santander includes debt instruments as written-off loans (even if they are not past-due) if an individual analysis of the solvency of a transaction and the borrower leads us to believe recovery is remote due to a notorious and unrecoverable impairment. Though this may lead to full or partial cancellation and de-recognition of the gross carrying amount of debt, it does not mean we interrupt negotiations and legal proceedings to recover debt. In countries with high exposure to real estate risk, we have efficient sales management instruments that help maximize recovery and optimize balance sheet stocks.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk from our activities with customers.

Main credit risk performance metrics from activity with customers

December 2020 data

	Credit risk with customers * (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Europe	**722,429**	**722,661**	**688,810**	**22,792**	**23,519**	**25,287**	**3.15**	**3.25**	**3.67**
Spain	221,341	213,668	227,401	13,796	14,824	16,651	6.23	6.94	7.32
SCF	104,032	105,048	97,922	2,455	2,416	2,244	2.36	2.30	2.29
UK	263,671	275,941	252,919	3,202	2,786	2,739	1.21	1.01	1.08
Portugal	40,693	37,978	38,340	1,584	1,834	2,279	3.89	4.83	5.94
Poland	31,578	33,566	30,783	1,496	1,447	1,317	4.74	4.31	4.28
North America	**131,611**	**143,839**	**125,916**	**2,938**	**3,165**	**3,510**	**2.23**	**2.20**	**2.79**
US	99,135	105,792	92,152	2,025	2,331	2,688	2.04	2.20	2.92
SBNA	49,862	56,640	51,049	405	389	450	0.81	0.69	0.88
SC USA	29,050	29,021	26,424	1,529	1,787	2,043	5.26	6.16	7.73
Mexico	32,476	38,047	33,764	913	834	822	2.81	2.19	2.43
South America	**129,575**	**143,428**	**138,134**	**5,688**	**6,972**	**6,639**	**4.39**	**4.86**	**4.81**
Brazil	74,712	88,893	84,212	3,429	4,727	4,418	4.59	5.32	5.25
Chile	42,826	42,000	41,268	2,051	1,947	1,925	4.79	4.64	4.66
Argentina	4,418	5,044	5,631	93	171	179	2.11	3.39	3.17
Santander Global Platform	**979**	**706**	**340**	**5**	**4**	**4**	**0.51**	**0.63**	**1.21**
Corporte Centre	**4,862**	**5,872**	**4,953**	**344**	**138**	**252**	**7.08**	**2.34**	**5.09**
Total Group	**989,456**	**1,016,507**	**958,153**	**31,767**	**33,799**	**35,692**	**3.21**	**3.32**	**3.73**

* Includes gross lending to customers, guarantees and documentary credits.

Key figures by geographic region are described below:

- **Europe:** the NPL ratio fell 10 bps to 3.15% from 2019 due to a significant reduction in non-performing loans in Spain and Portugal, offsetting the increase observed in the UK.

- **North America:** the NPL ratio slightly increased 3 bps to 2.23% from 2019, due to the decline in total lending both in Mexico and SBNA, although the ratio declined in Santander US by 16 bps due to good performance in SC USA. In terms of NPL stock, a decrease of 7.2% was observed in the year.

- **South America:** the NPL ratio decreased by 47 bps to 4.39%. In Brazil and Argentina, they dropped 73 bps and 128 bps respectively from 2019. However, they slightly increased in Chile (+15 bps vs 2019).

Information on the estimate of impairment losses in the covid-19 environment

The covid-19 health crisis has been unexpected, unpredictable and severe, but it is estimated to be of a temporary nature. The Group and the Bank priority in these circumstances has been to look after the health of its employees, customers and shareholders, but also to help reduce the economic impact of the pandemic. This includes trying to offer the best solutions to help customers.

Conceptually, the phases in managing the effects of covid-19 have been:

– Identification of customers or groups affected or potentially affected by the pandemic.

– Early relief of temporary financial difficulties caused by covid-19 through measures promoted by governments, central banks, and financial institutions.

– Monitoring the evolution of customers, to ensure that they continue to be provided with the best solution for their situation, and also to guarantee that their potential impairment is correctly reflected in the risk management and accounting. This point is particularly relevant at the expiry of any moratorium or liquidity support measures to which customers may have availed themselves.

– Monitoring is accompanied by recovery management activities when necessary.

These conceptual phases do not occur sequentially but overlap in time. Additionally, the continuous interaction and coordination between the different local units of the Group and the Bank are proving to be a fundamental asset in the management of this crisis. The experience obtained in the fight against the health crisis and its financial consequences in our different geographies, and the different speeds at which it has been developing in each of them, allow us to share the best practices identified and to implement in an agile and efficient manner those strategies and concrete actions that have been most successful, always adapted to the local reality of each market.

Measures to support the economy

In accordance with the comments made earlier regarding the relief of our clients' temporary financial difficulties caused by the pandemic, Grupo and Banco Santander have adopted measures to foster the economic resilience of our clients during the crisis in all regions. The most outstanding of these include the following:

- Providing liquidity and credit facilities to companies facing difficulties.
- Facilitate grace periods or moratoriums in many of their markets.
- Optional, temporary increase of the limit on credit cards and overdrafts.
- Support customers with potential difficulties (elderly, SMEs, etc.) by being proactive and trying to cover their needs.
- Temporary reduction or suspension of commissions (when withdrawing money from ATMs, on interest-free online purchases, on bank transfers...).
- Guaranteeing covid-19 coverage in health insurance.
- Advising clients in financial difficulties through specialised teams.

Regarding the covid-19 pandemic, Grupo and Banco Santander has implemented measures in all its subsidiaries to provide liquidity and credit facilities, as well as to facilitate payment deferrals for people and businesses facing hardship.

In relation to the specific liquidity measures, shortages or moratoriums, a series of support programmes have been implemented in accordance with the guidelines set by regulatory and supervisory authorities, as well as by governments, central banks and supranational entities. The main objective is to mitigate the temporary impact on the activity of customers. The absence of appropriate measures and their adequate prudential and accounting treatment could worsen the economic consequences of the crisis, generating procyclical effects that would lengthen its duration and impact.

The different measures offered can be grouped into the following categories:

- Government liquidity measures: Generally speaking, these are lending facilities provided by Grupo and Banco Santander to legal entities, which have government guarantees on a specific percentage of the exposure generated in the event of default. Examples of this type of measure include ICO (Instituto de Crédito Oficial) loans in Spain or the Paycheck Protection Program (PPP) in the United States.
- Government moratorium measures: In this case, the government authorities define a series of requirements, which, in the event that they are met by the beneficiary, involve the granting of moratoriums by Banco Santander on the payment of capital and/or interest on the various credit operations that customers may have

contracted. The general expiration of the moratorium measures is short term. Some governments and institutions are re-extending the terms of the initial moratoriums, especially those that were launched in the very short term in the initial phase, with less visibility of the potential duration of the crisis, but re-extensions are also being short term.

The specific characteristics of these programs vary depending on how they are defined by the national governments of the countries in which Grupo and Banco Santander operates. The criteria used to grant these loans also depend on the requirements established by the authorities of each country in accordance with the legislation in force in each case.

- Internal/sectoral moratorium measures: This is, broadly speaking, the granting of moratoriums by Banco Santander on the payment of capital and/or interest on the various credit operations that customers may have contracted. In this case, the specific characteristics of these measures, in terms of terms, amounts, etc., vary according to each geography, product or customer segment in order to adapt them as best as possible to the reality of the local market and its regulation, as well as to the needs of the customer and the product contracted. In many cases, the general conditions of application have been agreed on a sectoral basis, for example through the national banking associations.
- Other internal measures: This category includes all those measures not included in the previous sections

As regards the moratorium measures granted, it should be noted, as detailed below, that the amount amounted to EUR 112,000 million. Of these, around 63% corresponded to residential mortgages, mainly in the UK where the portfolio has a low average loan to value (<50%). The moratoriums granted on consumer loans (EUR 20bn; 18% of total) are mainly car loans . The granting of new moratoriums has slowed down in the second half of the year.

The 79% of total moratoriums (EUR 89,000 million) have already expired by the end of December 2020, showing a good performance, with only 3% of them classified as stage 3.

Estimation of expected loss in the context of covid-19

In the context described in the previous sections, many regulators and supervisors have highlighted the uncertainties surrounding the economic impacts of the health crisis. This is also evident in the frequent updates of macroeconomic forecasts, with different perspectives and views on the depth and duration of the crisis. Thus, the guidance (including ESMA, EBA and ECB) does not set a mechanistic approach to estimating expected credit losses under Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9), in order to prevent this variability in economic conditions from translating into volatility in results, with its potential pro-cyclical effects on the economy.

Thus, Group and Banco Santander analyses losses under IFRS 9 and Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9) on the basis of three types of elements:

1. Continuous monitoring of customers

Monitoring the credit quality of customers may be more complex in the current circumstances, in the absence of certain contractual payments on transactions subject to a moratorium, however, the total amount of loans still subject to these measures has been significantly reduced during the year. This amount was around EUR 23,000 million of Grupo Santander at the end of December 2020, of which approximately 78% is secured. For such monitoring, and in addition to the application of internal customer monitoring policies, all available information should be used. The availability of information and its relevance is different in the various portfolios of the different countries in which Grupo and Banco Santander operates, but it may include, but is not limited to the following:

- The payment of interest in the case of principal-only shortfalls.
- The payment of other operations of the same client in the institution (not subject to moratorium).
- Information on payment of loans in other entities (through credit bureaus).
- Customer financial information: average balances in current accounts, availability/use of limits, etc.
- Available behavioural elements (variables that feed the behavioural scores, etc.).
- Information gathered from customer contacts (surveys, calls, questionnaires, etc.). This may include: customers who have taken up furlough programs, direct government aid, etc.

2. Forward-looking vision

As reflected by the IASB, macroeconomic uncertainty makes the usual application of IFRS 9 expected loss calculation models difficult but does not exempt the incorporation of the prospective feature of the standard. To this end, the European Central Bank has recommended the use of a stable, long-term view (long-run) of the macroeconomic forecasts, which takes into account in the assessment the multiple support measures explained above.

3. Additional elements

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Additional elements will be required when necessary because they have not been captured under the two previous elements. This includes, among others, the analysis of sectors most affected by the pandemic if their impacts are not sufficiently captured by the macroeconomic scenarios. Also collective analysis techniques, when the potential impairment in a group of clients cannot be identified individually.

With the elements indicated above, Grupo and Banco Santander evaluates in each of the geographical areas, include Spain, the evolution of the credit quality of its customers, for the purposes of their classification in Grupo Santander financial statements.

In terms of classification, Grupo and Banco Santander has generally maintained the criteria and thresholds for classification during the pandemic, incorporating the regulatory interpretations of the effect of moratoria on classification (in particular, the European Banking Authority's 'Guidelines on legislative and non-legislative moratoria on loan repayments applied in covid-19 crisis'). In this way, moratoriums that meet the specifications of these guidelines are not considered as automatic indicators for identifying these contractual changes as forbearances or classifying them in stage 2. However, this does not exempt the rigorous application of Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9) in the monitoring of customer credit quality and, using individual or collective analysis techniques, the timely detection of significant increases in risk in certain transactions or groups of transactions.

Sound and accurate assessment of SICR has been one of the key areas of focus of the Group to identify and record any material increase in credit risk at an early stage. With that purpose, the SICR framework has not been relaxed due to covid-19 crisis. Not relying solely on conventional qualitative and quantitative triggers (e.g. days past due as a trigger), the determination of SICR has also been strengthened through collective assessments. This was done with the aim to responsibly anticipate the expected additional deterioration inherent to specific sector and client clusters, whose credit risk deemed to have increased, without the need to identify which individual client has suffered a SICR, avoiding "wait and see" approaches and ensuring that risks are adequately assessed, classified and measured in the balance sheet. Different assessments have been carried out for this purpose: (i) Top-down Unlikeliness to Pay analysis; (ii) Identification of high risk segments or vulnerable sectors; (iii) Stress on payment holidays; (iv) Surveys on payment capacity and (v) Stress of roll rates based on past delinquency indicators.

Regarding moratoria measures, a rigorous identification and regular monitoring of customer credit quality and payment behavior have been performed and through specific individual or collective assessment, the timely detection of SICR have been assured.

Grupo Santander, within its governance processes, deployed guidelines across all our subsidiaries to assure a coherent and homogeneous criteria and governance to manage the new treatment and specific impacts on provisions derived from the pandemic. Directions were provided regarding the calculation of the macroeconomic impact of the crisis through an overlay and potential collective assessments, considering incurred deterioration, as result of the covid-19 contingency. These documents also include monitoring guide in order to ensure the adequacy of the overlay and to anticipate any update if required.

Details of the exposure by stage can be found in note 10, as well as in this note of these annual accounts. These notes shows the levels of provisions for the year, which amount to EUR 2,594 million of Banco Santander, S.A., including the provisions to cover the impact to date on expected losses resulting from the pandemic.

Grupo and Banco Santander estimates the impairment losses by calculating the expected loss at 12 months or for the entire life of the transaction, based on the stage in which each financial asset is classified in accordance with IFRS9 and Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9).

Then, considering the most relevant units of the Group (United Kingdom, Spain, United States, Brazil, also Chile, Mexico, Portugal, Poland, Argentina and Santander Consumer Finance), which represent approximately 96% of the total Group's provisions. The table below shows the impairment losses associated with each stage as of 31 December 2020 and 2019.

In addition, depending on the transactions credit quality, the exposure is divided into three categories according to Standard and Poor's ratings:

Exposure and impairment losses by stage

EUR million

	2020			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	489,518	9,124	—	498,642
From BB- to CCC	276,516	55,838	—	332,354
Default	—	—	30,436	30,436
Total exposure **	**766,034**	**64,962**	**30,436**	**861,432**
Impairment losses***	**4,458**	**5,461**	**13,503**	**23,422**

* Detail of credit quality ratings calculated for Group management purposes.

** Credit to customers (amortized cost and FV through OCI) + off balance sheet with customers (financial guarantees,technical guarantees and letters of credit), (including temporary asset acquisitions).

*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2019			
Credit quality **	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	552,763	5,532	—	558,295
From BB- to CCC	306,880	47,365	—	354,245
Default	—	—	31,363	31,363
Total exposure **	**859,643**	**52,897**	**31,363**	**943,903**
Impairment losses***	**3,980**	**4,311**	**13,276**	**21,567**

*Detail of credit quality ratings calculated for Group management purposes.
**Credit to customers (amortized cost and FV through OCI) + off balance sheet with customers (financial guarantees,technical guarantees and letters of credit), (including temporary asset acquisitions).+ loan commitments granted.
***Includes provisions for undrawn authorized lines (loan commitments).

The remaining units that form the totality of the Group exposure, contributed EUR 98,121 million, in stage 1, EUR 3,613 million in stage 2, and EUR 1,323 in stage 3 (In 2019 EUR 38,174 million in stage 1, EUR 442 million in stage 2, and EUR 1,056 million in stage 3), and impairment losses of EUR 180 million in stage 1, EUR 393 million in stage 2, and EUR 277 million in stage 3 (In 2019 EUR 264 million, EUR 306 million and EUR 91 in stage 1, stage 2 and stage 3, respectively).

The rest of the exposure, including all financial instruments not included before, amounts to EUR 478,093 (EUR 507,479 million December 2019), as this includes all undrawn authorized lines (loan commitments).

As of at 31 December 2020, the Group had EUR 497 million net of provisions (EUR 706 million December 2019) of purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

Regarding the evolution of credit risk provisions, Grupo and Banco Santander, in collaboration with the main geographical areas, monitors them by carrying out sensitivity analyses considering changes in macroeconomic scenarios and main variables that have an impact on the financial assets distribution in the different stages and calculating credit risk provisions.

Additionally, based on similar macroeconomic scenarios, Grupo and Banco Santander also performs stress tests and sensitivity analysis in a regular basis, such as ICAAP, strategic plans, budgets and recovery and resolution plans. In this sense, a prospective view of the sensitivity of each of the Group's loan portfolio is created in relation to the possible deviation from the base scenario, considering both the macroeconomic developments in different scenarios and the three year evolution of the business. These tests include potentially adverse and favourable scenarios.

The transactions classification into the different Bank of Spain Circular 4/2017 considering its modifications (aligned with IFRS 9), stages is carried out in accordance with the regulation through the risk management policies of our subsidiaries, which are consistent with the risk management policies defined by Grupo and Banco Santander. In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgement of the analysts, who set the thresholds under an effective integration in management. All is implemented according to the approved governance.

The establishment of judgements and criteria thresholds used by Grupo and Banco Santander are based on a series of principles, and develop a set of techniques. The principles are as follows:

- Universality: all financial instruments subject to a credit rating must be assessed for their possible Significant Increment Credit Risk (SICR).
- Proportionality: the definition of the SICR must take into account the particularities of each portfolio.
- Materiality: its implementation must be also consistent with the relevance of each portfolio so as not to inclur in unnecessary costs or efforts.
- Holistic vision: the approach selected must be a combination of the most relevant credit risk aspects (e.g. quantitative and qualitative).
- Bank of Spain La Circular 4/2017 (aligned with IFRS 9), characteristics, focusing on a comparison with credit risk at initial recognition, as well as considering forward-looking information.
- Risk management integration: the criteria must be consistent with those metrics considered in the day-to-day risk management.
- Documentation: Appropriate documentation must be prepared.

The techniques are summarised below:

- Stability of stage 2: in the absence of significant changes in the portfolios credit quality, the volume of assets in stage 2 should maintain a certain stability as a whole.
- Economic reasonableness: at transaction level, stage 2 is expected to be a transitional rating for exposures that could eventually move to a deteriorating credit status at some point or stage 3, as well as for exposures that have suffered credit deterioration and whose credit quality is improving. .

- Predictive power: it is expected that the SICR definition avoids, as fas as possible, direct migrations from stage 1 to stage 3 without having been previously classified in stage 2.
- Time in stage 2: it is expected that the exposures do not remain categorized as stage 2 for an excessive time.

The application of the aforementioned techniques, conclude in the setting of one or several thresholds for each portfolio in each geography. Likewise, these thresholds are subject to a regular review by means of calibration tests, which may entail updating the thresholds types or their values.

Covid-19 credit risk management and customer support programmes

In the context of the general response of Grupo and Banco Santander to the covid-19 pandemic, and specifically with the purpose to help the customers from the credit perspective and foster their economic resilience during the crisis, Grupo Santander implemented several actions in addition to those listed above, the following:

- The severity of the pandemic's effects was significantly different depending on the economic sector. Consequently, Santander launched a process to identify those that could be more affected in order to focus credit risk management on them.
- Due to the covid-19 crisis, great focus was placed on collections & recoveries readiness across Grupo Santander to deal with the impact expected on its portfolios once the support measures granted have expired.

At 31 December 2020, the Group and the Bank had granted payment moratoria to 4.8 million customers for an overall amount of EUR 112,000, which represents 12% of the lending portfolio.

The payment moratoria distribution by business line can be observed in the following table:

	Clients (Million)	Total amount (EUR million)	
	Of which government programmes	Of which government programmes	% Lending portfolio
Mortgages	0.7	69,938	22 %
	0.5	*56,936*	
Consumer	3.9	19,951	9%
	1	*4,060*	
SME & Corporates	0.2	21,948	7%
	0.1	*9,182*	
Total	**4.8**	**111,837**	**12 %**
	1.6	**70,178**	

At the end of 2020, 79% of total moratoria granted by the Group had expired and only 3% of the total was classified in stage 3.

The following table shows the distribution by business line:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	89,889	543,321	72,662
Mortgages	69,938	312,949	55,020
Consumer	19,951	230,372	17,642
SME & corporates	21,948	336,489	15,847
Total*	**111,837**	**879,810**	**88,509**

* Total portfolio includes segmented exposure and excludes off-balance.

Over 60% of the outstanding loans under moratoria are mortgages.

Total loans granted under government liquidity programmes amounted to EUR 38,314 million, with an average government guarantee coverage of 81%.

Covid-19 overlay quantification of provisions additional to models

Numerous international organizations and supervisors have underlined the importance of responsibly adapting and applying the accounting and prudential policies to the containment measures put in place to combat the effects of the covid-19 health crisis, which are of a temporary and exceptional nature.

Some policies disclosed by supervisors include the Bank of England measures to respond to the economic shock from Covid-19; EBA's Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of Covid-19 measures; and the Federal Reserve's SR 20-4 / CA 20-3 - Supervisory Practices Regarding Financial Institutions Affected by Coronavirus.

In light of these statements, we accounted for deviations in local books based on stable long-term macroeconomic forecasts with a post model adjustment and a collective and/or individual assessment to reflect reality and recognize expected credit losses on assets deemed subject to a significant increase in credit risk, without the need to identify individual financial instruments.

The overlay was considered as the best option to recognize the increase in expected loss, as a mechanistic application of the Expected Credit Loss (ECL) methodology, which in the current context may have led to unpredictable results. The additional provisions associated to different macroeconomic scenarios were calculated using internal models; however an overlay over the monthly Bank of Spain Circular 4/2017 and subsequent modifications calculation was considered, in order to enhance the oversight and control of the ECL estimation accuracy.

In addition, the aforementioned scenarios considered to support the overlay calculation were based on a long-run approach, following the indications of numerous international organizations and supervisors.

Amid maximum uncertainty, this long-term approach is to avoid volatility in provisions as a result of the sharp economic downturn, on account of the exceptional nature of the overlay and the battery of support economic measures taken by central banks and governments.

In this regard, at the end of 2020, the Group has recorded an additional provision for impairment of financial assets at amortized cost the allowance for credit losses of EUR 3,105 million due to the effect of the covid-19 pandemic (EUR 622 million in stage 1, EUR 1,663 million in stage 2 and EUR 820 million in stage 3).

3. Details of the management units of Banco Santander, S.A.

The following are the main magnitudes related to the credit risk derived from the activity with clients of the Santander España management units as well as the Santander Corporate & Investment Banking (SCIB) portfolio which makes up Banco Santander, S.A.

This information includes sensitivity analysis, consisting on simulations of +/-100 bp in the main macroeconomic variables. A set of specific and complete scenarios is used in each geography, where different shocks that affect both the reference variable as well as the rest of the parameters is simulated. These shocks may be originated by productivity, tax, wages or exchange and interest rates factors. Sensitivity is measured as the average variation on expected loss corresponding to the aforementioned scenarios. Following a conservative approach, the negative movements take into account one additional standard deviation in order to reflect the potential higher variability of losses.

3.1 Santander Spain

Portfolio overview

Santander España's credit risk totalled EUR 221,341 million (22% of Grupo Santander's total). It is appropriately diversified in terms of products and customer segments.

In a backdrop of lower economic and credit growth, with a significant deterioration in macroeconomic figures after the covid-19 lockdown from March to May, new lending to consumers, SMEs and corporates increased, helped by *Instituto de Crédito Oficial* (ICO) financing lines and other liquidity programmes. Total credit risk increased by +3.6% compared to December 2019, including ICO loans by EUR 25,510 million.

The total portfolio's NPL ratio was 6.23%, 71 bps less than in December 2019, Fewer defaults reduced the ratio by 48 bps, due to overall better performance driven by customer support programmes, the cure of several restructured debts and portfolio sales. Additionally, this positive effect was helped by the aforementioned growth in the loan portfolio, which decreased the ratio by 21 bps.

Additional provisions related to covid-19 increased the coverage rate to 47% (+6 p.p. vs. December 2019). Moreover, NPL reduction was mostly with loans with higher expected loss.

Cost of credit reflects the higher provisions due to the pandemic.

Information on the estimation of impairment losses

The detail of Santander Spain exposure and impairment losses associated with each of the stages at 31 December, 2020 and 2019, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided in three categories according to Standard and Poor's ratings:

Exposure and impairment losses per stage

EUR million

	2020			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	146,992	1,517	—	148,509
From BB- to CCC	40,630	11,541	—	52,171
Default	—	—	13,762	13,762
**Total exposure ** **	**187,622**	**13,058**	**13,762**	**214,442**
Impairment losses* **	**479**	**732**	**5,277**	**6,488**

*Detail of credit quality ratings calculated for Banco Santander management purposes.
**Credit to Customers (amortized cost and FV through OCI) + off balance sheet with customers (financial guarantees, technical guarantees and letters of credit), (including temporary asset acquisitions).
***Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses per stage

EUR million

	2019			
Credit quality *	Stage 1	Stage 2	Stage 3	Total
From AAA to BB	139,673	1,315	—	140,988
From BB- to CCC	42,603	9,115	—	51,718
Default	—	—	14,587	14,587
**Total exposure ** **	**182,276**	**10,430**	**14,587**	**207,293**
Impairment losses* **	**296**	**503**	**5,195**	**5,994**

*Detail of credit quality ratings calculated for Banco Santander management purposes.
**Credit to Customers (amortized cost and FV through OCI) + off balance sheet with customers (financial guarantees, technical guarantees and letters of credit), (including temporary asset acquisitions).
***Includes provisions for undrawn authorized lines (loan commitments).

The remaining legal entities to reach the entire portfolio in Spain contribute another EUR 5,693 million, EUR 445 million and EUR 237 million of exposure in 2019 of exposure in stage 1, stage 2 and stage 3, and impairment losses in the amount of EUR 55 million, EUR 41 million and EUR 8 million in 2019 , in stage 1, stage 2 and stage 3, respectively.

The real estate unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in 2020). Consequently, unlike in 2019 and 2018, in 2020 the perimeter is aligned.

From the information detailed above, Banco Santander, S.A. reaches a total gross exposure of EUR 306.584 million in the heading of financial assets at amortized cost (see note 6 and 10) and EUR 96.956 million in loan commitments granted for off-balance sheet exposures (see note 31) Impairment losses amount to EUR 6,977 and EUR 157 million, respectively. (The amount of losses due to impairment of off-balance sheet exposures includes the coverage of financial guarantees and other commitments granted in addition to the aforementioned loan commitments)

The Government support measures taken in Spain in response to the covid-19 pandemic are detailed below:

- Moratoriums on mortgages were granted with moratoriums of up to 12 months, 25% of which were legislative moratoriums of 3 months, some of which were extended in the last quarter of the year.
- The legal moratoriums granted entailed a deferral of principal and interest, unlike the sectoral moratoriums which only involved a deferral for principal.
- In the consumer portfolio, moratoriums of up to 6 months were granted.

At 31 December 2020, moratoriums had been granted to 248,336 customers, for a total amount of EUR 9,438 million, equivalent to 4.70% of the loan portfolio. The distribution of moratoriums by portfolio is shown below:

EUR million

	Total moratoria	Total portfolio	Of which expired
Individuals	9,267	71,577	2,476
Mortgages	7,828	43,919	1,346
Consumer	1,439	17,658	1,130
SME & corporates	171	126,568	12
Total*	**9,438**	**198,145**	**2,488**

* Total portfolio includes segmented exposure and excludes off-balance

Of the total moratoriums expired at 31 December 2020, EUR 1,921 million were classified in stage 1, EUR 374 million in stage 2 and EUR 193 million in stage 3.

At the end of 2020, 26.36% of total moratoria granted by the Group had expired and only 7.74% of these was classified in stage 3.

Total loans granted under government liquidity programmes amounted to EUR 25,510 million. Spain represents 67% of the Group's total exposure to government liquidity programs. It has the longest maturities (in both the SME and corporate segments) due to the nature of these legislative programs.

In relation to the overlay calculated to recognize the increase in expected loss due to the current situation of uncertainty, it has been calculated taking into account the adequate and accurate identification of those significant increases in risk (SICR) that may have occurred, not only based on quantitative and qualitative indicators but also through collective assessments as explained above in the section on estimation of expected loss in Grupo Santander.

Of the total impairment credit losses, EUR 466 million corresponds to the overlay calculated as of December 31, 2020 (EUR 37 million in stage 1, EUR 261 million in stage 2 and EUR 168 million in stage 3).

For the estimation of the expected losses, the prospective information is taken into account. Specifically, Santander Spain considers three macroeconomic scenarios, which are updated periodically. The projected evolution for a period of five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

	2020 - 2024		
Variables	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	-0.12%	-0.12%	0.80%
Unemployment rate	13.71%	11.65%	9.59%
Housing price change	-0.26%	1.62%	3.22%
GDP growth	0.77%	1.61%	2.34%

In the case of Santander Spain, the previously projected macroeconomic scenarios up to 2024 have been complemented with an additional scenarios, the 'long-run' scenarios, as indicated below.

Each macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Spain associates the Base scenario with the highest weight, while associating the lower weights to the most extreme scenarios:

	2020	2019
Pessimistic scenario	30 %	30 %
Base scenario	40 %	40 %
Optimistic scenario	30 %	30 %

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Regarding the the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for a period of five years is shown below:

Magnitudes	Long-run scenario
Interest rate	-0.29%
Unemployment rate	14.35%
Housing price change	1.20%
GDP growth	0.79%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 bp for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision		
	Mortgages	Corporate	Rest
GDP Growth			
-100 bp	6.24%	8.17%	8.63%
100 bp	-2.63%	-4.50%	-5.48%
Housing price change			
-100 bp	1.42%	8.14%	7.73%
100 bp	-1.12%	-3.12%	-3.74%

With regards to the stage 2 classification determination, the quantitative criteria applied in Santander Spain are based on identifying whether any increase in the PD for the expected lifetime of the transaction is greater than an absolute threshold. The threshold established is different for each portfolio based on the transactions characteristics, considering that a transaction is above this threshold when the PD for the life of the transaction increases by a certain quantity over the initial recognized PD. The values of these thresholds depend on their calibration, carried out periodically as indicated in the preceding paragraphs, which currently ranges from 25% to 1%, depending on the type of product and estimated sensitivity.

In the case of non-retail portfolios, Santander Spain uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting absolute thresholds for the different rating bands that depend on each portfolio characteristics. A SICR implies changes in the rating value between 0.1 and 4, depending on the portfolio and the estimated sensitivity (from lower to higher credit quality, the rating range goes from 1 to 9.3).

In addition, for each portfolio, a series of specific qualitative criteria are defined indicating that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander Spain, among other criteria, considers that an operation presents a significant increase in risk when positions have been past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Residential mortgage portfolio

Residential mortgages in Spain, including Santander Consumer Finance business, amounted to EUR 59,605 million in 2020 (EUR 62,236 million in 2019), 99.35% of which have a mortgage guarantee (99.51% in 2019):

EUR million

	2020			
	Santander Group Spain		Of Which, Banco Santander, S.A.	
	Gross amount	Of which: Non-performing	Gross amount	Of which: Non-performing
Home purchase loans to families	59,605	1,850	58,079	1,784
Without mortgage guarantee	*387*	*75*	*387*	*75*
With mortgage guarantee	*59,218*	*1,775*	*57,692*	*1,709*

EUR million

	2019			
	Santander Group Spain		Of Which, Banco Santander, S.A.	
	Gross amount	Of which: Non-performing	Gross amount	Of which: Non-performing
Home purchase loans to families	62,236	2,649	60,556	2,581
Without mortgage guarantee	*306*	*14*	*306*	*14*
With mortgage guarantee	*61,930*	*2,635*	*60,251*	*2,567*

The mortgage portfolio for the acquisition of homes in Spain is characterised by its medium-low risk profile, which limits expectations of any potential additional impairment:

- Principal is repaid on all mortgages from the start.
- Early repayment is common so the average life of the transaction is well below that of the contract.

- High quality of collateral, concentrated almost exclusively in financing for first homes.
- The average affordability rate stood at 27% (26% in 2019).
- The 86% of the portfolio has a LTV below 80% calculated as total risk/latest available house appraisal.

Breakdown of the credit with mortgage guarantee to households for house acquisition, according to the percentage that the total risk represents on the amount of the latest available valuation (loan to value):

EUR million

	2020					
	Loan to value ratio					
	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Santander Group						
Gross amount	15,570	18,028	17,585	5,205	2,830	59,218
Of which, watchlist /non-performing	*170*	*222*	*318*	*305*	*760*	*1,775*
Of which, Banco Santander, S.A.						
Gross amount	15,236	17,627	17,295	5,003	2,531	57,692
Of which, watchlist/ Non-performing	*166*	*213*	*305*	*295*	*730*	*1,709*

Businesses portfolio

Credit risk with SME and corporates amounted to EUR 149,646 million. Accounting for 68% of total credit risk, this is Santander Spain's main lending segment. Most of the portfolio corresponds to customers with an assigned credit analyst to monitor their loans throughout the risk cycle.

The portfolio is highly diversified and not concentrated in any sector.

The portfolio's NPL ratio stood at 7.04% in December 2020. Even though total risk decreased, the NPL ratio fell by 21 bp compared to December 2019 owning to better performance driven by customer support programmes, the cure of several restructured exposures in corporates and portfolio sales. 2020 growth was mainly focused in liquidity support programs (ICO).

Real estate activity

The Real Estate Unit in Spain (UAI) was consolidated within Santander Spain in 2019, (this process was completed in 2020). The part of the portfolio resulting from the past financial crisis and the new business that is identified as viable should be differentiated. In both cases, Santander has specialized teams that are not only part of the Risk function but that supplement the management of this exposure and cover the whole life-cycle of these transactions: commercial management, legal treatment and eventually, collections and recoveries.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

EUR million

	2020	2019
Balance at beginning of year	2,939	4,812
Foreclosed assets	(6)	(29)
Reductions*	(24)	(1,685)
Written-off assets	(38)	(159)
Balance at end of year	**2,871**	**2,939**

*Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 6.13% (compared with 9.73% at December 2019) due to the decrease of non-performing assets in the troubled loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 32.95% (35.31% in 2019).

EUR million

	2020					
	Santander Group			Of which, Banco Santander, S.A.		
	Gross amount	Excess of gross exposure over maximum recoverable amount	Specific allowance	Gross amount	Excess of gross exposure over maximum recoverable amount	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	2,871	397	70	2,946	399	-70
Of which watchlist/ non-performing	176	20	58	176	20	(58)
Memorandum items written-off assets	924			(924)		

Memorandum items: Data from the public consolidated balance sheet

EUR million

	2020	
	Carrying amount	
	Santander Group	Of which, Banco Santander, S.A.
Total loans and advances to customers excluding the Public sector (business in Spain) (Book value)	237,165	231,349
Total consolidated assets (Total business) (Book value)	1,508,250	629,369
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,591	1,249

At year-end, the concentration of this portfolio was as follows:

EUR million

	2020	
	Loans: Gross amount	
	Santander Group	Of which, Banco Santander, S.A.
1. Without mortgage guarantee	164	164
2. With mortgage guarantee	2,707	2,783
2.1 Completed buildings	1,454	1,470
2.1.1 Residential	844	854
2.1.2 Other	610	616
2.2 Buildings and other constructions under construction	1,185	1,244
2.2.1 Residential	1,124	1,183
2.2.2 Other	61	61
2.3 Land	68	68
2.3.1 Developed consolidated land	44	44
2.3.2 Other land	24	24
Total	**2,871**	**2,946**

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

As has already been disclosed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

For the new post-crisis real estate business production, the admission processes are managed by specialized teams that work in direct coordination with the commercial teams, with clearly defined policies and criteria:

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Medium-high level projects, conducting to contracted demand and significant cities.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases dealt with exceptional nature.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorised on a centralised basis.

Foreclosed properties

At 31 December 2020, the net balance of these assets amounted to EUR 3,962 million (gross amount: EUR 7,937 million; recognised allowance: EUR 3,975 million, of which EUR 2,834 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2020:

EUR million

	2020			
	Gross carrying amount	Valuation adjustments	Of which impairment losses on assets since time of foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	6,810	3,568	2,563	3,242
Of which:				
Completed buildings	*2,140*	*846*	*644*	*1,294*
Residential	*527*	*171*	*130*	*356*
Other	*1,613*	*675*	*514*	*938*
Buildings under construction	*178*	*70*	*36*	*108*
Residential	*178*	*70*	*36*	*108*
Other	*—*	*—*	*—*	*—*
Land	*4,492*	*2,652*	*1,883*	*1,840*
Developed land	*1,656*	*888*	*559*	*768*
Other land	*2,836*	*1,764*	*1,324*	*1,072*
Property assets from home purchase mortgage loans to households	892	305	200	587
Other foreclosed property assets	235	102	71	133
Total property assets	**7,937**	**3,975**	**2,834**	**3,962**

The same information in the previous table reference to Banco Santander, S.A. is presented below:

EUR million

	2020			
	Gross carrying amount	Valuation adjustments	Of which impairment losses on assets since time of foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	1,038	390	291	648
Of which:				
Completed buildings	*958*	*370*	*274*	*588*
Residential	*184*	*63*	*47*	*121*
Other	*774*	*307*	*227*	*467*
Buildings under construction	*—*	*—*	*—*	*—*
Residential	*—*	*—*	*—*	*—*
Other	*—*	*—*	*—*	*—*
Land	*80*	*20*	*17*	*60*
Developed land	*63*	*16*	*14*	*47*
Other land	*17*	*4*	*3*	*13*
Property assets from home purchase mortgage loans to households	704	240	161	464
Other foreclosed property assets	179	76	57	103
Total property assets	**1,921**	**706**	**509**	**1,215**

In addition, the Group has shareholdings in entities holding foreclosed assets amounting to EUR 961 million (mainly Project Quasar Investment 2017, S.L.), and equity instruments foreclosed or received in payment of debts amounting to EUR 66 million.

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell).Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised.

The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The management of real estate assets on the balance sheet is carried out through companies specializing in the sale of real estate that is complemented by the structure of the commercial network. The sale is realised with levels of price reduction in line with the market situation.

The gross movement in foreclosed properties were as follows (EUR billion):

	2020	2019
Gross additions	0.5	0.7
Disposals	(0.9)	(2.7)
Difference	(0.4)	(2.0)

3.2. Santander Corporate & Investment Banking

The exposure detail and impairment losses presented for the business unit by Santander España, includes the Santander Corporate & Investment Banking portfolios. In this sense, due to the type of customers managed in these portfolios, large multinational companies, the Group uses its own credit risk models. These models are common to different geographies using their own macroeconomic scenarios.

The average evolution forecasted in 2020 for a period of five years of the GDP projected for the next few years is presented, which has been used for the estimation of the expected losses, together with the weighting of each scenario:

	2021 - 2025		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP growth	3.03%	3.39%	3.56%

The five-year projected development generated in 2019 to estimate the expected loss i shown below:

	2020 - 2024		
Variable	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP growth	3.04%	3.55%	3.83%

Regarding the long-run scenario used to calculate the post-model adjustment, the projected evolution of the main macroeconomic indicators for the next five years is shown below:

Variable	Long-run scenario
Global GDP Growth	1.54%

Each macroeconomic scenarios is associated with a determined likelihood of occurrence. As for its allocation, Santander Corporate & Investment Banking associates the highest weight with the Base Scenario, while associating the lower weights with the more extreme scenarios.

	2020	2019
Pessimistic scenario	30 %	30 %
Base scenario	40 %	40 %
Optimistic scenario	30 %	30 %

With regards to the stage 2 classification determination, SCIB uses the customer's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating for each transaction, setting absolute thresholds for the different rating bands. A SICR implies changes in the rating value between 3.6 and 0.1, depending on the estimated sensitivity of each rating band (from lower to higher credit quality, the rating range goes from 1 to 9.3).

4. Other credit risk aspects

4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Transactions are undertaken through money market financial products with different financial institutions and through counterparty risk products, which serve the Group's customer needs.

According to regulation (EU) n.º 575/2013, counterparty credit risk, which includes derivative instruments, transactions with a repurchase obligation, stock and commodities lending, transactions with deferred repayment and financing of guarantees, arises from the likelihood that a counterparty will default before the final settlement of the transaction's cash flows.

There are two methodologies for measuring this exposure: (i) mark-to-market (MtM) methodology (replacement value of derivatives) plus potential future exposure (add-on); and the Montecarlo simulation to calculate exposures for some countries and products. We also calculate capital at risk and unexpected loss, which is the difference between the economic capital, net of guarantees and recoveries, and expected loss.

After market close, the exposures are recalculated by adjusting transactions to their new time frame, adapting potential future exposure and applying mitigation measures (netting, collateral, etc.) to control exposures directly against the limits approved by senior management. Grupo Santander runs risk control with an integrated system in real time that enables us to know the exposure limit with any counterparty, product and maturity and in any of Santander's subsidiaries at any time.

4.2. Concentration risk

Concentration risk control is a vital part of our management. Grupo and Banco Santander, continuously monitors the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors and groups of customers.

The board, via the risk appetite framework, determines the maximum levels of concentration.

In line with these maximum levels and limits, the executive risk committee establishes the risk policies and reviews the appropriate exposure levels for the effective management of the degree of concentration in Santander's credit risk portfolios.

Grupo and Banco Santander must adhere to the regulation on large risks contained in the CRR, according to which the exposure contracted by an entity with a customer or group of associated customers will be considered a large exposure when its value is equal to or greater than 10% of eligible capital.

In addition, in order to limit large exposures, no entity may assume exposures exceeding 25% of its eligible capital with a single customer or group of associated customers, having factored in the credit risk mitigation effect contained in the regulation.

At the end of December, after applying risk mitigation techniques, no group reaches the above-mentioned thresholds.

Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 4.65% of the outstanding credit risk with customers (lending to customers plus off-balance sheet risks) as of December 2020.

The detail, by activity and geographical area of the Group's risk concentration at 31 December 2020 is as follows:

EUR million

	2020				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	278,343	69,467	49,359	75,831	83,686
Public sector	166,114	43,121	30,571	83,960	8,462
Of which:					
Central government	*143,003*	*32,070*	*28,988*	*74,032*	*7,913*
Other central government	*23,111*	*11,051*	*1,583*	*9,928*	*549*
Other financial institutions (financial business activity)	113,569	14,882	37,661	27,883	33,143
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	400,329	125,608	85,897	131,578	57,246
Of which:					
Construction and property development	*19,105*	*3,921*	*3,531*	*5,631*	*6,022*
Civil engineering construction	*5,723*	*2,924*	*1,864*	*798*	*137*
Large companies	*232,469*	*59,037*	*48,120*	*86,515*	*38,797*
SMEs and individual entrepreneurs	*143,032*	*59,726*	*32,382*	*38,634*	*12,290*
Households – other (broken down by purpose)	501,901	86,076	93,301	112,954	209,570
Of which:					
Residential	*324,193*	*60,556*	*34,102*	*38,762*	*190,773*
Consumer loans	*160,037*	*17,881*	*57,033*	*69,263*	*15,860*
Other purposes	*17,671*	*7,639*	*2,166*	*4,929*	*2,937*
Total	**1,460,256**	**339,154**	**296,789**	**432,206**	**392,107**

* For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

EUR million

	2020				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	183,201	91,524	36,031	24,360	31,286
Public sector	38,169	28,325	3,795	2,497	3,552
Of which:					
Central government	*27,176*	*17,453*	*3,746*	*2,429*	*3,548*
Other central government	*10,993*	*10,872*	*49*	*68*	*4*
Other financial institutions (financial business activity)	146,136	47,780	38,822	34,763	24,771
Non-financial companies and individual entrepreneurs (Non-financial business activity) (broken down by purpose)	202,590	127,617	26,096	23,528	25,349
Of which:					
Construction and property development	*2,692*	*2,672*	*18*	*1*	*1*
Civil engineering construction	*3,733*	*2,619*	*461*	*516*	*137*
Large companies	*137,424*	*65,627*	*24,407*	*22,668*	*24,722*
SMEs and individual entrepreneurs	*58,741*	*56,699*	*1,210*	*343*	*489*
Households – other (broken down by purpose)	74,645	73,277	310	352	706
Of which:					
Residential	*59,102*	*58,015*	*251*	*207*	*629*
Consumer loans	*7,896*	*7,860*	*5*	*14*	*17*
Other purposes	*7,647*	*7,402*	*54*	*131*	*60*
Total	**644,741**	**368,523**	**105,054**	**85,500**	**85,664**

* For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

4.3. Sovereign risk and exposure to other public sector entities

Sovereign risk occurs in transactions with a central bank. It includes the regulatory cash reserve, issuer risk with the Treasury (public debt portfolio) and risk from transactions with government institutions whose funding only come from the state's budgetary revenue and not commercial operations.

The historic criteria of Grupo and Banco Santander can differ from regular EBA stress test standards. Though the EBA does include national, regional and local government institutions, it does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments.

According to our management criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (EUR 12,080 million, 3.8% of total sovereign risk). Furthermore, exposure to non-local sovereign issuers involving cross-border risk[3] is even less significant (EUR 7,168 million, 1.8% of total sovereign risk).

Sovereign exposure in Latin America is mostly in local currency, and is recognized in the local accounts and concentrated in short- term maturities.

Over the past few years, total exposure to sovereign risk has remained in line with regulatory requirements and our strategy to manage this portfolio.

The shifts in our sovereign risk in our countries is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Grupo and Banco Santander are exposure spreads among countries with varied macroeconomic outlooks and dissimilar growth, interest and exchange rate scenarios.

The shifts observed in the different countries exposure is due to our liquidity management strategy and the hedging of interest and exchange rates risks. Santander's exposure spreads among countries with varied macroeconomic outlooks and dissimilar scenarios in terms of growth, interest and exchange rates.

Our investment strategy for sovereign risk considers country's credit quality to set the maximum exposure limits:

[3] Countries that are not considered low risk by Banco de España.

	2020	2019
AAA	18%	20%
AA	25%	24%
A	25%	18%
BBB	14%	15%
Less than BBB	18%	23%

The exposure in the table below is disclosed following the latest amendments of the regulatory reporting framework carried out by the EBA, which entered into force in 2020:

	2020					2019
	Portfolio					
Country	Financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure	Total net direct exposure
Spain	4,100	7,048	13,097	—	24,245	35,366
Portugal	(380)	4,148	4,962	—	8,730	8,689
Italy	249	2,468	1,298	—	4,015	2,735
Greece	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Rest Eurozone	(29)	1,687	2,396	—	4,054	1,809
UK	(1,672)	612	963	—	(97)	10,363
Poland	16	10,263	668	—	10,947	8,366
Rest of Europe	7	121	942	—	1,070	777
US	589	9,501	5,458	—	15,548	16,299
Brazil	5,127	17,281	5,309	—	27,717	28,998
Mexico	8,005	10,256	2,768	—	21,029	13,673
Chile	148	6,732	75	—	6,955	3,460
Rest of America	19	397	542	—	958	1,029
Rest of the world	—	3,776	976	—	4,752	4,813
Total	**16,179**	**74,290**	**39,454**	**—**	**129,923**	**136,377**

5. Forborne loan portfolio

Grupo and Banco Santander have an internal forbearance policy acts as a reference for our subsidiaries locally. It shares the principles of regulations and supervisory expectations. It includes the requirements of the EBA guidelines on management of non performing and forborne exposures. It defines forbearance as the modification of the payment conditions of a transaction to allow a customer experiencing financial difficulties (current or foreseeable) to fulfil their payment obligations. If forbearance is not allowed, there would be reasonable certainty that the customer would not be able to meet their financial obligations.

In addition, this policy also sets down rigorous criteria for evaluating, classifying and monitoring forbearances to ensure the strictest possible care and diligence in recovering due amounts. Thus, it dictates that we must adapt payment obligations to customers' current circumstances. Our forbearance policy also defines classification criteria to ensure we recognize risks appropriately. They must remain classified as non-performing or in watch-list for a prudential period for reasonable certainty of repayment.

Forbearances may never be used to delay the immediate recognition of losses or hinder the appropriate recognition of risk of default. Thus, we must recognize losses as soon as we deem any amounts irrecoverable.

The forborne portfolio stood at EUR 29,159 million at the end of December 2020. In terms of credit quality, 51% of the loans are classified as non-performing loans, with average coverage of 43% (28% of the total portfolio).

The following terms are used in Bank of Spain Circular 4/2017 of Bank of Spain with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.
- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in EUR million, except number of transactions that are in units

	2020													
	Total							Of which, non-performing/Doubtful						
	Without real guarantee		With real guarantee					Without real guarantee		With real guarantee				
					Maximum amount of the actual collateral that can be considered		Impairment of accumulated value or accumulated losses in fair value due to credit risk					Maximum amount of the actual collateral that can be considered		Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees	
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	40	21	17	9	7	—	1	19	1	9	3	3	—	1
Other financial institutions and: individual shareholder	615	22	565	123	38	55	29	323	12	358	79	26	49	27
Non-financial institutions and individual shareholder	176,310	4,936	45,872	9,872	6,444	828	4,475	103,692	3,160	31,861	6,147	3,944	355	4,091
Of which financing for constructions and property development	*6,395*	*131*	*1,557*	*802*	*599*	*38*	*246*	*3,838*	*50*	*1,023*	*509*	*255*	*14*	*225*
Other warehouses	2,569,758	4,059	427,282	10,117	6,239	1,561	3,657	1,299,317	1,762	148,862	3,831	2,703	241	2,272
Total	**2,746,723**	**9,038**	**473,736**	**20,121**	**12,728**	**2,444**	**8,162**	**1,403,351**	**4,935**	**181,090**	**10,060**	**6,676**	**645**	**6,391**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Amounts in EUR million, except number of transactions that are in units

	2020													
	Total							Of which, non-performing/Doubtful						
	Without real guarantee		With real guarantee					Without real guarantee		With real guarantee				
					Maximum amount of the actual collateral that can be considered		Impairment of accumulated value or accumulated losses in fair value due to credit risk					Maximum amount of the actual collateral that can be considered		Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees	
Credit entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Public sector	27	20	15	8	6	—	1	7	1	9	3	3	—	1
Other financial companies and sole proprietorships (financial business activity)	228	14	177	120	38	54	26	121	10	124	77	26	48	24
Non-financial corporations and sole proprietorships (non-financial business activity)	29,148	1,983	27,289	7,264	5,203	379	2,577	18,307	1,535	21,803	4,544	3,223	163	2,385
Of which, financing for construction and real estate development (including land)	*38*	*6*	*438*	*270*	*250*	*1*	*57*	*33*	*3*	*286*	*144*	*125*	*1*	*51*
Other warehouses	30,389	446	46,571	3,601	3,128	20	761	12,423	224	32,599	2,154	1,782	6	681
Total	**59,792**	**2,463**	**74,052**	**10,993**	**8,375**	**453**	**3,365**	**30,858**	**1,770**	**54,535**	**6,778**	**5,034**	**217**	**3,091**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—	—	—	—	—	—	—	—

In 2020, the amortised cost of financial assets whose contractual cash flows were modified during the year when the corresponding loss adjustment was valued at an amount equal to the expected credit losses over the life of the asset amounted to EUR 4,454 million, without these modifications having a material impact on the income statement. Also, during 2020, the total of financial assets that have been modified since the initial recognition, and whose correction for expected loss has gone from being valued during the entire life of the asset to the following twelve months, amounts to EUR 1,478 million.

The transactions presented in the foregoing tables were classified at 31 December 2020 by nature, as follows:

- Non-performing: Operations that rest on an inadequate payment scheme will be classified within the non-performing category, regardless they include contract clauses that delay the repayment of the operation throughout regular payments or present amounts written off the balance sheet for being considered irrecoverable.
- Performing: Operations not classifiable as non-performing will be classified within this category. Operations will also will be classified as normal if they have been reclassified from the non-performing category for complying with the specific criteria detailed below:
  a) A period of a year must have expired from the refinancing or restructuring date.
  b) The owner must have paid for the accrued amounts of the capital and interests, thus reducing the rearranged capital amount, from the date when the restructuring of refinancing operation was formalised.
  c) The owner must not have any other operation with amounts past due by more than 90 days on the date of the reclassification to the normal risk category.

Attending to the credit attention 49% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (52% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 28% of the total forborne loan portfolio and 43%of the non-performing portfolio).

The table below shows the changes in 2020 in the forborne loan portfolio (net of provisions):

EUR million

	2020	
	Loans: Book value	
	Santander Group Spain	Of which, Banco Santander, S,A,
Beginning balance	**23,430**	**11,468**
Refinancing and restructuring of the period	8,351	1,420
Memorandum item: impact recorded in the income statement for the period	2,249	293
Debt repayment	(5,449)	(1,301)
Foreclosure	(293)	(175)
Derecognised from the consolidated balance sheet	(1,314)	(495)
Others variations	(3,728)	(826)
Balance at end of year	**20,997**	**10,091**

c) Market risk, structural and liquidity risk

1. Activities subject to market risk and types of market risk

Activities subject to market risk encompass transactions where risk is assumed as a consequence of potential changes in interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices, volatility and other market factors; the liquidity risk from our products and markets, and the balance sheet liquidity risk. Therefore, they include trading risks and structural risks.

- **Interest rate risk** arises from changes in interest rates that could adversely affect the value of a financial instrument, a portfolio or the Group or the Bank as a whole. It affects loans, deposits, debt securities and most assets and liabilities in trading books and derivatives.
- **Inflation rate risk** originates from changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the Group or the Bank. It affects instruments such as loans, debt securities and derivatives, where returns are linked to future inflation values or a change in the current rate..
- **Exchange rate risk** is the sensitivity to movements in exchange rates of a position's value not denominated in the base currency. A long or open position in a foreign currency may produce a loss if it depreciates against the base currency. Exposures affected by this risk include non-euro investments in subsidiaries and transactions in foreign currency.
- **Equity risk** is the sensitivity of the value of an open positions in equities to adverse movements in their

market prices or future dividend expectations. This affects positions in shares, stock market indexes, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, etc.).

- **Credit spread risk** is the sensitivity of the value of an open positions in fixed income securities or credit derivatives to movements in the credit spread curves or recovery rates associated with specific issuers and types of debt. The spread is the difference between financial instruments with a quoted margin over other benchmark instruments, mainly the internal rate of return (IRR) of government bonds and interbank interest rates.
- **Commodity price risk** is the risk from changes in commodity prices. Our exposure to this risk is not significant, mainly coming from our customers' derivative transactions in commodities.
- **Volatility risk** is the sensitivity of the value of a portfolio to changes in the volatility of risk factors such as interest rates, exchange rates, shares and credit spreads. This risk is incurred by all financial instruments, in which volatility is a variable in valuation. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated with derivatives such as options, futures, forwards and swaps.

There are other types of market risk that require more complex hedging:

- **Correlation risk** is the sensitivity of the portfolio to changes in the relationship between risk factors (correlation) of the same type (e.g., two exchange rates) or different types (e.g., an interest rate and the price of a commodity).
- **Market liquidity risk** originates when Grupo Santander or a subsidiary cannot reverse or close a position without an impact on the market price or the transaction cost. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions or market instability. This risk could also increase depending on how exposures are distributed among products and currencies.
- **Pre-payment or cancellation risk** originates when on-balance- sheet instruments (such as mortgages or deposits) may have options that allow holders to buy or sell them or alter future cash flows. Potential mismatches on the balance sheet pose a risk since cash flows may have to be reinvested at an interest rate that is potentially lower (assets) or higher (liabilities).
- **Underwriting risk** arises from an entity's involvement in underwriting or placing securities or other types of debt when it assumes the risk of having to acquire issued securities partially if they have not fully been taken up by potential buyers.
- **Balance sheet liquidity risk** must also be considered. Unlike market liquidity risk, it is defined as the possibility of meeting payment obligations late or at an excessive cost. Losses may be caused by forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.
- **Pension and actuarial risks** also depend on potential shifts in market factors. Further details are provided at the end of this section.

Grupo Santander ensures make sure we comply with the Basel Committee's Fundamental Review of the Trading Book and the EBA guidelines on balance-sheet interest-rate risk. Through several projects, Santander aims to provide risk managers and control teams with the best tools to manage market risks under the right governance framework for the models used, to report risk metrics, and help satisfy requirements on these risks.

2. Trading market risk management

Setting market risk limits is a dynamic process that follows predefined risk appetite levels. It is part of senior management's annual limits plan that extends to all subsidiaries.

The standard methodology for risk management and control in trading, measures the maximum expected loss with a specific level of confidence and time frame. The standard for historical simulation is a confidence level of 99% over one day. We apply statistical adjustments efficiently to incorporate recent developments affecting our levels of risk. Our time frame is two years or at least 520 days from the reference date of the VaR calculation.

The balance sheet items in the Group's consolidated position that are subject to market risk are shown below, distinguishing those positions for which the main risk metric is VaR from those for which risk monitoring is carried out using other metrics:

	Balance sheet amount	Main market risk metric		Main risk factor for 'Other' balance
		VaR	Other	
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	153,839		153,839	Interest rate
Financial assets held for trading	114,945	114,945		Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,486	3,234	1,252	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	48,717	35,337	13,380	Interest rate
Financial assets designated at fair value through other comprehensive income	120,953	2,783	118,170	Interest rate, spread
Financial assets at amortized cost	958,378		958,378	Interest rate
Hedging derivatives	8,325		8,325	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,980		1,980	Interest rate
Other assets	96,627			
Total assets	**1,508,250**			
Liabilities subject to market risk				
Financial liabilities held for trading	81,167	81,167		Interest rate, spread
Financial liabilities designated at fair value through profit or loss	48,038	14,641	33,397	Interest rate
Financial liabilities at amortized cost	1,248,188		1,248,188	Interest rate, spread
Hedging derivatives	6,869		6,869	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	286		286	Interest rate
Other liabilities	32,380			
Total liabilities	**1,416,928**			
Equity	**91,322**			

The following table displays the latest and average VaR values at 99% by risk factor over the last three years, the lowest and highest values in 2020 and the ES at 97.5% as of the end of December 2020:

VaR statistics and expected shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2020					2019		2018	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**6.5**	**12.5**	**54.8**	**8.3**	**8.1**	**12.1**	**10.3**	**9.7**	**11.3**
Diversification effect	(6.0)	(13.1)	(15.8)	(11.8)	(12.6)	(8.2)	(9.9)	(9.3)	(11.5)
Interest rate	4.7	9.2	29.2	5.4	5.9	10.0	9.2	9.4	9.7
Equities	2.1	4.4	14.7	3.1	3.7	2.9	4.8	2.4	2.8
Exchange rate	2.6	5.9	12.9	6.0	5.5	3.9	2.6	3.9	6.2
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.4	4.1
Commodities	—	0.5	2.5	1.1	1.0	—	—	—	—
Total Europe	**5.0**	**10.5**	**39.1**	**8.0**	**9.3**	**6.3**	**10.1**	**5.0**	**5.5**
Diversification effect	(4.6)	(10.6)	(21.9)	(8.9)	(8.8)	(6.9)	(8.3)	(6.7)	(8.2)
Interest rate	3.2	7.9	24.0	6.5	7.2	6.0	8.2	5.0	5.8
Equities	2.1	4.3	15.0	3.0	3.6	1.9	4.9	1.1	1.2
Exchange rate	1.3	3.5	10.7	2.9	2.7	1.9	1.9	1.7	2.1
Credit spread	3.1	5.5	11.4	4.5	4.5	3.4	3.5	3.9	4.6
Commodities	—	—	—	—	—	—	—	—	—
Total North America	**2.8**	**6.6**	**13.7**	**2.9**	**2.7**	**3.5**	**3.8**	**7.2**	**8.3**
Diversification effect	0.7	(2.2)	(5.3)	(1.1)	(0.9)	(1.3)	(2.1)	(4.8)	(2.7)
Interest rate	1.6	3.4	7.1	3.3	3.0	2.6	3.4	6.4	7.7
Equities	—	0.3	1.2	0.1	0.1	0.2	0.1	0.1	—
Exchange rate	0.5	5.1	10.7	0.5	0.5	2.0	2.4	5.5	3.3
Total South America	**2.4**	**5.6**	**26.4**	**4.5**	**5.0**	**9.5**	**6.0**	**7.2**	**10.0**
Diversification effect	(0.8)	(3.4)	(13.8)	(4.3)	(3.7)	(2.9)	(3.8)	(3.5)	(2.3)
Interest rate	2.3	5.2	26.3	4.1	4.2	7.8	5.9	6.4	6.6
Equities	0.2	1.0	6.3	0.5	0.5	2.0	1.7	2.5	2.9
Exchange rate	0.8	2.7	7.6	4.2	4.2	2.6	2.1	1.9	2.9

A. In South America and North America, VaR levels of credit spreads and commodities are not shown separately due to their low or null materiality.

By the end of December, VaR had decreased by EUR 2 million vs. the end of 2019. Average VaR increased slightly by EUR 0.4 million. By risk factor, average VaR increased in most factors due to higher market volatility along the year. By geographic area, average VaR rose in Europe and North America but remained at low levels.

VaR by risk factor has generally remained stable over the last few years. Temporary rises are due more to temporary increases in the volatility of market prices than to significant changes in positions.

Grupo Santander's exposure to complex structured instruments and assets is very limited, this is a reflection of our risk culture and prudent risk management. At the end of December 2020, the exposures in this area were:

- Hedge funds: exposure was EUR 344 million (all indirect), acting as counterparty in derivatives transactions. We analyse the risk related to this type of counterparty on a case by case basis, establishing percentages of collateralization based on each fund's features and assets.
- Monolines: no exposure at the end of December 2020.

Grupo Santander's policy for approving new transactions in these products remains extremely prudent and conservative.

It is strictly supervised by top management.

Backtesting

Actual losses can differ from those forecast by VaR due to the aforementioned limitations of this metric. Grupo Santander regularly analyses the accuracy of the VaR calculation model to confirm its reliability. The most important tests have backtesting:

- For hypothetical P&L backtesting and for the total portfolio, we observed overshootings in VaR at 99% on 9 and 12 March and on 7 July and on 30 December.
- In the case of VaE at 99%, overshootings was observed on 20 March.
- Most of overshootings were due to the strong market variations caused by the health crisis.
- The overshootings we observed in 2020 are consistent with the assumptions in the VaR calculation model.

IBOR Reform

Since 2015, central banks and regulators in several major jurisdictions have convened Working Groups (WGs) to find and implement the transition to suitable replacements for some existing 'IBOR' benchmarks, such as Euro Overnight Index Average (EONIA) and London Interbank Offered Rates (LIBORs).

On 27 July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the FCA), which regulates the LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmarks after 2021. This announcement indicates that the continuation of LIBORs on the current basis cannot be guaranteed after 2021. Therefore, after 2021 LIBORs may cease to be calculated.

Additionally, on 13 September 2018 the WG euro RFR recommended that the Euro Short Term Rate (€STR) shall replace EONIA. Since 2 October 2019, the date on which the €STR became available, EONIA changed its methodology to be calculated as the €STR plus a spread of 8.5 basis points. This change in EONIA's methodology is intended to facilitate the market's transition from EONIA to €STR, with the former expected to be discontinued by the 3 January 2022.

On October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which will become effective on 25 January 2021, and will provide derivatives market participants with new IBOR fallbacks for legacy and new derivatives contracts. Banco Santander S.A. and several subsidiaries have adhered to this protocol.

On December 2020, ICE Benchmark Administration (IBA), the FCA-regulated and authorized administrator of LIBOR, announced its intention that one week and two months USD LIBOR settings will cease at end-2021, while the rest of USD LIBOR tenors (Overnight and 1, 3, 6 and 12 months) will cease at end-June 2023.

On December 2020, the European Union Council endorsed new rules amending of the EU Benchmark Regulation (BMR). The aim of the amendments to the Benchmark Regulation is to make sure that a statutory replacement benchmark can be established by the regulators by the time a systemically important benchmark is no longer in use, and thus protect financial stability on EU markets. It is likely that the regulators decide to use these powers in order to mitigate, as much as possible, systemic risks that might result from the phasing out of the London Inter-Bank Offered Rate (LIBOR) by the end of 2021. The new rules give the Commission the power to replace so-called 'critical benchmarks', which could affect the stability of financial markets in Europe, and other relevant benchmarks, if their termination would result in a significant disruption in the functioning of financial markets in the EU. The Commission will also be able to replace third-country benchmarks if their cessation would result in a significant disruption in the functioning of financial markets or pose a systemic risk for the financial system in the EU..

Interest rate benchmarks have an extended footprint in a significant number of contracts that Santander Group is holding and are used in multiple processes. The most relevant interest rate benchmarks for Santander are EURIBOR, EONIA, USD-LIBOR, GBP-LIBOR, and CHF-LIBOR. Santander Group uses these benchmarks as the reference rate not only for derivatives, but also for loans, discounting products, deposits, collateral agreements and floating rate notes, among others.

The main risks to which Santander is exposed arising from financial instruments because of the transition are: (i) legal risks arising from potential changes required to documentation for new and existing transactions; (ii) risk management, financial and accounting risks arising from market risk models and from valuation, hedging, discontinuation and recognition of financial instruments linked to benchmark rates; (iii) business risk of a decrease in revenues of products linked to indices that will be replaced; (iv) pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments; (v) operational risks arising from the potential requirement to adapt IT systems, trade reporting infrastructure and operational processes; (vi) conduct risks arising from the potential impact of communication with customers and engagement during the transition period and (vii)litigation risks regarding our existing products and services, which could adversely impact our profitability.

In order to monitor the risks and address the challenges of the transition, Santander launched the IBOR Transition Programme in 2019. This programme has a group wide scope and reports on a regular basis to Executive Management involving statutory committees. Its main objective is to ensure a smooth operational transition and to anticipate and address any potential customer and conduct related issues that could arise from the IBOR transition. It also aims to ensure that all impacted areas, business units and geographies understand the risks associated with the transition in a homogeneous way and can take appropriate measures to mitigate them.

Santander's IBOR Transition Programme is aligned with the recommendations, guidance and milestones defined by regulators and working groups of different jurisdictions and is structured around the following areas: Technology & Operations, Legal, Client Outreach, Risk Management & Models, Conduct & Communications and Accounting & Finance.

Santander is engaged with the public and private sector initiatives in connection with IBOR transition. As part of this involvement, Santander participates in the WG Risk Free Rate Groups of different jurisdictions in Europe and America. Santander provides active feedback on the multiple consultations issued by industry forums, market associations, bank associations and other public organisms on this issue.

3. Structural balance sheet risks

3.1. Main aggregates and variations

The market risk profile inherent to the Group's balance sheet, in relation to its asset volumes and shareholders' equity, as well as the budgeted net interest income margin, remained moderate in 2020, in line with previous years.

Structural VaR

A standardized metric such as VaR can be used for monitoring total market risk for the banking book (excluding the trading activity of SCIB). Santander distinguishes fixed income considering interest rates and credit spreads on ALCO portfolios, exchange rates and equities.

In general, structural VaR is not material in terms of our volume of total assets or equity.

Structural VaR

EUR million. Structural VaR 99% with a temporary horizon of one day.

	2020			2019		2018	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**611.4**	**911.0**	**1,192.1**	**903.1**	**511.4**	**729.1**	**568.5**	**556.8**
Diversification effect	(227.2)	(349.8)	(261.0)	(263.4)	(304.2)	(402.0)	(325.0)	(267.7)
VaR interest rate*	345.5	465.1	581.9	345.5	345.6	629.7	337.1	319.5
VaR exchange rate	317.8	499.9	547.0	502.6	308.1	331.7	338.9	324.9
VaR equities	175.3	295.9	324.2	318.5	161.9	169.8	217.6	180.1

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- **Europe**

The EVE and NII sensitivities of our main balance sheets (Santander Spain and Santander UK) are usually positive.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December 2020, considering the scenarios previously mentioned, the most significant risk of NII sensitivity was in the euro, at EUR 191 million; the Polish zloty, at EUR 66 million; the British pound yield curve at EUR 25 million; and the US dollar, at EUR 19 million, all relating to the risk of rate cuts.

The most significant risk in economic value of equity was in the euro interest rate curve, at EUR 2,236 million; the British pound at EUR 643 million; the US dollar at EUR 142 million; and the Polish zloty at EUR 22 million, all relating to the risk of rate cuts.

- **North America**

The EVE and NII of our North American balance sheets (excluding the EVE of Mexico) usually show positive sensitivities to interest rates.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly in the US (EUR 61 million).

The most significant risk to the economic value of equity was also in the US (EUR 1,035 million).

- **South America**

The economic value and net interest income in our South American balance sheets are usually positioned for interest rate cuts.

Exposure in all countries was moderate in relation to the annual budget and capital levels in 2020.

By the end of December, the most significant risk to net interest income was mainly located in Chile (EUR 80 million) and Brazil (EUR 68 million).

The most significant risk to the economic value of equity was also mainly in Chile (EUR 313 million) and Brazil (EUR 278 million).

Structural foreign currency rate risk/results hedging

The structural exchange rate risk is driven by transactions in foreign currencies related to permanent financial investments, their results and related hedges. The dynamic management of this risk seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In 2020, hedging of the core capital ratio for foreign exchange rate risk was kept close to 100%.

In December 2020, the largest exposures of permanent investments (with their potential impact on equity) were (in order) in US dollars, British pounds sterling, Brazilian real, Mexican pesos, Chilean pesos and Polish zlotys. Santander hedges some positions (which are permanent in nature) with foreign exchange-rate derivatives. The Finance Division is also responsible for foreign exchange rate risk management, hedging expected results and dividends in subsidiaries whose base currency is not the euro.

Structural equity risk

Grupo Santander maintains equity positions in its banking book as well as in its trading portfolio. These positions are maintained as equity instruments or equity stakes depending on the percentage owned or control.

The equity portfolio in the banking book at the end of December 2020 was diversified between securities in various countries, e.g. Spain, China, Morocco and Poland. Most of the portfolio is invested in the finance and insurance sectors. Among other sectors with lower exposure allocations real estate is included.

Structural equity positions are exposed to market risk. VaR is calculated for these positions with market price data series or proxies. By the end of September 2020, the VaR at 99% over a one day time horizon was EUR 319 million (EUR 170 million of 2019).

3.2. Methodologies

Structural interest rate risk

Grupo Santander analyses the potential impact of changes in interest rate levels on EVE and NII. Depending on the changes in rates, impacts will be different and therefore various subtypes of interest rate risk need to be monitored and managed, such as repricing, curve or basis risk.

Based on the balance-sheet interest rate position and the market situation and outlook, financial actions (such as transacting positions or setting interest rates for products marketed) may be needed to attain the desired risk profile determined by Grupo Santander.

The suite of metrics used to monitor interest rate risks includes the sensitivity of NII and EVE to changes in interest rates, and value at risk (VaR) for calculating economic capital.

Structural exchange-rate risk/hedging of results

These activities are monitored daily via position measurements, VaR and results.

Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

4. Liquidity risk

Structural **liquidity management** aims to fund the Group's recurring activity optimising maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term (M/LT) funding needs must be covered by medium- and long-term instruments.
- High contribution from customer deposits due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/ investors, markets/currencies and maturities.
- Limited recourse to short-term funding.
- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.
- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

The effective application of these principles by all institutions comprising the Group required the development of a unique **management framework** built upon three fundamental pillars:

- A **solid organisational and governance model** that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by local Asset and Liability Committees (ALCOs) in coordination with the global ALCO, which is the body empowered by the Bank's board in accordance with the corporate Asset and Liability Management (ALM) framework.

  This governance model has been reinforced as it has been included within Santander's Risk Appetite Framework. This framework meets demands from regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- In-depth balance sheet analysis and measurement of liquidity risk, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement. Grupo Santander's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite establishes the limits within which the subsidiaries can operate in order to achieve their strategic objectives.
- **Management adapted** in practice to the **liquidity needs of each business**. Every year, based on business needs, a liquidity plan is developed which seeks to achieve:
  - a solid balance sheet structure, with a diversified presence in the wholesale markets;
  - the use of liquidity buffers and limited encumbrance of assets;
  - compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues to develop the **ILAAP** (Internal Liquidity Adequacy Assessment Process), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios.

5. Asset encumbrance

In accordance with the guidelines established by the European Banking Authority (EBA) in 2014 on committed and uncommitted assets, the concept of assets committed in financing transactions (asset encumbrance) includes both on-balance sheet assets provided as collateral in transactions to obtain liquidity and off-balance sheet assets that have been received and reused for similar purposes, as well as other assets associated with liabilities for reasons other than financing.

The residual maturities of the liabilities associated with the assets and guarantees received and committed are presented below, as of 31 of December of 2020 (EUR thousand of million):

Residual maturities of the liabilities	Unmatured	<=1month	>1 month <=3 months	>3 months <=12 months	>1 year <=2 years	>2 years <=3 years	3 years <=5 years	5 years <=10 years	>10 years	Total
Committed assets	35.7	40.2	10.2	35.5	32.4	106.4	50.5	23.9	15.6	350.4
Guarantees received	29.7	30.6	3.9	16.9	1.4	0.5	1.6	—	0.1	84.7

The reported Group information as required by the EBA at 2020 year-end is as follows:

On-balance-sheet encumbered assets

EUR billion	Carrying amount of encumbered assets	Fair value of encumbered assets	Fair value of non-encumbered assets	Carrying amount of non-encumbered assets
Loans and advances	249.5		884.7	
Equity instruments	5.8	5.8	9.9	9.9
Debt securities	61.9	60.7	114.6	115.4
Other assets	33.2		148.7	
Total assets	**350.4**		**1,157.9**	

Encumbrance of collateral received

EUR billion	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**84.7**	**43.0**
Loans and advances	—	—
Equity instruments	3.5	5.9
Debt securities	80.3	37.1
Other collateral received	0.9	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**0.9**

Encumbered assets and collateral received and matching liabilities

EUR billion	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**306.3**	**435.1**

On-balance-sheet encumbered assets amounted to EUR 350,400 million, of which 71% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 84,700 million, relating mostly to debt securities received as security in asset purchase transactions and re-used.

Taken together, these two categories represent a total of EUR 435,100 million of encumbered assets, which give rise to EUR 306,300 million matching liabilities.

As of December 2020, total asset encumbrance in funding operations represented 26.6% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,635,900 million as of

December 2020). This percentage has been increased from 24.1% that presented the Group as of December 2019. This increase was mainly due to Grupo Santander's use of the financing programmes launched by central banks in response to the pandemic.

d) Capital risk

In the second line of defence, capital risk management can independently challenge business and first-line activities by:

- Supervising capital planning and adequacy exercises through a review of the main components affecting the capital ratios.
- Identifying key metrics to calculate the Group's regulatory capital, setting tolerance levels and analysing significant variations, as well as single transactions with impact on capital.
- Reviewing and challenging the execution of capital actions proposed in line with capital planning and risk appetite.

Grupo Santander commands a sound solvency position, above the levels required by regulators and by the European Central bank.

Regulatory capital

At 1 January 2021, at a consolidated level, the Group must maintain a minimum capital ratio of 8.85% of CET1 (4.50% being the requirement for Pillar I, 0.84% being the requirement for Pillar 2R (requirement), 2.50% being the requirement for capital conservation buffer, 1.00% being the requirement for G-SIB and 0.01% being the requirement for anti-cyclical capital buffer).

Grupo Santander must also maintain a minimum capital ratio of 10.63% of tier 1 and a minimum total ratio of 13.01%.

In 2020, the solvency target set was achieved. Santander's CET1 ratio stood at 12.34% (figures calculated by applying the transitional provisions of Bank of Spain Circular 4/2017 and IFRS 9) at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

Reconciliation of accounting capital with regulatory capital

EUR million

	2020	2019	2018
Subscribed capital	8,670	8,309	8,118
Share premium account	52,013	52,446	50,993
Reserves	62,777	56,526	53,988
Treasury shares	(69)	(31)	(59)
Attributable profit	(8,771)	6,515	7,810
Approved dividend	0	(1,662)	(2,237)
Shareholders' equity on public balance sheet	**114,620**	**122,103**	**118,613**
Valuation adjustments	(33,144)	(22,032)	(22,141)
Non-controlling interests	9,846	10,588	10,889
Total Equity on public balance sheet	**91,322**	**110,659**	**107,361**
Goodwill and intangible assets	(15,711)	(28,478)	(28,644)
Eligible preference shares and participating securities	9,102	9,039	9,754
Accrued dividend	(478)	(1,761)	(1,055)
Other adjustments*	(5,734)	(9,923)	(9,700)
Tier 1**	**78,501**	**79,536**	**77,716**

* Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.
** Figures calculated by applying the transitional provisions of Bank of Spain Circular 4/2017 and IFRS 9.

The following table shows the capital coefficients and a detail of the eligible internal resources of the Group:

	2020	2019	2018
Capital coefficients			
Level 1 ordinary eligible capital (EUR million)	69,399	70,497	67,962
Level 1 additional eligible capital (EUR million)	9,102	9,039	9,754
Level 2 eligible capital (EUR million)	12,514	11,531	11,009
Risk-weighted assets (EUR million)	562,580	605,244	592,319
Level 1 ordinary capital coefficient (CET 1)	12.34 %	11.65 %	11.47 %
Level 1 additional capital coefficient (AT1)	1.61 %	1.49 %	1.65 %
Level 1 capital coefficient (TIER1)	13.95 %	13.14 %	13.12 %
Level 2 capital coefficient (TIER 2)	2.23 %	1.91 %	1.86 %
Total capital coefficient	**16.18 %**	**15.05 %**	**14.98 %**

Eligible capital

EUR million

	2020	2019	2018
Eligible capital			
Common Equity Tier I	**69,399**	**70,497**	**67,962**
Capital	8,670	8,309	8,118
(-) Treasure shares and own shares financed	(126)	(63)	(64)
Share Premium	52,013	52,446	50,993
Reserves	64,766	57,368	55,036
Other retained earnings	(34,937)	(22,933)	(23,022)
Minority interests	6,669	6,441	6,981
Profit net of dividends	(9,249)	3,092	4,518
Deductions	(18,407)	(34,163)	(34,598)
Goodwill and intangible assets	*(15,711)*	*(28,478)*	*(28,644)*
Others	*(2,696)*	*(5,685)*	*(5,954)*
Additional Tier I	**9,102**	**9,039**	**9,754**
Eligible instruments AT1	8,854	9,209	9,666
T1-excesses-subsidiaries	248	(170)	88
Residual value of dividends	—	—	—
Others	—	—	—
Tier II	**12,514**	**11,531**	**11,009**
Eligible instruments T2	13,351	12,360	11,306
Gen. funds and surplus loans loss prov. IRB	—	—	—
T2-excesses - subsidiaries	(837)	(829)	(297)
Others	—	—	—
Total eligible capital	**91,015**	**91,067**	**88,725**

Note: Banco Santander and its affiliates had not taken part in any State aid programmes.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS 'Basel III leverage ratio framework' and 'Disclosure requirements' documents.

This ratio is calculated as tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from tier 1 capital (for example, the balance of loans is included, but not that of goodwill).
- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.
- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.
- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

With the publication of Regulation (EU) 2019/876 of 20 May, 2019, amending Regulation (EU) n.º 575/2013 as regards the leverage ratio, the final calibration of the ratio is set at 3% for all entities and, for systemic entities G-SIB, an additional surcharge is also established which will be 50% of the cushion ratio applicable to the EISM. In addition, modifications are included in its calculation, including the exclusion of certain exposures from the total exposure measure: public loans, transfer loans and officially guaranteed export credits.

Banks will have to implement the final definition of the leverage ratio by June 2021 and comply with the new calibration of the ratio (the surcharge for G-SIB) from January 2023.

EUR million

	2020	2019
Leverage		
Level 1 Capital	78,501	79,536
Exposure	1471480	1544614
Leverage Ratio	**5.33 %**	**5.15 %**

Global systemically important banks

Grupo Santander is one of 30 banks designated as global systemically important banks (G-SIBs).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity).

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1)%, in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

Santander

Appendix I

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
2 & 3 Triton Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	66	6	11
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	Leasing	1	(1)	0
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	6	(1)	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	1	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)	-	-	Securitization	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	Securitization	8	63	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	Financial services	4	0	4
Abbey National Nominees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Abbey National PLP (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	531	2	154
Abbey National Treasury Services Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Abbey National UK Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Abbey Stockbrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Ablasa Participaciones, S.L.	Spain	18.94%	81.06%	100.00%	100.00%	Holding company	335	(125)	714
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	Holding company	2,547	(9)	1,864
Aduro S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payments and collections services	0	0	0
Aevis Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards	1	0	1
AFB SAM Holdings, S.L.	Spain	1.00%	99.00%	100.00%	100.00%	Holding company	0	0	0
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company	4	0	4
ALIL Services Limited (j)	Isle of Man	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	Holding company	1,202	(7)	1,148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (d): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Alliance & Leicester Commercial Bank Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	(226)	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	(151)	(219)	0
Alternative Leasing, FIL	Spain	99.99%	0.00%	99.99%	-	Investment fund	63	0	63
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Holding company	0	0	0
AN (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	92	0	27
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-commerce	2	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Services	2	0	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-commerce	2	0	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (r)	Portugal	0.00%	99.91%	100.00%	100.00%	Inactive	3	0	0
Argenline S.A. (j) (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Asto Digital Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	53	(17)	38
Athena Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(3)	(5)	0
Atlantes Azor No. 1	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	Securitization	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	Securitization	0	0	0
Atual - Fundo de Invest Multimercado Crédito Privado Investimento no Exterior	Brazil	0.00%	89.99%	100.00%	-	Investment fund	198	10	187
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Financial services	262	14	246
Auto ABS Belgium Loans 2019, SA/NV	Belgium	-	(b)	-	-	Securitization	0	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	Securitization	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	Securitization	0	0	0
Auto ABS French Leases 2018	France	-	(b)	-	-	Securitization	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	Securitization	0	0	0
Auto ABS French LT Leases Master	France	-	(b)	-	-	Securitization	0	0	0
Auto ABS Italian Balloon 2019-1 S.R.L.	Italy	-	(b)	-	-	Securitization	0	0	0
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(b)	-	-	Securitization	0	0	0
Auto ABS Italian Rainbow Loans 2020-1 S.R.L.	Italy	-	(b)	-	-	Securitization	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (d)			EUR million (b)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Capital + reserves	Net results	Carrying amount
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	0	0	0
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	0	0	0
Auto ABS Spanish Loans 2020-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	0	0	0
Auto ABS Swiss Leases 2013 GmbH	Switzerland	-	(b)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(b)	-	-	Securitization	(2)	0	0
Auto ABS UK Loans 2019 Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	0	0	0
Auto ABS UK Loans 2019 Plc	United Kingdom	-	(b)	-	-	Securitization	(1)	(3)	0
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	Securitization	(12)	2	0
Autodescuento, S.L.	Spain	0.00%	93.89%	93.89%	93.89%	Vehicles purchase	1	0	18
Autohaus24 GmbH	Germany	0.00%	46.95%	100.00%	-	Renting	(3)	0	0
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	3	1	4
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	49	4	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	19	4	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	34	(26)	0
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting	7	0	8
Aviación Intercontinental, A.I.E.	Spain	99.97%	0.03%	100.00%	100.00%	Renting	77	(11)	63
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	3	0	3
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting	1	0	1
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	13	(3)	10
Aviación Santillana, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Renting	1	0	2
Aviación Suances, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	2	0	3
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	23	(1)	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company	153	117	218
Azor Mortgages PLC	Ireland	-	(b)	-	-	Securitization	0	0	0
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	Banking	442	57	153
Banco Bandepe S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Banking	828	14	759
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	14	0	9
Banco Hyundai Capital Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking	47	4	23
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	1,083	(7)	1,076
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Banking	39	4	19
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	Banking	3,677	594	3,226
Banco Santander (Brasil) S.A.	Brazil	0.04%	89.95%	90.58%	90.52%	Banking	10,219	2,206	11,070
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company	74	14	81
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	92.47%	100.00%	100.00%	Holding company	6	0	6
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	92.68%	100.00%	100.00%	Finance company	8	0	8

Santander

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (d): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	185	1	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	Banking	142	4	140
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	Banking	958	98	1,057
Banco Santander International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Banking	1,065	(1)	793
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	16.68%	75.11%	91.80%	91.77%	Banking	5,663	832	6,547
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	Banking	172	27	121
Banco Santander Río S.A.	Argentina	0.00%	99.31%	99.26%	99.25%	Banking	1,100	122	527
Banco Santander S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	Banking	317	78	191
Banco Santander Totta, S.A.	Portugal	0.00%	99.86%	99.96%	99.96%	Banking	3,715	275	3,415
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Real estate	22	0	23
BEN Benefícios e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Payment services	11	0	10
Bilkreditt 6 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitization	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company	29	18	34
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	61	(178)	0
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	312	(34)	267
Canyon Multifamily Impact Fund IV LLC (c)	United States	0.00%	98.00%	98.00%	98.00%	Real estate	21	(1)	22
Capital Street Delaware LP	United States	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	13	0	13
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	1,116	3	1,119
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Carfax (Guernsey) Limited (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	58	0	72
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	Finance company	48	8	42
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	99.97%	99.97%	99.97%	Securities company	49	3	52
Cater Allen Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Cater Allen International Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	607	33	248
Cater Allen Lloyd's Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Cater Allen Syndicate Management Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
CCAP Auto Lease Ltd.	United States	0.00%	80.24%	100.00%	100.00%	Leasing	(20)	42	18
Centro de Capacitación Santander, A.C.	Mexico	0.00%	91.79%	100.00%	100.00%	Non-profit institute	1	0	1
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Aircraft rental	(66)	(7)	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	Indirect	% of voting power (d) Year 2020	Year 2019	Activity	EUR million (b) Capital + reserves	Net results	Carrying amount
Chrysler Capital Auto Funding I LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	11	17	0
Chrysler Capital Auto Funding II LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	4	0	0
Chrysler Capital Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	0	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(157)	(43)	0
Chrysler Capital Master Auto Receivables Funding 4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	32	(35)	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(40)	(25)	0
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	85.00%	100.00%	100.00%	Collection services	3	0	3
Community Development and Affordable Housing Fund LLC (o)	United States	0.00%	96.00%	96.00%	-	Asset management	-	-	-
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	Banking	363	79	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	Banking	20	2	26
Comunidad Laboral Trabajando Argentina S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Comunidad Laboral Trabajando Iberica, S.L. Unipersonal, en liquidación (j)	Spain	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Consulteam Consultores de Gestão, Lda.	Portugal	100.00%	0.00%	100.00%	100.00%	Real estate	0	0	0
Consumer Lending Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization	0	0	0
Crawfall S.A. (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	8	0	7
Decarome, S.A.P.I. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Finance company	16	0	16
Deva Capital Advisory Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services	1	0	1
Deva Capital Holding Company, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	140	(12)	140
Deva Capital Investment Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	49	0	48
Deva Capital Management Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Advisory services	12	(8)	4
Deva Capital Servicer Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	72	2	74
Digital Procurement Holdings N.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Holding company	4	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	Cards	12	(3)	8
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Dirgenfin, S.L., en liquidación (j)	Spain	0.00%	100.00%	100.00%	100.00%	Real estate development	(8)	1	0
Drive Auto Receivables Trust 2016-C	United States	-	(b)	-	-	Securitization	(9)	31	0
Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitization	(20)	35	0
Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitization	(11)	32	0
Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitization	(15)	50	0
Drive Auto Receivables Trust 2017-A	United States	-	(b)	-	-	Securitization	(18)	28	0
Drive Auto Receivables Trust 2017-B	United States	-	(b)	-	-	Securitization	(9)	28	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (d): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitization	-20	43	0
Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitization	-74	68	0
Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitization	-99	70	0
Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitization	-100	62	0
Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitization	-87	53	0
Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitization	-88	61	0
Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitization	-124	78	0
Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitization	-160	97	0
Drive Auto Receivables Trust 2019-4	United States	-	(b)	-	-	Securitization	-185	100	0
Drive Auto Receivables Trust 2020-1	United States	-	(b)	-	-	Securitization	0	(112)	0
Drive Auto Receivables Trust 2020-2	United States	-	(b)	-	-	Securitization	0	(124)	0
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	0	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Services	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	100.00%	0.00%	100.00%	100.00%	Finance company	23	4	28
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	Inactive	1	0	1
Esfera Fidelidade S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Services	16	42	52
Evidence Previdência S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance	130	3	112
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	Finance company	11	0	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Finance company	244	52	140
Finsantusa, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	1,269	(10)	1,020
First National Motor Business Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Contracts Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Facilities Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
First National Motor Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Tricity Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	6	0	6
Fondation Holding Auto ABS Belgium Loans	Belgium	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	Securitization	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander Direct	% of ownership held by Banco Santander Indirect	% of voting power (d) Year 2020	% of voting power (d) Year 2019	Activity	EUR million (b) Capital + reserves	EUR million (b) Net results	EUR million (b) Carrying amount
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 13	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 14	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización PYMES Santander 15	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	Securitization	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	Securitization	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)	-	-	Securitization	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(124)	(2)	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	5	0	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	Securitization	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	0	0	0
Fundo de Investimento em Direitos Creditórios Atacado- Não Padronizado	Brazil	-	(b)	-	-	Investment fund	126	1	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado (i)	Brazil	-	(b)	-	-	Investment fund	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado	Brazil	-	(b)	-	-	Investment fund	63	16	0
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Securitization	7	0	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	0	0	0
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Services	1	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Accounting services	1	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Services	4	1	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services	1	0	0

Subsidiaries of Banco Santander, S.A. [1]

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Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Electricity production	1	0	0
Gestión de Inversiones JILT, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	5	0	5
Gestora de Procesos S.A. en liquidación (j)	Peru	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Payment services	280	45	293
Global Vosgos, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	-	Holding company	1	0	0
Golden Bar (Securitisation) S.R.L.	Italy	-	(b)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2018-1	Italy	-	(b)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2019-1	Italy	-	(b)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2020-1	Italy	-	(b)	-	-	Securitization	0	0	0
Golden Bar Stand Alone 2020-2	Italy	-	(b)	-	-	Securitization	0	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	Holding company	3,484	33	2,483
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	4,297	626	4,195
GTS El Centro Equity Holdings, LLC (c)	United States	0.00%	58.40%	58.40%	57.40%	Holding company	27	(1)	27
GTS El Centro Project Holdings, LLC (c)	United States	0.00%	58.40%	100.00%	100.00%	Holding company	28	(1)	27
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Automotive	2	—	2
Hipototta No. 13	Portugal	-	(b)	-	-	Securitization	—	—	—
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	Securitization	(48)	—	—
Hipototta No. 4 plc	Ireland	-	(b)	-	-	Securitization	(5)	1	—
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	Securitization	(40)	—	—
Hipototta No. 5 plc	Ireland	-	(b)	-	-	Securitization	(11)	1	—
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Renting	1	—	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Holding company	404	60	533
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	72	141	750
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(10)	8	—
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(6)	(4)	—
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
HQ Mobile Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Internet technology	—	2	8
Hyundai Capital Bank Europe GmbH	Germany	0.00%	51.00%	51.00%	51.00%	Banking	705	(5)	391
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-commerce	6	1	6
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	3,567	(277)	3,290
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	—	—	—
Interfinance Holanda B.V.	Netherlands	100.00%	0.00%	100.00%	100.00%	Holding company	—	—	—
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	148	(41)	120
Inversiones Marítimas del Mediterráneo, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Inactive	3	2	—
Isar Valley S.A.	Luxembourg	-	(b)	-	-	Securitization	—	—	—

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by Banco Santander		% of voting power (d)			EUR million (b)		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Capital + reserves	Net results	Carrying amount
Isla de los Buques, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	Finance company	1	—	1
Klare Corredora de Seguros S.A.	Chile	0.00%	33.63%	50.10%	50.10%	Insurance brokerage	9	(2)	2
Landcompany 2020, S.L.	Spain	17.22%	82.78%	100.00%	100.00%	Real estate management	1,739	(35)	1,702
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(25)	5	—
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Langton PECOH Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	1	—	—
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	1	—	—
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	Agricultural holding	28	—	16
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Factoring	(1)	—	—
Luri 1, S.A., en liquidación (j) (m)	Spain	46.00%	0.00%	46.00%	46.00%	Real estate	—	—	—
Luri 6, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Real estate investment	1,358	8	1,371
MAC No. 1 Limited	United Kingdom	-	(b)	-	-	Mortgage credit company	—	—	—
Master Red Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards	1	—	1
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	Real estate	—	—	—
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	Financial advisory	1	—	1
Mercury Trade Finance Solutions, S.A. de C.V.	Mexico	0.00%	50.10%	100.00%	-	IT services	—	—	—
Mercury Trade Finance Solutions, S.L.	Spain	0.00%	50.10%	50.10%	-	IT services	11	(1)	30
Mercury Trade Finance Solutions, S.p.A.	Chile	0.00%	50.10%	100.00%	-	IT services	—	—	—
Merlion Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	17	5	—
Moneybit, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Services	31	(6)	25
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(3)	(4)	—
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Motor 2016-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Motor 2017-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitization	—	—	—
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	(5)	(1)	—
Motor Securities 2018-1 Designated Activity Company	Ireland	-	(b)	-	-	Securitization	—	(1)	—
Mouro Capital I LP	United Kingdom	0.00%	100.00%	100.00%	-	Investment fund	—	22	—
Multiplica SpA	Chile	0.00%	100.00%	100.00%	100.00%	Payment services	5	—	5

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Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Finance company	—	—	—
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	15	(2)	44
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	22	—	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	24	1	17
Naviera Trans Wind, S.L. (j)	Spain	99.99%	0.01%	100.00%	100.00%	Renting	3	—	3
Naviera Transcantábrica, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	5	—	4
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	1	—	1
NeoAuto S.A.C.	Peru	0.00%	55.00%	55.00%	-	Vehicles purchase by internet	1	—	1
Newcomar, S.L., en liquidación (j)	Spain	40.00%	40.00%	80.00%	80.00%	Real estate	1	—	—
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	Securities investment	93	(1)	92
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.63%	78.74%	78.74%	Investment fund	304	—	239
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-commerce	5	—	2
Open Bank Argentina S.A.	Argentina	0.00%	99.66%	100.00%	-	Banking	10	(2)	9
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	217	5	221
Open Digital Market, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Services	—	—	—
Open Digital Services, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Services	129	(114)	—
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	7	—	4
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Fund management company	25	7	23
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0.00%	57.20%	54.10%	54.10%	Fund management company	4	—	—
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0.00%	44.49%	51.93%	51.57%	Fund management company	5	—	—
PagoFX Europe S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Payment services	2	(1)	1
PagoFX HoldCo, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Payment services	65	(23)	42
PagoFX UK Ltd	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payment services	3	(1)	2
PagoNxt Merchant Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	302	(32)	269
PagoNxt, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	1,081	(133)	901
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Holding company	1,051	59	917
PBD Germany Auto 2018 UG (Haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
PBD Germany Auto Lease Master 2019	Luxembourg	-	(b)	-	-	Securitization	—	—	—
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	102	—	102
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitization	—	—	—
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	44	2	4
Phoenix C1 Aviation Designated Activity Company	Ireland	-	(b)	-	-	Renting	7	5	—
PI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Leasing	51	(8)	38
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Services	—	—	—

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		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Popular Spain Holding de Inversiones, S.L.U.	Spain	100.00%	0.00%	100.00%	40.00%	Insurance	726	(225)	502
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	Internet	—	—	—
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Internet	—	—	—
Prime 16 – Fundo de Investimentos Imobiliário	Brazil	0.00%	89.99%	100.00%	100.00%	Investment fund	34	(1)	28
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Banking	517	50	229
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	Banking	1,113	82	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	100.00%	100.00%	Finance company	1	1	—
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	Finance company	116	17	42
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.22%	50.00%	50.00%	Finance company	36	5	10
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	Finance company	332	42	122
PSA Financial Services Nederland B.V.	Netherlands	0.00%	50.00%	50.00%	50.00%	Finance company	76	15	14
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Finance company	289	101	174
PSA Renting Italia S.p.A.	Italy	0.00%	50.00%	100.00%	100.00%	Renting	7	6	3
PSRT 2018-A	United States	-	(b)	-	-	Securitization	76	41	—
PSRT 2019-A	United States	-	(b)	-	-	Securitization	40	14	—
Punta Lima Wind Farm, LLC (c)	United States	0.00%	100.00%	100.00%	100.00%	Electricity production	19	(9)	41
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	44	(4)	41
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	9	16	63
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Collection services	—	3	3
Return Gestão de Recursos S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Fund management company	—	—	—
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	Inactive	—	—	—
Roc Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(2)	—	—
Roc Shipping One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(3)	(1)	—
Rojo Entretenimento S.A.	Brazil	0.00%	85.13%	94.60%	94.60%	Services	21	—	18
SAM Asset Management, S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0.00%	100.00%	100.00%	100.00%	Fund management company	3	18	161
SAM Investment Holdings, S.L.	Spain	92.37%	7.62%	100.00%	100.00%	Fund management	1,389	(13)	1,597
SAM UK Investment Holdings Limited (j)	United Kingdom	92.37%	7.63%	100.00%	100.00%	Holding company	—	—	—
SANB Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Finance company	2	—	1
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company	147	38	147
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	—	—	—
Santander (CF Trustee) Limited (d)	United Kingdom	-	(b)	-	-	Asset management	—	—	—
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Asset management	—	—	—

Santander

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander: Direct	Indirect	% of voting power (d): Year 2020	Year 2019	Activity	EUR million (b): Capital + reserves	Net results	Carrying amount
Santander Ahorro Inmobiliario 1, S.A.	Spain	98.53%	0.00%	98.53%	98.53%	Real estate rental	1	0	1
Santander Ahorro Inmobiliario 2, S.A.	Spain	99.91%	0.00%	99.91%	99.91%	Real estate rental	1	0	1
Santander Alternatives SICAV RAIF (c)	Luxembourg	0.00%	100.00%	100.00%	-	Investment company	0	0	4
Santander Asesorías Financieras Limitada	Chile	0.00%	67.44%	100.00%	100.00%	Securities company	59	-1	39
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	64	4	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	257	11	162
Santander Asset Management - S.G.O.I.C., S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Fund management company	4	3	12
Santander Asset Management Chile S.A.	Chile	0.01%	99.94%	100.00%	100.00%	Securities investment	-6	0	0
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Fund management company	6	1	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company	14	9	132
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	195	18	186
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	46	2	201
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Management	2	0	1
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company	263	50	393
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	4	(2)	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Advisory	2	—	1
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	51	15	22
Santander Bank Polska S.A.	Poland	67.41%	0.00%	67.41%	67.47%	Banking	5,414	172	4,288
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	Banking	11,160	(1,444)	9,712
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Services	67	40	96
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Securities investment	337	47	487
Santander Brasil Tecnologia S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	20	9	26
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Venture capital	5	—	3
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Investment company	10	1	—
Santander Capitalização S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Insurance	15	43	52
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	Cards	(8)	—	—
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Cards	93	—	94
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	151	1	108
Santander Chile Holding S.A.	Chile	22.11%	77.73%	99.84%	99.84%	Holding company	1,499	223	1,434
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	Advisory	8	—	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	681	116	290

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(256.3435	(4)	—
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(13.31379	107	—
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	90	78	—
Santander Consumer Auto Receivables Funding 2018-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	36	22	—
Santander Consumer Auto Receivables Funding 2018-L4 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	33	(13)	—
Santander Consumer Auto Receivables Funding 2018-L5 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	26	23	—
Santander Consumer Auto Receivables Funding 2019-B1 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	(170.6173	42	—
Santander Consumer Auto Receivables Funding 2019-L2 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	35	18	—
Santander Consumer Auto Receivables Funding 2019-L3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	26	3	—
Santander Consumer Auto Receivables Funding 2020-B1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	(91)	—
Santander Consumer Auto Receivables Funding 2020-L1 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	65	—
Santander Consumer Auto Receivables Funding 2020-L2 LLC	United States	0.00%	80.24%	100.00%	-	Finance company	—	6	—
Santander Consumer Auto Receivables Grantor Trust 2021-A	United States	-	(b)	-	-	Inactive	—	—	—
Santander Consumer Auto Receivables Grantor Trust 2021-B	United States	-	(b)	-	-	Inactive	—	—	—
Santander Consumer Auto Receivables Trust 2021-A	United States	-	(b)	-	-	Inactive	—	—	—
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	Banking	3,313	404	5,070
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	Banking	2,429	163	2,188
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Banking	381	36	363
Santander Consumer Bank S.A.	Poland	0.00%	80.44%	100.00%	100.00%	Banking	712	68	486
Santander Consumer Bank S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Banking	1,168	3	1,170
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	Banking	898	66	603
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	Banking	506	40	492
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	(36)	—	—
Santander Consumer Finance Benelux B.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Finance company	108	15	190
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT	6	2	5
Santander Consumer Finance Limitada	Chile	49.00%	34.23%	100.00%	100.00%	Finance company	57	13	37
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	Finance company	287	27	166
Santander Consumer Finance Schweiz AG	Switzerland	0.00%	100.00%	100.00%	100.00%	Leasing	41	7	60
Santander Consumer Finance, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	9,995	145	10,021
Santander Consumer Financial Solutions Sp. z o.o.	Poland	0.00%	80.44%	100.00%	-	Leasing	2	—	2
Santander Consumer Finanse Sp. z o.o. (j)	Poland	0.00%	80.44%	100.00%	100.00%	Services	14	1	12
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Holding company	364	18	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Holding company	5,455	225	6,077
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	80.24%	100.00%	100.00%	Services	7,142	3,000	8,092

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Leasing	20	74	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	Insurance intermediary	1	—	—
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	80.44%	100.00%	100.00%	Leasing	24	3	5
Santander Consumer Operations Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Services	10	1	18
Santander Consumer Receivables 10 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	625.1743	82	—
Santander Consumer Receivables 11 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	249.0215	139	—
Santander Consumer Receivables 3 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	200.4226	90	—
Santander Consumer Receivables 7 LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	359.2207	(81)	—
Santander Consumer Receivables Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	1	—
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Leasing	38	(1)	39
Santander Consumer S.A.	Argentina	0.00%	99.32%	100.00%	100.00%	Finance company	2	(1)	2
Santander Consumer S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Financial advisory	1	—	1
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Services	—	—	—
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Finance company	9	1	6
Santander Consumer Spain Auto 2019-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Consumer Spain Auto 2020-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Consumer Technology Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT services	15	5	22
Santander Consumer USA Holdings Inc.	United States	0.00%	80.24%	80.24%	72.40%	Holding company	3,839	742	4,281
Santander Consumer USA Inc.	United States	0.00%	80.24%	100.00%	100.00%	Finance company	4,765.997	(382.3592	3,517.221
Santander Consumo 3, F.T.	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Cards	871	193	977
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	Insurance brokerage	81	(2)	53
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	Securities company	52	1	44
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Securities company	101	14	103
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Holding company	475	90	505
Santander Customer Voice, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	Services	2	—	2
Santander de Titulización, S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	Fund management company	5	3	2
Santander Digital Assets, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	94	(97)	—
Santander Drive Auto Receivables LLC	United States	0.00%	80.24%	100.00%	100.00%	Finance company	—	—	—
Santander Drive Auto Receivables Trust 2016-3	United States	-	(b)	-	-	Securitization	54.81207	25	—
Santander Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitization	27.91428	23	—
Santander Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitization	20.18853	33	—

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitization	16.38480	31	—
Santander Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitization	(4.131394	42	—
Santander Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitization	(23.4704	40	—
Santander Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitization	(49.39187	51	—
Santander Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitization	(37.76117	42	—
Santander Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitization	(51.9320	48	—
Santander Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitization	(61.82044	48	—
Santander Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitization	(84.9129	64	—
Santander Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitization	(100.752	65	—
Santander Drive Auto Receivables Trust 2020-1	United States	-	(b)	-	-	Securitization	—	(102)	—
Santander Drive Auto Receivables Trust 2020-2	United States	-	(b)	-	-	Securitization	—	(121)	—
Santander Drive Auto Receivables Trust 2020-3	United States	-	(b)	-	-	Securitization	—	(223)	—
Santander Drive Auto Receivables Trust 2020-4	United States	-	(b)	-	-	Securitization	—	(223)	—
Santander Drive Auto Receivables Trust 2021-1	United States	-	(b)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-2	United States	-	(b)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-3	United States	-	(b)	-	-	Inactive	—	—	—
Santander Drive Auto Receivables Trust 2021-4	United States	-	(b)	-	-	Inactive	—	—	—
Santander Energías Renovables I, S.C.R., S.A.	Spain	49.48%	10.19%	59.66%	59.66%	Venture capital	14	2	11
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	55	(15)	28
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Payment services	214	14	185
Santander España Servicios Legales y de Cumplimiento, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Services	8	—	8
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	3	—	—
Santander F24 S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Finance company	—	—	—
Santander Facility Management España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	414	3	393
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	Factoring	40	1	41
Santander Factoring Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services	22	6	1
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Factoring	191	64	126
Santander FI Hedge Strategies	Ireland	0.00%	89.99%	100.00%	100.00%	Investment company	491	(248)	219
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	2	—	2
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	—	—	—
Santander Financial Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	355	(13)	375

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Finance company	255	(33)	225
Santander Finanse Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Financial services	55	6	19
Santander Fintech Holdings, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Holding company	13	—	13
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	219	(15)	144
Santander Fundo de Investimento Santillana Multimercado Crédito Privado Investimento No Exterior (e)	Brazil	-	(b)	-	-	Investment fund	308	100	—
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	89.10%	100.00%	100.00%	Investment fund	1,121	28	993
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	Financial services	6	—	5
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	7	—	7
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Real estate management	108	11	120
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	236	(163)	71
Santander Global Operations, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	33	—	24
Santander Global Services S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	Services	—	—	—
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Sports activity	23	(2)	21
Santander Global Technology Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services	3	1	1
Santander Global Technology Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	IT services	25	(1)	20
Santander Global Technology, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	395	16	346
Santander Global Trade Platform Solutions, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT services	98	(22)	76
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	4	—	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitization	—	—	—
Santander Holding Imobiliária S.A.	Brazil	0.00%	89.99%	100.00%	100.00%	Real estate	60	1	54
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	Holding company	3,355	1,177	2,355
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	Holding company	16,775	(685)	12,221
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.79%	100.00%	100.00%	Finance company	14	(9)	5
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	Insurance	1	—	1
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Asset management	40	1	41
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance brokerage	22	2	18
Santander International Products, Plc. (l)	Ireland	99.99%	0.01%	100.00%	100.00%	Finance company	1	—	—
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Holding company	1,506.042	176	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	575	3	529
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Finance company	520	17	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	218	—	29

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	Securities company	399	35	434
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	1,405	3	245
Santander Investments GP 1 S.à.r.l.	Luxembourg	0.00%	100.00%	100.00%	-	Fund management	1	—	1
Santander Inwestycje Sp. z o.o.	Poland	0.00%	67.41%	100.00%	100.00%	Securities company	11	—	7
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	28	7	6
Santander Lease, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	66	(5)	51
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(b)	-	-	Securitization	—	—	—
Santander Leasing S.A.	Poland	0.00%	67.41%	100.00%	100.00%	Leasing	131	3	28
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.99%	100.00%	99.99%	Leasing	907	12	827
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	—	—	—
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Mortgage credit company	229	(3)	231
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance intermediary	5	44	3
Santander Merchant Platform Operations, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services	—	—	1
Santander Merchant Platform Services, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Financial services	—	—	1
Santander Merchant Platform SoluçõesTecnológicas Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	IT services	29	(6)	23
Santander Merchant Platform Solutions México, S.A. de C.V.	Mexico	0.00%	95.98%	100.00%	-	Holding company	13	15	73
Santander Merchant Platform Solutions S.A.	Argentina	0.00%	99.66%	100.00%	-	Payment methods	7	(2)	6
Santander Merchant Platform Solutions Uruguay S.A.	Uruguay	0.00%	100.00%	100.00%	-	Payment methods	—	—	—
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company	—	—	2
Santander Mortgage Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	—	(1)	—
Santander Paraty Qif PLC	Ireland	0.00%	89.99%	100.00%	100.00%	Investment	491	(248)	219
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	100.00%	Pension fund management company	91	18	184
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	Pension fund management company	3	—	3
Santander Prime Auto Issuance Notes 2018-A Designated Activity Company	Ireland	-	(b)	-	-	Securitization	(20)	6	—
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(b)	-	-	Securitization	(11)	(5)	—
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(b)	-	-	Securitization	(2)	(3)	—
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(b)	-	-	Securitization	(16)	(6)	—
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(b)	-	-	Securitization	(1)	(8)	—
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	Fund management company	42	10	35

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Private Banking s.p.a. in Liquidazione (j)	Italy	100.00%	0.00%	100.00%	100.00%	Finance company	13	—	7
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	284	—	388
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Real estate	4	—	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	13	—	14
Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Inactive	1	—	1
Santander Retail Auto Lease Funding LLC	United States	0.00%	80.24%	100.00%	100.00%	Securitization	—	—	—
Santander Retail Auto Lease Trust 2018-A	United States	-	(b)	-	-	Securitization	82	43	—
Santander Retail Auto Lease Trust 2019-A	United States	-	(b)	-	-	Securitization	38	24	—
Santander Retail Auto Lease Trust 2019-B	United States	-	(b)	-	-	Securitization	26	13	—
Santander Retail Auto Lease Trust 2019-C	United States	-	(b)	-	-	Securitization	28	13	—
Santander Retail Auto Lease Trust 2020-A	United States	-	(b)	-	-	Securitization	—	44	—
Santander Retail Auto Lease Trust 2020-B	United States	-	(b)	-	-	Securitization	—	24	—
Santander Retail Auto Lease Trust 2021-A	United States	-	(b)	-	-	Inactive	—	—	—
Santander Retail Auto Lease Trust 2021-B	United States	-	(b)	-	-	Inactive	—	—	—
Santander Revolving Auto Loan Trust 2019-A	United States	-	(b)	-	-	Securitization	(126.3697	23	—
Santander Revolving Auto Loan Trust 2021-A	United States	-	(b)	-	-	Inactive	—	—	—
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Fund management company	4	4	3
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	Services	—	—	—
Santander Río Valores S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	Securities company	2	1	2
Santander RMBS 6, Fondo de Titulización	Spain	-	(b)	-	-	Securitization	—	—	—
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.24%	100.00%	100.00%	Fund management company	1	—	—
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	—	—	—
Santander Securities LLC	United States	0.00%	100.00%	100.00%	100.00%	Securities company	44	(8)	36
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance	1,301	151	1,188
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Services	6	4	9
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	Financial services	2	1	2
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	IT services	85	(11)	74
Santander Tecnología Argentina S.A.	Argentina	0.00%	99.35%	100.00%	100.00%	IT services	2	1	1
Santander Tecnologia e Inovação Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	IT services	1	1	1
Santander Tecnología España, S.L.U.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	45	4	45
Santander Tecnología México, S.A. de C.V.	Mexico	0.00%	91.79%	100.00%	100.00%	IT services	38	4	36
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.91%	100.00%	100.00%	Insurance	144	27	47

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Santander Totta, SGPS, S.A.	Portugal	99.85%	0.06%	99.91%	99.91%	Holding company	3,805	7	5,551
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	33.70%	100.00%	100.00%	Fund management company	4	25	15
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	Inactive	16	1	16
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	Finance company	14,823	269	15,056
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	49	—	45
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	23	3	17
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	15,732	289	14,725
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT services	27	9	6
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	Securitization	7	—	—
Santander Wealth Management International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Asset management	1	(1)	2
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	Holding company	5,905	2,440	6,477
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	Securitization	—	—	—
SC Austria Finance 2020-1 Designated Activity Company	Ireland	-	(b)	-	-	Securitization	—	—	—
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Auto 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	(1)	—	—
SC Germany Auto 2019-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Mobility 2019-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany S.A.	Luxembourg	-	(b)	-	-	Securitization	—	—	—
SC Germany S.A., Compartment Consumer 2020-1	Luxembourg	-	(b)	-	-	Securitization	—	—	—
SC Germany S.A., Compartment Mobility 2020-1	Luxembourg	-	(b)	-	-	Securitization	—	—	—
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitization	—	—	—
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	Securitization	—	—	—
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto I Limited (j)	Ireland	-	(b)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto II Limited	Ireland	-	(b)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto IX Limited	Ireland	-	(b)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(b)	-	-	Securitization	—	—	—
SCF Ajoneuvohallinto VII Limited	Ireland	-	(b)	-	-	Securitization	—	—	—

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
SCF Ajoneuvohallinto VIII Limited	Ireland	-	(b)	-	-	Securitization	—	—	—
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate management	—	—	—
SCF Rahoituspalvelut I Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut IX DAC	Ireland	-	(b)	-	-	Securitization	1	0	0
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
SCF Rahoituspalvelut VIII Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
SCM Poland Auto 2019-1 DAC	Ireland	-	(b)	-	-	Securitization	0	0	0
SDMX Superdigital, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	-	Payment platform	0	0	0
Secucor Finance 2013-I Designated Activity Company (q)	Ireland	-	(b)	-	-	Securitization	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	60	2	62
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	53	2	55
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Security	2	0	1
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	Finance company	32	1	28
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	Electricity production	279	20	299
Silk Finance No. 5	Portugal	-	(b)	-	-	Securitization	0	1	0
Sixt Leasing (Schweiz) AG	Switzerland	0.00%	46.95%	100.00%	-	Renting	12	0	0
Sixt Leasing GmbH	Austria	0.00%	46.95%	100.00%	-	Renting	(2)	0	0
Sixt Leasing SE	Germany	0.00%	46.95%	92.07%	-	Leasing	191	1	175
Sixt Location Longue Durée S.à.R.L.	France	0.00%	46.95%	100.00%	-	Renting	9	1	0
Sixt Mobility Consulting AG	Switzerland	0.00%	46.95%	100.00%	-	Consulting services	1	0	0
Sixt Mobility Consulting B.V.	Netherlands	0.00%	46.95%	100.00%	-	Consulting services	(2)	0	0
Sixt Mobility Consulting GmbH	Germany	0.00%	46.95%	100.00%	-	Consulting services	1	3	0
Sixt Mobility Consulting Österreich GmbH	Austria	0.00%	46.95%	100.00%	-	Consulting services	0	0	0
Sixt Mobility Consulting S.à.R.L.	France	0.00%	46.95%	100.00%	-	Consulting services	0	0	0
SMPS Merchant Platform Solutions México, S.A de C.V	Mexico	0.00%	95.98%	100.00%	-	Collection and payment services	12	14	25
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Appraisals	1	0	1
Sociedad Operadora de Tarjetas de Pago Santander Getnet Chile S.A.	Chile	0.00%	67.12%	100.00%	-	Collection and payment services	19	(1)	12
Socur S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	29	23	59

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Sol Orchard Imperial 1 LLC (c)	United States	0.00%	58.40%	100.00%	100.00%	Electricity production	27	(1)	26
Solarlaser Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	0	0	0
Sovereign Community Development Company	United States	0.00%	100.00%	100.00%	100.00%	Holding company	35	0	35
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	Holding company	122	1	124
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	184	20	204
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	6,833	90	6,923
Sovereign Spirit Limited (n)	Bermudas	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
Sterrebeeck B.V.	Netherlands	100.00%	0.00%	100.00%	100.00%	Holding company	3,954	211	10,521
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Securities investment	23	(1)	23
Summer Empreendimentos Ltda.	Brazil	0.00%	89.99%	100.00%	-	Real estate management	3	0	8
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Payment services	9	(2)	57
Superdigital Argentina S.A.U.	Argentina	0.00%	100.00%	100.00%	-	IT services	0	0	0
Superdigital Colombia S.A.S.	Colombia	0.00%	99.97%	99.97%	-	IT services	0	0	0
Superdigital Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	84	(2)	82
Superdigital Perú S.A.C.	Peru	0.00%	100.00%	100.00%	-	Financial services	0	0	0
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	Intermediation	7	2	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(b)	-	-	Securitization	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Holding company	10	8	0
SXT Dienstleistungen GmbH & Co. KG	Germany	0.00%	46.95%	100.00%	-	Services	1	0	0
SXT Leasing Verwaltungs GmbH	Germany	0.00%	46.95%	100.00%	-	Portfolio management	0	0	0
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Holding company	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	Holding company	1,434	236	2,145
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	14	0	14
The Best Specialty Coffee, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Restaurant services	1	0	1
Tikgi Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(2)	0	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
TIMFin S.p.A.	Italy	0.00%	51.00%	51.00%	-	Finance company	6	(2)	3
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	5	0	5
TOPSAM, S.A de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Fund management company	2	0	1
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	89.99%	100.00%	100.00%	Telemarketing	11	(1)	9
Tornquist Asesores de Seguros S.A. (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	451	9	450

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by Banco Santander		% of voting power (d)		Activity	EUR million (b)		
		Direct	Indirect	Year 2020	Year 2019		Capital + reserves	Net results	Carrying amount
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Real estate	127	1	100
Trabajando.com Mexico, S.A. de C.V. en liquidación (j)	Mexico	0.00%	100.00%	100.00%	99.87%	Services	0	0	0
Trabajando.com Perú S.A.C.	Peru	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trade Maps 3 Hong Kong Limited	Hong Kong	-	(b)	-	-	Securitization	0	0	0
Trade Maps 3 Ireland Limited (j)	Ireland	-	(b)	-	-	Securitization	0	0	0
Trans Rotor Limited (j)	United Kingdom	100.00%	0.00%	100.00%	100.00%	Renting	7	0	5
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Leasing	62	5	17
Tresmares Growth Fund Santander, SCR, S.A.	Spain	100.00%	0.00%	100.00%	-	Holding company	1	0	1
Tresmares Santander Direct Lending, SICC, S.A.	Spain	99.60%	0.00%	99.60%	-	Fund management	149	0	148
Tuttle and Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services	0	0	0
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Universia Chile S.A.	Chile	0.00%	86.84%	86.84%	86.84%	Internet	0	0	0
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Universia España Red de Universidades, S.A.	Spain	0.00%	89.45%	89.45%	89.45%	Internet	2	0	2
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	18	(9)	15
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Universia Perú, S.A.	Peru	0.00%	100.00%	100.00%	99.73%	Internet	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Uro Property Holdings, SOCIMI, S.A.	Spain	99.99%	0.00%	99.99%	22.77%	Real estate	163	9	179
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Financial services	(937)	0	0
Wave Holdco, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	54	(16)	38
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	8	0	8
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Advisory	0	0	0
WTW Shipping Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	Leasing	13	1	9

a. Amount according to the provisional books of each company at the date of publication of these annexes generally referring to 31 December 2020 without taking into account, where applicable, interim dividends paid during the year. In the carrying amount (cost net of provision), the Group's percentage ownership has been applied to the figure for each holding company, disregarding goodwill impairments made in the consolidation process. The figures for foreign companies are converted into euro at the year-end exchange rate.
b. Companies over which effective control is exercised.
c. Data as at 31 December 2019, latest available accounts.
d. Data as at 31 March 2020, latest available accounts.
e. Data as at 30 June 2020, latest available accounts.
f. Data as at 30 September 2020, latest available accounts.
g. Data as at 31 July 2020, latest available accounts.
h. Data as at 30 November 2020, latest available accounts.
i. Date as at 31 October 2020, latest available accounts.
j. Company in liquidation as at 31 December 2020.
k. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a Group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the share capital of the latter.
l. Company with Tax Residence in Spain.
m. See note 2.b.i.
n. Company with Tax Residence in the United Kingdom.
o. Company recently incorporated to the Group, with no available accounts.
p. Data as at 31 May 2020, latest available accounts.
q. Data as at 31 January 2020, latest available accounts.
r. Data as at 31 December 2004, latest available accounts.
1. The companies issuing preference shares and participating interests are listed in Annex III, together with other relevant information.

Appendix II

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Abra 1 Limited (k)	Caymand Island	-	(h)	-	-	Leasing	Joint venture	-	-	-
Achmea Tussenholding, B.V. (b)	Netherlands	8.89%	0.00%	8.89%	-	Holding company	—	356	356	20
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	Payment and collection services	Associated	57	20	2
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	53	17	4
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	133	22	15
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	20.00%	Inactive	—	0	0	0
Aguas de Fuensanta, S.A. (k)	Spain	36.78%	0.00%	36.78%	36.78%	Food	—	-	-	-
Alcuter 2, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—	-	-	-
Altamira Asset Management, S.A. (b)	Spain	0.00%	15.00%	15.00%	15.00%	Real estate	—	403	104	(42)
Apolo Fundo de Investimento em Direitos Creditórios	Brazil	0.00%	30.00%	33.33%	33.33%	Investment fund	Joint venture	565	519	46
Arena Communications Network, S.L. (consolidado) (b)	Spain	20.00%	0.00%	20.00%	20.00%	Advertising	Associated	328	101	1
Attijariwafa Bank Société Anonyme (consolidado) (b)	Morocco	0.00%	5.11%	5.11%	5.11%	Banking	—	48,831	4,307	637
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	Motorway concession	—	154	104	(33)
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (b)	Poland	0.00%	6.74%	10.00%	10.00%	Pension fund management	—	107	99	24
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.74%	10.00%	10.00%	Insurance	—	3,271	264	129
Banco RCI Brasil S.A.	Brazil	0.00%	35.90%	39.89%	39.89%	Banking	Joint venture	1,898	192	28
Banco S3 Caceis México, S.A., Institución de Banca Múltiple	Mexico	0.00%	50.00%	50.00%	50.00%	Banking	Joint venture	158	59	4

Santander

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance company	Associated	1,052	102	6
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.54%	0.00%	6.54%	6.54%	Banking	—	278,755	19,490	2,529
CACEIS (consolidado)	France	0.00%	30.50%	30.50%	30.50%	Custody services	Associated	120,704	4,020	189
Câmara Interbancária de Pagamentos - CIP	Brazil	0.00%	15.88%	17.65%	17.61%	Payment and collection services	—	253	171	28
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Venture capital	Associated	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	Real estate services	Joint venture	0	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	Payment and collection services	Associated	13	8	2
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (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	960	164	31
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	1,378	229	48
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	Services	Associated	29	3	1
Comder Contraparte Central S.A	Chile	0.00%	8.37%	12.47%	12.45%	Financial services	Associated	29	12	1
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	Financial services	Joint venture	1	(1)	0
Compañía Española de Financiación de Desarrollo, Cofides, S.A., SME (b)	Spain	20.18%	0.00%	20.18%	20.18%	Finance company	—	145	131	10
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	23.33%	0.55%	23.88%	23.88%	Credit insurance	—	927	351	24

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	Real estate	Associated	507	328	7
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (l) (e)	Spain	21.98%	0.00%	21.98%	21.98%	Real estate development	—	38	(324)	0
Condesa Tubos, S.L. (b)	Spain	32.21%	0.00%	36.21%	36.21%	Services	—	87	25	(1)
Connecting Visions Ecosystems, S.L.	Spain	19.90%	0.00%	19.90%	-	Consulting services	Joint venture	2	0	0
Corkfoc Cortiças, S.A. (b)	Portugal	0.00%	27.54%	27.58%	27.58%	Cork industry	—	3	20	0
Corridor Texas Holdings LLC (consolidado) (b)	United States	0.00%	36.30%	36.30%	33.60%	Holding company	—	185	170	(5)
Ebury Partners Limited (consolidado) (d) (m)	United Kingdom	0.00%	45.45%	45.45%	6.39%	Payment services	Associated	445	28	(34)
Eko Energy Sp. z o.o (b) (e)	Poland	0.00%	13.13%	22.00%	21.99%	Electricity production	—	0	(1)	1
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	Payment services	Associated	83	58	(12)
FAFER-Empreendimentos Urbanísticos e de Construção, S.A. (c) (e)	Portugal	0.00%	36.57%	36.62%	36.62%	Real estate	—	0	1	0
Federal Reserve Bank of Boston (b)	United States	0.00%	25.73%	25.73%	23.56%	Banking	—	89,406	1,440	51
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	Securitizations	Joint venture	150	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	Securitizations	Joint venture	406	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	Securitizations	Joint venture	487	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	Securitizations	Joint venture	678	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	Securitizations	Joint venture	570	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	Securitizations	Joint venture	85	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	Securitizations	Joint venture	217	0	0
Fondo de Titulización, RMBS Prado II	Spain	-	(h)	-	-	Securitizations	Joint venture	387	0	0

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Fondo de Titulización, RMBS Prado III	Spain	-	(h)	-	-	Securitizations	Joint venture	321	0	0
Fondo de Titulización, RMBS Prado IV	Spain	-	(h)	-	-	Securitizations	Joint venture	318	0	0
Fondo de Titulización, RMBS Prado V	Spain	-	(h)	-	-	Securitizations	Joint venture	341	0	0
Fondo de Titulización, RMBS Prado VI	Spain	-	(h)	-	-	Securitizations	Joint venture	372	0	0
Fondo de Titulización, RMBS Prado VII	Spain	-	(h)	-	-	Securitizations	Joint venture	0	0	0
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	2,205	303	42
Fremman limited	United Kingdom	33.00%	0.00%	4.99%	-	Finance company	Associated	1	3	(3)
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	18.00%	20.00%	20.00%	Collection services	Joint venture	198	37	(15)
Gire S.A.	Argentina	0.00%	57.93%	58.33%	58.33%	Payment and collection services	Associated	123	22	12
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(h)	-	-	Securitizations	Joint venture	779	0	0
Healthy Neighborhoods Equity Fund I LP (b)	United States	0.00%	22.37%	22.37%	22.37%	Real estate	—	14	14	(1)
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance company	Joint venture	3,787	256	45
Hyundai Corretora de Seguros Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance brokerage	Joint venture	0	0	0
Imperial Holding S.C.A. (e) (i)	Luxemborg	0.00%	36.36%	36.36%	36.36%	Securities investment	—	0	(112)	0
Imperial Management S.à r.l. (b) (e)	Luxemborg	0.00%	40.20%	40.20%	40.20%	Holding company	—	0	0	0
Índice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	Information system	Joint venture	1	(5)	(1)
Inmoalemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	Holding company	—	0	0	0
Innohub S.A.P.I. de C.V.	Mexico	0.00%	20.00%	20.00%	20.00%	IT services	Associated	2	4	(2)
Inverlur Aguilas I, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	0	0	0
Inverlur Aguilas II, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	1	1	0
Inversiones en Resorts Mediterraneos, S.L., en liquidación (e)	Spain	0.00%	43.28%	43.28%	43.28%	Real estate	Associated	0	(3)	1

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Inversiones Ibersuizas, S.A. (b)	Spain	25.42%	0.00%	25.42%	25.42%	Venture capital	—	20	21	(1)
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated	297	297	37
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Real estate and securities investment	Associated	365	325	35
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	0.00%	0.00%	Holding company	—	2	3	(1)
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	Holding company	—	4	4	0
LB Oprent, S.A.	Spain	38.33%	0.00%	38.33%	-	Industrial machinery rent	Associated	3	1	0
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.12%	35.70%	35.70%	Business services	Joint venture	6	3	(1)
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	Investment fund	Associated	107	101	1
Mapfre Santander Portugal - Companhia de Seguros, S.A.	Portugal	0.00%	49.94%	49.99%	100.00%	Insurance	Associated	14	9	(1)
Massachusetts Business Development Corp. (consolidado) (b)	United States	0.00%	21.61%	21.61%	21.60%	Finance company	—	66	8	1
MB Capital Fund IV, LLC (b)	United States	0.00%	21.51%	21.51%	21.51%	Finance company	—	23	18	2
Merlin Properties, SOCIMI, S.A. (consolidado) (b)	Spain	19.00%	5.81%	24.81%	22.78%	Real estate investment	Associated	13,306	6,145	564
Metrovacesa, S.A. (consolidado) (b)	Spain	31.94%	17.52%	49.45%	49.46%	Real estate development	Associated	2,679	2,345	(4)
New PEL S.à r.l. (b) (e)	Luxemborg	0.00%	7.67%	0.00%	0.00%	Holding company	—	0	0	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.49%	4.99%	4.99%	Holding company	—	16	15	1
NIB Special Investors IV-B LP (b)	Canada	0.00%	91.89%	4.99%	4.99%	Holding company	—	4	4	0
Niuco 15, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—	-	-	-
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.97%	21.73%	21.73%	Electricity production	—	92	12	8
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A.	Brazil	0.00%	18.17%	20.19%	20.19%	Technology	—	1	1	(1)

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	Finance company	Associated	0	0	0
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	Electricity production	Joint venture	24	1	0
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	Software	Associated	2	2	0
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.70%	50.00%	50.00%	Management	Associated	26	20	0
Popular Vida 2020, Compañía de Seguros y Reaseguros, S.A.U.	Spain	0.00%	49.00%	49.00%	-	Insurance	Joint venture	2,889	73	21
Procapital - Investimentos Imobiliários, S.A. (b) (e)	Portugal	0.00%	39.96%	40.00%	40.00%	Real estate	—	2	13	0
Project Quasar Investments 2017, S.L. (consolidado) (b)	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	—	9,435	3,870	(1,229)
Promontoria Manzana, S.A. (consolidado) (b)	Spain	20.00%	0.00%	20.00%	20.00%	Holding company	Associated	1,126	353	(32)
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Joint venture	0	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	249	66	25
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	104	10	15
PSA UK Number 1 plc (e)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Leasing	Associated	5	5	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	Services	Associated	29	10	0
Redsys Servicios de Procesamiento, S.L. (consolidado)	Spain	20.00%	0.06%	20.06%	20.08%	Cards	Associated	105	69	2
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Joint venture	34	(43)	(1)
Rías Redbanc S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	Services	—	3	1	0
RMBS Green Belem I	Portugal	-	(h)	-	-	Securitizatio ns	Joint venture	362	0	0
Santander Assurance Solutions, S.A.	Spain	0.00%	73.99%	73.99%	-	Insurance intermediary	Joint venture	8	4	0
Santander Auto S.A.	Brazil	0.00%	44.99%	50.00%	50.00%	Insurance	Associated	16	6	(1)
Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated	305	32	25
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.03%	49.00%	49.00%	Insurance	Associated	115	50	14

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Santander Caceis Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Securities investment	Joint venture	183	138	13
Santander Caceis Brasil Participações S.A.	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	154	140	14
Santander Caceis Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	8	9	(1)
Santander Caceis Latam Holding 1, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	714	714	0
Santander Caceis Latam Holding 2, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	2	2	0
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	657	207	22
Santander Mapfre Seguros y Reaseguros, S.A.	Spain	0.00%	49.99%	49.99%	49.99%	Insurance	Associated	45	35	(9)
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	816	371	38
Sepacon 31, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	—	-	-	-
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	8.37%	12.48%	12.48%	Services	Associated	17	14	0
SIBS-SGPS, S.A. (b)	Portugal	0.00%	16.52%	16.55%	16.56%	Portfolio management	—	148	67	10
Siguler Guff SBIC Fund LP (b)	United States	0.00%	20.00%	20.00%	20.00%	Investment fund	—	2	2	(1)
Sistema de Tarjetas y Medios de Pago, S.A.	Spain	18.11%	0.00%	18.11%	18.11%	Payment methods	Associated	464	4	0
Sistemas Técnicos de Encofrados, S.A. (consolidado) (b)	Spain	27.15%	0.00%	27.15%	27.15%	Building materials	—	97	7	7
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	45.70%	0.00%	45.70%	42.50%	Payment services	Joint venture	101	34	1
Sociedad de Garantía Recíproca de Santander, S.G.R. (c)	Spain	25.50%	0.23%	25.73%	25.73%	Financial services	—	17	11	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	22.21%	0.00%	22.21%	22.21%	Financial services	—	31,470	1,177	(947)

Santander

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Sociedad Española de Sistemas de Pago, S.A. (b)	Spain	21.32%	0.00%	21.32%	21.32%	Payment services	—	11	9	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	Securities deposit	Associated	7	6	1
Solar Maritime Designated Activity Company (b)	Ireland	-	(h)	-	-	Leasing	Joint venture	25	0	0
Stephens Ranch Wind Energy Holdco LLC (consolidado) (b)	United States	0.00%	19.20%	19.20%	21.30%	Electricity production	—	210	209	(6)
Syntheo Limited (e)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Payment services	—	1	0	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Security	Associated	86	54	2
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.83%	19.81%	19.81%	Telecommunications	Associated	60	57	2
Tecnologia Bancária S.A.	Brazil	0.00%	17.83%	19.81%	19.81%	ATM	Associated	369	86	20
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	Household appliances	—	938	167	(10)
Tonopah Solar Energy Holdings I, LLC (consolidado) (b)	United States	0.00%	26.80%	26.80%	26.80%	Holding company	Joint venture	461	140	(65)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	Services	Associated	1	(2)	0
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associated	1,154	81	0
Tresmares Growth Fund II, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—	29	16	(2)
Tresmares Growth Fund III, SCR, S.A.	Spain	40.00%	0.00%	40.00%	-	Holding company	—	22	13	(1)
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Joint venture	424	62	10
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	50.00%	Financial services	Joint venture	1	0	0
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	1	(1)	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	Insurance brokerage	Joint venture	0	0	0
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate services	Joint venture	2	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	Finance company	Associated	371	87	23

Societies of which Grupo Santander owns more than 5% (c), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by Banco Santander		% of voting power (b)				EUR million		
Company	Location	Direct	Indirect	Year 2020	Year 2019	Activity	Type of company	Capital + reserves	Net results	Carrying amount
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage credit company	Joint venture	12,218	363	(25)
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Marketing	Joint venture	0	0	0
Venda de Veículos Fundo de Investimento em Direitos Creditórios	Brazil	-	(h)	-	-	Securitizations	Joint venture	102	98	3
Volvo Car Financial Services UK Limited	United Kingdom	0.00%	50.00%	50.00%	-	Leasing	Joint venture	76	76	0
Webmotors S.A.	Brazil	0.00%	62.99%	70.00%	70.00%	Services	Joint venture	43	24	9
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	11,557	535	119
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	151	1	31
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	1,074	936	138
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	386	384	0
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated	1,679	1,490	165
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	38	8	12
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	240	36	34
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	236	47	15
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	780	144	97
Zurich Santander Seguros Uruguay S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	29	13	7

a. Amount according to the provisional books at the date of publication of these annexes of each company generally referring to 31 December 2020, unless otherwise indicated because the annual accounts have not yet been prepared. Data for foreign companies are converted into euros at the year-end exchange rate.

b. Data as at 31 December 2019, latest available accounts.

c. Data as at 31 December 2018, latest available accounts.

d. Grupo Santander has the right to receive 50.38% of the dividends distributed by the company.

e. Company in liquidation as at 31 December 2020.

f. Pursuant to Article 3 of Royal Decree 1159/ 2010, of 17 September, approving the rules for the preparation of consolidated annual accounts, in order to determine the voting rights, voting rights held directly by the parent company have been added to those held by subsidiaries or other persons acting in their own name but on behalf of a group company. For these purposes, the number of votes corresponding to the parent company, in relation to its indirect subsidiaries, is that corresponding to the subsidiary which has a direct holding in the capital of the latter.

g. Excluding the Group companies listed in Appendix I, as well as those which are of negligible interest with respect to the true and fair view that the consolidated accounts must express (in accordance with articles 48 of the Commercial Code and 260 of the Corporate Enterprises Act).

h. Companies over which joint control is maintained.

i. Data as at 31 October 2020, latest available accounts.

j. Data as at 30 June 2020, latest available accounts.

k. Company with no financial information available.

l. Data as at 30 November 2017, latest available accounts.

m. Data as at 30 April 2019, latest available accounts.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by Banco Santander			EUR million (a)			
Company	Location	Direct	Indirect	Activity	Capital	Reserves	Cost of preferred	Net results
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	Finance company	2	0	0	0
Santander UK (Structured Solutions) Limited	United Kingdom	0.00%	100.00%	Finance company	0	0	0	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	Finance company	4,552	(2,971)	55	19

a. Amount according to the books of each interim company as at 31 December 2020, converted into euro (in the case of foreign companies) at the year-end exchange rate.

Appendix IV

Notifications of acquisitions and disposals of investments in 2020 and 2019

(Article 155 of the Spanish Corporate Enterprises Act and article 125 of the Spanish Securities Market Law)

With respect to compliance with Article 125 of the Securities Market Law, no communications required under this article were made in 2020.

In relation to the information required by 155 of the Corporate Enterprises Act, on the shareholdings in which Grupo Santander owns more than 10% of the capital of another company, and the successive acquisitions of more than 5% of the share capital, see appendices I, II and III.

Appendix V

Deduction for reinvestment of extraordinary income corresponding to the companies of the Fiscal Consolidation Group, whose dominant was Banco Popular Español, S.A.U.

Based on the provisions of the Transitional Provision 24th of Law 27/2014 on income eligible for the reinvestment of extraordinary profits provided for in article 42 of the previous Consolidated Text of the Corporation Tax Law, which states that such income shall be regulated by the provisions of the aforementioned article 42, and in particular compliance with paragraph 10 of that provision, which provides for the obligation to detail the amount of the income received from the deduction provided for in that Article, as well as the year in which the reinvestment took place, all of this as long as the period for maintaining the investment has not yet been met provided for in paragraph 8 of the aforementioned provision, the following information is collected concerning capital gains generated up to the financial year 2014, with a reinvestment period from the financial year 2014 to 2017.

The detailed information refers to both Banco Popular and other companies in its Fiscal Consolidated Group up to 2017, inclusive, which obtained income eligible for the reinvestment deduction and/or have made investments in assets referred to in Article 42 (3).

Amount of income received to the 12% deduction in 2017: EUR 21,333,543.67.

Reinvestments made in 2017: EUR 47,546,533.73.

Appendix VI

List of Transactions subject to the Special Regime for Mergers, Divisions, Assets Contributions and Exchange of Securities in which the company has acted as an Acquiring Entity or Partner

In compliance with the reporting obligations established in Article 86 of Law 27/2014, of 27 November, on Corporate Tax (LIS), the following information is provided on the transactions subject to the tax regime of mergers, divisions, contributions of assets and exchange of securities, provided for in Chapter VII of Title VII of the LIS, in which BANCO SANTANDER, S.A. has intervened during the financial year 2020:

I. According to Article 86 (1) of the LIS, it is reported that the company BANCO SANTANDER, S.A. has intervened as an acquirer in the following transactions:

- Merger by absorption of SANTANDER GLOBAL PROPERTY, S.L.U., INMOBILIARIA VIAGRACIA, S.A.U. and BPE FINANCIACIONES, S.A.U., by the company BANCO SANTANDER, S.A. which held all the shares of the entities absorbed. This transaction constitutes a merger of those regulated in Article 76.1 (c) of the LIS. The information required in Article 86.1 of the LIS is incorporated into this report.

II. According to Article 86 (2) of the LIS, it is reported that BANCO SANTANDER, S.A. has intervened as a partner in the following operations:

- Merger by absorption of INMO FRANCIA 2, S.A. by INVERSIONES CAPITAL GLOBAL S.A.U.. This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from INMO FRANCIA 2, S.A. was EUR 51,465,595.23, while their tax value amounted to EUR 55,596,316,14. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity INVERSIONES CAPITAL GLOBAL S.A.U. is EUR 51,465,595.23.

- Merger by absorption of SANTANDER OPERACIONES ESPAÑA, S.L.U. by SANTANDER TECNOLOGÍA ESPAÑA This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from SANTANDER OPERACIONES ESPAÑA, S.L.U. was EUR 15,153,569.86, while their tax value amounted to EUR 33,003,261.91. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity SANTANDER TECNOLOGÍA ESPAÑA S.L.U. is EUR 15,153,569.86.

- Merger by absorption of ALISEDA REAL ESTATE, S.A. by ALTAMIRA SANTANDER REAL ESTATE, S.A.U.. This transaction constitutes a merger of those regulated in Article 76 (1) (a) of the LIS. BANCO SANTANDER, S.A. participated entirely in the capital of both the absorbed and the absorber company. The book value of the securities delivered from ALISEDA REAL ESTATE, S.A. was EUR 0, while their tax value amounted to EUR 50,060,000.00. The value for which BANCO SANTANDER, S.A. has accounted for the securities received in the entity ALTAMIRA SANTANDER REAL ESTATE, S.A.U. is EUR 0.

- Exchange of securities regulated in Article 76.5 of the LIS whereby PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) acquires the majority of voting rights in the entities PagoNxt MERCHANT SOLUTIONS, S.L. (before SANTANDER MERCHANT PLATFORM SOLUTIONS, S.L.) and MONEYBIT, S.L. by attribution to its partner BANCO SANTANDER, S.A. securities of the acquiring institution. The book value for which BANCO SANTANDER, S.A. had the securities delivered from PagoNxt (before MERCHANT SOLUTIONS, S.L.) and MONEYBIT, S.L. was EUR 137,105,367.00 and EUR 29,472,320, while its tax value was EUR 150.275,836.09 and EUR 30.521,875,07, respectively. The value for which BANCO SANTANDER, S.A. has accounted for the securities received from PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) is EUR 166.577,687.00.

- Exchange of securities regulated in Article 76.5 of the LIS whereby PagoNxt, S.L. (before SANTANDER DIGITAL BUSINESSES, S.L.) acquires most of the voting rights in the entities PAGOFX HOLDCO, S.L. by attributing its partner BANCO SANTANDER, S.A., representative securities of the acquiring entity. The book value for which BANCO SANTANDER, S.A. had the securities delivered from PAGOFX HOLDCO, S.L. accounted for was EUR 33,616,460,00, while its tax value amounted to EUR 49.876.702.55, The value for which BANCO SANTANDER, S.A. has accounted for the securities received from PagoNxt MERCHANT SOLUTIONS, S.L. is EUR 33,616,460,00.

- Complete the non-cash contribution of all assets, liabilities, rights, obligations and expectations that included the branch of activity of the real estate business on the land by BANCO SANTANDER, S.A., ALTAMIRA SANTANDER REAL ESTATE, S.A. and ALISEDA REAL ESTATE, S.A., to which SANTANDER CONSUMER EFC, S.A., SANTANDER LEASE EFC, S.A., to the entity LANDCOMPANY 2020, S.L. (formerly LANDMARK IBERIA, S.L.) This transaction constitutes a non-cash contribution from the branch of activity of those covered by Article 76.3 of the LIS and did not benefit from the scheme provided for in Article 77.1 of that rule. The net value of the assets and liabilities for the industry contributed amounts to EUR 31,980,681.69. The value for which BANCO SANTANDER, S.A. has counted securities received from LANDCOMPANY 2020, S.L. is EUR 31,980.681.69.

– Non-cash contribution of goods by BANCO SANTANDER, S.A., ALTAMIRA SANTANDER REAL ESTATE, S.A. and ALISEDA REAL ESTATE, S.A. to the entity LANDCOMPANY 2020, S.L. (formerly LANDMARK IBERIA, S.L.) This transaction constitutes a non-monetary contribution of those covered by Article 87 of the LIS and did not benefit from the scheme provided for in Article 77.1 of that rule. The net value of the goods provided is 1,488,372.00€. The value for which BANCO SANTANDER, S.A. has counted the securities received from LANDCOMPANY 2020, S.L. is EUR 1,488.372.00.

III. In compliance with Article 86.3 of the LIS, it is noted that the particulars required by Article 86 (1) and (2) relating to transactions subject to the tax regime for mergers, divisions, contributions of assets and exchange of securities provided for in Chapter VII of Title VII of the LIS, in which BANCO SANTANDER , S.A. has intervened as an acquirer or as a partner during previous years, they are listed in the first annual report approved after each of the aforementioned operations.

Appendix VII

Information to include in compliance with Article 12.3 of the TRLIS

Attached is the information requested in Article 12.3 of the Consolidated Text approving the Law on Corporation Tax in accordance with the wording established by Law 4/2008 of 23 December, with effect for the tax periods that began from January 1, 2008, until its repeal by Law 16/2013 of 29 October:

EUR million

	2020				
Participated entities	Deducted in previous years	Change own funds for the attributable year	Deduction or integration of the financial year	RDL Integration 3/2016	Deduction pending integration
Santander Ahorro Inmobiliario 2, S.A.	(1)	—	—	(1)	—
Santander Private Banking s.p.a. in Liquidazione	(9)	—	—	9	—
TOTALS	**(10)**	**—**	**—**	**10**	**—**

Appendix VIII

Information concerning the merger by absorption of Santander Global Property, S.L.U., Inmobiliaria Viagracia, S.U. and BPE Financiaciones, S.A.U., according to Article 86.1 of Law 27/2014 on Corporate Tax.

a. A year in which the transferring entity acquired the transferred assets that are liable to amortization.

EUR Thousand

	Real Estate Viagracia, S.A.U.		
Year acquisition	Cost	Accumulated depreciation	Net book value
1992	110	51	59
2001	69	7	62
2011	94	54	40
2014	5,916	427	5,489
2015	2,040	88	1,952
TOTALS	**8,229**	**627**	**7,602**

There are no assets in Santander Global Property, S.L.U. and BPE Financiaciones, S.A.U. entities that are subject to amortization.

b. Last balance sheet closed by transmitting entities.

The latest balance sheets of transmitting entities are contained in note 1.i.

c. A list of assets acquired which have been incorporated into the accounting books for a value other than the value listed in the transferring entity prior to the completion of the transaction, expressing both values as well as the value corrections made in the accounting books of the two entities.

There are no goods of this nature.

d. List of tax profits enjoyed by the transferring entity, for which the acquiring entity must assume compliance with certain requirements.

There are no tax benefits in the transferring entity over which Banco Santander, S.A. must assume compliance with certain requirements.

Appendix IX

Agent network - Collaborating agents, Agents empowered at 31 of December 2020.

JUAN SOTELO LORENZO
CARLOS GAVIN LORIENTE
NEOBAN SL
ROSA MARIA BLAY PASCUAL
JUAN MARINO JUAREZ GARCIA
YOLANDA ALVAREZ RODRIGUEZ
JAVIER TERAN CAMUS
DAVID GONZALEZ SANZ
OLGA LLORENTE DA COSTA
HELLEN JANETH MENDEZ MURCIA
LUIS MIGUEL BERNAL CAMPOS
MARIA LUISA VALIENTE LORENZO
MARIA ANTONIA ROVIROSA PIÑOL
OSCAR MANUEL ALFAGEME MARTIN
ROBERTO MARTIN RIVERO
SAUL ANTONIO TOVAR ASENSIO
PATRICIA FRIERO BRAGADO
SOLEDAD GALAN FREJO
MARIA DE LA LUZ PEREZ RAMOS
MIGUEL JOSE MALAVE FERNANDEZ
GERENCIA & DESARROLLO DE SUCURSALES S.L.
MIGUEL ANGEL FUENTE REGO
MARIA JOSE SALGADO ALVAREZ
SALVADOR CEA PEREZ
CRISTINA TORIJA PRIETO
ANABEL SANCHEZ MARTIN
FRANCISCO JAVIER MARTINEZ FERNANDEZ
ALEXANDRE DELGADO CASEIRO
RAFAEL ROMERO RODRIGUEZ
HECTOR DIAZ DIEZ
CECILIO ALVARADO GARCIA
CRISTINA PURROY CASTELLO
ANTONIO GUILLEN RAMIREZ
MARIA ANGELES RODRIGUEZ DIAZ
JOSE MANUEL BRUNA CEREZO
MONICA ALVAREZ ALVAREZ
MARIA VISITACION BECARES MARTINEZ
OLGA MARIA SANCHO ARASA
MIGUEL ANGEL ORTIZ DE MIGUEL
ANTONIO SANCHEZ ARGÜELLES
EDUARD MAS POMES
LUIS MIGUEL VEGA JANILLO
JOSEFA ALBERO TORRES
MARIA PILAR UROZ PASCUAL
MARIA DOLORES MORERA SOLA
CESAR RODRIGUEZ SOTELO
MANSANET RIPOLL SL
HECTOR EDO ALEGRE
JOSE MANUEL HORNERO HORNERO
SANCHEZ CHAPARRO, S.L.
ANTONI MONSO BONET
PEDRO MARIA MARINA MEDRANO
JUAN MIGUEL GOMEZ LOPEZ
EQUITY CONSULTING FINANCIERO, S.L.
JOSE IGNACIO BORDALLO MEDINA
EMILIO MARTIN LANCHAS
MONICA CANO CANO
MARIA SASTRE GONZALEZ
ELVIRA BORRALLO SANCHEZ
JAVIER GONZALVEZ BOTELLA
ALCARRAZ PERALTA, S.L.
0880 SANTANDER SANTIBAÑEZ, S.L.
PATRICIA GUIJO LOZANO
PABLO HERRERO ALONSO
MARIA LUZ IMIA RIVERA
JOSE LUIS EXPOSITO PITA
ANA BELEN PAMPLONA CALAHORRA
JUSTO SANCHEZ HERNANDEZ
JAVIER GURIDI EZQUERRO
ANGEL MOLLEDA VELEZ
ELVIRA DE CASTRO FERNANDEZ
MARIA VICENTA VIDAL VICENT
PAULA EIRIZ OTERO
CARLOS MESA DIEZ
MANUELA BUERA GILABERT
MATEU & SANTANDER, S.L.
ALEJANDRA SANCHEZ JUAN
MARIA MANUELA SANCHEZ CASTAÑO
OSCAR RODRIGUEZ ROMERO
BIERTEC ENERGY SL
CONCEPCION ISOLINA SOMOZA CALVIÑO
DAVID RUIZ MARCHESE
LUIS ALFONSO MARTINEZ JIMENEZ
ALBERTO RIAÑO MOROCHO
ARCADIO SAEZ SANZ
ISABEL CARMEN DOMINGUEZ ZANON
MERCEDES GARCIA DURAN
MARIA PILAR FERNANDEZ CARRASCO
ENRIQUE CHACON FERNANDEZ
PATRICIA SOUTO LOPEZ
OSCAR PARDAL ANIDO
MARIA DE LOS ANGELES ESCUDERO ORTEGA
FRANCISCO JAVIER ARTEAGA LOPEZ
RAUL DE PABLO DEL OLMO
JOSE ANTONIO LOPEZ LOPEZ
FRANCISCO ALBARRÁN PELAYO
RAQUEL BARBA ARRANZ
JOSE LUIS COUCEIRO DORELLE
CECILIO PARRO CORTES
LOURDES IGLESIAS ALONSO
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VIRGINIA VELASCO MAJADA
LAURA FERNANDEZ TORIBIO

AMBROSIO TORNAVACAS VINAGRE

BELEN GONZALEZ BERMEJO

DAMIAN CEBALLOS SORIA

OFILAR 2020 S.L.

CELIA MONICA MARTINEZ OTERO

MARIA ELISA CAMBEIRO CAAMAÑO

MANUEL MARIA GARCIA FERNANDEZ

JOSE LUIS FARIÑAS PEREZ

MARCOS VICENTE PEREZ

MANUEL ARTURO DOVALE VAZQUEZ

JOSE JIMENEZ OVEJAS

IVAN GONZALEZ MARTINEZ

ADRIAN TELLA VILLAMARIN

MARTA FEIJOO ARIAS

LUCIA ALVAREZ GONZALEZ

QUIRINO MASCITTI

JOSE BENITO SAMPEDRO FEIJOO

ESTHER LOPEZ GONZALEZ

JOSE LUIS PRIETO PARADA

BERNABE JOSE VALLECILLO MUÑOZ

MARIA DEL PILAR ALVAREZ RODRIGUEZ

CARLOS GONZALEZ FERNANDEZ

CANDIDO JUNCAL RUA

MARIA BELEN GARCIA BLANCO

MARIA TERESA BORRELL MICOLA

CELAVEDRA S.L

NIEVES NUÑEZ PUGA

BLANCA FERNANDEZ MURAS

OFICINA 6788, S.L.

ENRIC PUJOL ROVIRA

MIRIAM SAMPAYO IGLESIAS

BEATRIZ TORREÑO NIETO

ALFONSOCRIADO SL

DIEGO CAÑAMERO NAVARRO

RAUL RIVAS VAL

RUBEN BERNALDO DE QUIROS DE DOMPABLO

PATRICIA CONDE GARCIA BLANCO

JULIAN VILLANUEVA DOMINGUEZ

FRANCISCO MUÑOZ GARCIA

LUCIA DIAZ PRUDENCIO

JOSE MANUEL AYALA ARNALDOS

SAGRARIO MAQUEDA RUIZ

MIGUEL ANGEL FERNANDEZ MENDEZ

JUAN ANTONIO CANTERO SANCHEZ

ALEJANDRO SANCHEZ BERMUDEZ

GRATIANA TORRES ROSA

ANA MARIA LOPEZ MARTINEZ

IVAN GODINEZ GUERRERO

MARIA DOLORES FOLLA-CISNEROS GARCIA

CRISTINA ZABALA USTARIZ

ACTIFISUR SRL

SHEILA DEL BARRIO SAENZ

A&C TIERRA SUR INVERSIONES, S.L.U.

FERNANDO POLO MATEOS

RICARDO CORREA FOLGAR

JOSE MANUEL TORRES MIGUEL

ESTIBALIZ ZAYAS GOMEZ

BERPISTE S.R.L.

MARIA SOLE RIBERA

ANDRES RIVERO JIMENEZ

MIGUEL ANGEL VIDAL JOVER

VEGUILLAS Y VEGUILLAS SL

JOSE ALFONSO TARI ESCLAPEZ

MAGDALENA JOVER SELLER

PAULA GRACIA CABRERA COLONQUES

GESFINPRO, S.L

BEATRIZ PEREZ GARCIA

MIGUEL ALCALDE PITARCH

ANTONIO LUIS CASTELLO APARISI

MISTERA BUSINESS SOLUTIONS S.L.

JUAN ANTONIO ALCAIDE NAVARRO

MIGUEL GARCIA ABAD

VICENTE MOSCARDO TORRES

ROSA CARRERES LUCAS

JUAN JOSE MONTEAGUDO MARTINEZ

MARIA TRINIDAD BRIEVA DOMINGUEZ

MARIA MARTIN SANCHEZ

MARIA ANGELES GOMEZ TOSTON LOPEZ

BARBARA FERNANDES DIAS

VALENZUELA MARTIN ASESORES S.L.

ANSELMO HERNANDEZ RANZ

JOSE GAMERO MUÑIZ

ASEVAL ASESORES S.L

JOAQUIN SANCHEZ GRANDE TOVAR

OSCAR MUSTE ROIG

SEMAGERA, S.L.L.

ALESA CAPITAL, S.L.

AYALA MARTINEZ MELERO, SLL

GHG COPERNICO, S.L.L.

SERVIBAN OURENSE, S.L.

ERNESTO DOMINGUEZ SLU

MARIA JOSE DE LA DUEÑA FUSTER

DAMIAN DAVID PONCELL OLIVER

PALOMA MILAGROS BLANCO GONZALEZ

ANA BELEN DUARTE FIGUEIRAS

JOSE DANIEL PICANS TROITIÑO

ANA LUISA GONZALEZ COSTA

ANDREA SAYANS RIVEIRO

FABIAN MANTEIGA VARELA

OSCAR CAÑIBANO ALVAREZ

MARIA MANUELA GONZALEZ CUESTA

VANESA RODRIGUEZ ESTERIO

JOSE MANUEL SOBREDO SIGUEIRO

JOSE MANUEL VAZQUEZ BERTOA

JAIME AÑON ROIBLA

ANABEL PALLAS FUENTES

MARGARITA LUZ BOLINCHES IBAÑEZ

IVÁN LÓPEZ DURÁ

SANMAFRAILES SL

LUIS ALBERTO SALA GARCIA

FRANCISCO VICENTE RENAU GARCERA

ALBERTO SAEZ CLEMENTE

BEATRIZ GARCIA ESTELLER TORRES

SILVIA GARCIA SENDRA

JESUS BERZAL MIGUEL

NATALIA LOPEZ LOPEZ

JAVIER NOVIO MIDON

JOSE MARIA FERNANDEZ RAMIREZ

PLAZA SERVICIOS FINANCIEROS SL

JOSE GARDUÑO CALVO

SEILA GARRIDO GALINDO

Directors' report

Banco Santander, S.A.

1. Introduction

Banco Santander, S.A. ('the Bank' or 'Banco Santander') 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.

Banco Santander operates through a branch network distributed in Spain and abroad.

On 7 June 2017, Banco 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, Banco Santander 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 Banco Santander

Banco Santander is one of the largest banks in the eurozone. As of December 2020, Banco Santander had EUR 1,508,250 million of assets and EUR 1,056,127 million of total funds. Our market cap had reached EUR 44,011 million.

Banco Santander´s main purpose is to help people and businesses prosper in a Simple, Personal and Fair way.We do not merely meet our legal and regulatory obligations, but aspire to exceed expectations. We focus on areas where our activity as Grupo Santander, can have the greatest impact, helping more people and businesses prosper, in an inclusive and sustainable way.

This means Grupo Santander engages in all types of activities, operations and services that are typical of the banking business in general. Our scale, business model and diversification enable us to aim to be the best open digital financial services platform, acting responsibly and earning the lasting loyalty of our stakeholders (customers, shareholders, people and communities).

In 2020, and given the global pandemic arising from covid-19, our commitment was even stronger:

- For our 148 million customers, we strengthened our offerings, defined support measures to ensure the necessary financial assistance through pre-approved credit lines, payment deferrals and special policies, as well as facilitating the granting of state-guaranteed corporate loans in all countries.
- As for our shareholders, we kept all channels open to increase their trust, which was reflected in an increase of more than 30,000 shareholders in the year, reaching a total of 4,018,817.
- Our priority was to safeguard the health and safety of our 191,189 employees, implementing measures such as redefining our way of working, with more than 110,000 employees working from home at the peak of the pandemic, and gradually returning to the usual workplaces once de-escalation started. We followed local governments' recommendations at all times and based our procedures on three pillars: development and implementation of health and safety protocols, prioritization and monitoring the health status of our employees, and tracking and tracing (through health apps).
- In line with our commitment to society, we contributed to the well-being of society as a whole. We implemented actions and mobilized resources together with governments and institutions to help society combat the health crisis. This effort has succeeded in mobilizing more than EUR 105 million dedicated to solidarity initiatives.

The global pandemic intensified and accelerated our digital transformation, focusing on our multi-channel strategy and digitalization of processes and businesses.

As a result, loyal and digital customers and activity continued to grow. The number of loyal customers reached 23 million (+6% in the year), picking up in individuals and corporates. Digital customers rose 15% in the year to more than 42 million.

On average, our customers accessed digital touchpoints close to 190 million times per week and 44% of total sales were digital (36% in 2019). We also aim to be one of the top three banks for customer satisfaction in our main countries.

Besides digital channels, we interact with our customers through a global network of 11,236 branches, which we are optimizing and adapting to our customers' needs, including universal offices and specialist centres for certain customer segments, and new collaborative spaces with increased digital capabilities (*Work Café* branches, *SmartBank* and *Ágil* branches).

Additionally, Grupo Santander have contact centres which have won several awards for their quality of service.

In 2020, Grupo Santander launched **One Santander** to reinvent the bank and deliver sustainable and profitable growth based on greater customer loyalty. We want to create a better and different bank that delivers sustainable value for shareholders, whose first focus is Europe. In order to do this, we aim to:

- Better serve our customers, simplifying our mass market value proposition, in order to continue to improve customer experience.
- Progress in our omnichannel strategy, redefining how we interact with our customers, accelerating our digital agenda and maintaining personal relationships through our teams.
- Create a common operating model in each region, to serve the business with shared technology platforms and automated operations, leveraging shared services opportunities.

This transformation should deliver faster and more profitable growth, as well as higher productivity.

Grupo Santander has a balanced diversification in three geographical between mature and emerging markets, and operates mainly in 10 core units, where it has significant market shares.

3. Financial performance

3.1 Economic outlook:

Banco Santander ran its business in 2020 in an extraordinarily complex environment conditioned by the pandemic and the measures implemented to mitigate its economic impacts. The crisis has been global, severe and abrupt, and has generated enormous uncertainty given the impossibility of predicting its scope and duration. Most of the economies in which Banco Santander operates responded with tough policies and notable coordination between their fiscal, financial and monetary counterparts to limit permanent damage from lockdown measures. Improvements in treatment, more targeted responses to outbreaks and the announcement of effective vaccines contained the situation towards the end of the year and led to better expectations that were reflected in the financial markets' performance.

- **Eurozone** (GDP: -6.8% estimated in 2020). The contraction in economic activity resulted in a strong economic policy response. The European Central Bank (ECB) eased funding conditions through expansionary measures, complemented with temporary regulatory and supervisory measures to boost lending. The European Union (EU) supported countries in expanding their fiscal policy while creating various funds to provide liquidity.
- **Spain** GDP: -11 in 2020). The recession in Spain was more severe compared against the euro area average, owing to its greater exposure to the tourist industry and the stronger impact of the first wave of the pandemic. Unemployment rose to 16.1% in Q4'20. Inflation was negative at the end of the year (-0.5% year-on-year in December), due to contracting demand and lower energy prices.

3.2 Balance sheet and results:

Banco Santander, S.A. is the Parent Bank of a financial group that operates in different countries through different businesses therefore its financial statements not only reflect its commercial activity in Spain, but also the activity derived from being the head of the Group. This last aspect makes it difficult to analyse its evolution without distinguishing the results obtained from the commercial activity from those more directly related to its holding nature.

Commercial activity was strongly affected in 2020, particularly during the worst months of the pandemic. Since the outbreak, Banco Santander has run **initiatives to support** our stakeholders:

- **Protecting our employees:** we introduced remote working measures, encouraged the use of digital channels and implemented health protection measures at our facilities.
- **Supporting our customers:** we channelled EUR 30.8 billion in ICO-backed loans to the self-employed, SME and corporates (reaching a 27% market share) and granted more than 180,000 payment holidays.
- **Contributing to society:** we launched the Together in Solidarity Fund, with more than EUR 25 million invested in solidarity initiatives.

As regards the main l**oyalty drivers and performance by segment** in 2020:

- **For SMEs and corporates**, we simplified our value proposition with **Santander One**, a pioneering model in Spain's financial industry, that provides subscription-based, personalized financial services, centred on customer loyalty.
- **In Insurance**, the performance of our **agreements with Aegon and Mapfre** to provide a complete insurance offering, which boosted growth in non-credit related premiums by more than 27% year-on-year.
- **In Private Banking**, we remained market leaders, being named Best Private Banking Overall in Spain by Euromoney and Global Finance.

- **In SCIB**, we obtained solid results, maintaining our leadership in the main league tables despite the uncertain market environment and the covid-19 impacts.

We continued to **ramp up our digitalization**, leading to an 11% increase in digital customers in the year and more than 100 million accesses to digital channels per month. **Our app and website led** the Aqmetix ranking.

Our strategic agreement with Correos increases our network services at more than 4,600 offices and bolsters our financial services in Spain's rural areas.

We **reaffirmed our Responsible Banking commitment**, with sustainable growth initiatives, as well as leading SRI Funds with a 44% market share.

Regarding the balance sheet, as of 31 December 2020, the **total assets** of Banco Santander stood at EUR 629,369 million, with an increase of 3.19% over the previous year.

Loans and advances to customers at the end of the year stood at EUR 295,811 million, with an increase of 7.01% over the previous year driven by growth in credit to companies with government guarantee (*Instituto de Crédito Oficial*).

Customer deposits, at the end of the year, stood at EUR 286,665 million with an increase of 9.82% over the previous year. Demand deposits increased by 12.53%, offsetting the fall in time deposits (-3.6%), with growth in both corporates and households.

Net interest income in 2020 stood at EUR 3,368 million, 2.63% lower than the previous year due to lower interest rates and ALCO portfolio sales made in 2019.

Income from equity instruments amounted to EUR 5,642 million in 2020. This line includes **dividends** received from the Group subsidiaries.

Net fee income increased by 2.32% to EUR 2,317 million as compared to 2019.

Gains/losses on financial transactions (including exchange differences) reflected gains of EUR 645 million as compared to 355 million in the previous year.

General administrative expenses (personnel and other administrative expenses) were EUR 4,602 million, decreasing 8.38% due to the efficiencies generated.

Impairment losses on financial assets (net) in 2020, impacted by the covid-19 pandemic, accounted for 2,559 million, 0.8% of financial assets at fair value with changes in other comprehensive income plus financial assets at amortized cost.

On the other hand, **the impairment of investments in subsidiaries, joint ventures or associates and of non-financial assets** in 2020 amounted to EUR 5,921 million and losses of non-current assets held for sale amounted to EUR 77 million as a result of the impairment of goodwill and other impairments of subsidiaries.

Finally, **gains** on non-financial assets and investments amounted to EUR 1,142 million.

Distribution proposal of the Bank's profit

The board of directors' originally set about for remuneration against the 2020 results to maintain the announced mid-term pay-out ratio target of 40-50% of underlying profit; make sure the in-cash dividend rate was no lower than in 2019; and to make two payments against the 2020 results.

ECB Recommendation I led the board of directors to cancel the dividend policy for 2020.

Following ECB Recommendation II which extended the term of ECB Recommendation I to 1 January 2021, the board of directors proposed to shareholders at the October 2020 AGM a payment in 2021 of up to 0.10 euros per share against share premium as remuneration against 2020 results, contingent on the ECB's approval and recommendations, a CET1 ratio maintained within or above our target range of 11-12%, and the total distribution not exceeding 50% of our consolidated ordinary (underlying) profit.

The proposal aimed to apply a 100% cash dividend policy and to make a payment to shareholders with respect to 2020 in line with the one announced in early 2020 (40-50% of the group's consolidated ordinary (underlying) profit) as soon as market conditions normalized and subject to regulatory recommendations and approvals. Shareholders approved the proposal at the October 2020 AGM.

On 15 December 2020, the ECB recommended that all credit institutions under its supervision limit shareholder remuneration until 30 September 2021 to the lowest between 15% of the adjusted profit for 2020 (and 2019 but only for those entities that, as opposed to Banco Santander, did not make any dividend payments against the 2019 results) and the equivalent of 20 basis points of the CET1 ratio.

On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of €2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation.

See more information in section 9.2 Dividend policy.

4. Trend information

This director's report contains certain prospective information on the directors' plans, forecasts and estimates, based on what they consider to be reasonable assumptions.

Readers of this report should take into account that such prospective information must not be considered a guarantee of our future performance. As the plans, forecasts and estimates are subject to numerous risks and uncertainties, our future performance may not match initial expectations. These risks and uncertainties are described in the Risk management chapter of this report and in note 49 of the financial statements.

The announcement of a number of highly effective vaccines in the prevention of covid-19 has led to a substantial improvement in expectations for 2021, and in particular, reduced the probability of the most adverse scenarios. However, the resurgence of the virus in early 2021 and the consequent containment measures may have tangible impacts on the economy in the first months of the year, even if experience in the second wave shows that the public and private sectors have learnt to better manage the pandemic and contain its economic effects.

The expected acceleration on the pace of vaccination, particularly among high-risk populations, in our core markets and that expansive economic policies will be maintained suggests that economies will see a marked recovery. However, in general, we do not expect to regain pre-crisis levels until 2022.

The macroeconomic forecast for 2021 is as follows:

Euro area

We expect that economic expansion will be linked to vaccine dissemination and the degree of implementation of the EU Recovery Plan. The consensus expects that vaccination will have reached a sufficiently high percentage of the population around the middle of the year to normalize much of the economic activity. Some sectors will take time to achieve full recovery (depending on how dependant they are on international mobility as it will still be affected). We believe that monetary policy will continue to be expansionary, but the exit from the crisis will depend more heavily on fiscal policy and economic reforms. The EU recovery plan, which depends largely on the countries' proposed fiscal expansion, should be the basis for modernizing the economies, strengthening potential growth, sustainability and digitalization.

Spain

Economic recovery projections by international bodies are in the range of 5%-7%, which could be greater due to European funds from the recovery plan. Spain is one of the countries that can receive the most funds and it plans to concentrate most of the investments in the first few years. There is some uncertainty around the performance of the unemployment rate, as employment support policies dampened its rise in 2020 but this could prevent it from falling in 2021. Inflation could return to positive territory, accompanied by the estimated improvement in domestic demand, although we expect it to remain below the ECB target (2%).

With the aim of accelerating transformation, increasing volumes and having a more efficient business model, the priorities for the region in 2021 are to:

- Transform how we manage our mass-market business, simplifying our value proposition and improving customer experience, through the creation of Regional Business Owners
- Leverage our global businesses (SCIB and WM&I) and the connection with PagoNxt to accelerate profitable growth in the region
- Accelerate our digital agenda, with a common mobile experience across the region
- Deliver a significant share of the EUR 1 billion additional cost savings commitment for the next two years, transforming our operating model.
- Excel in risk management, maintaining and reinforcing our balance sheet strength.

In Spain, the covid-19 health crisis entailed significant changes in the macroeconomic and competitive environment. This required us to adapt our strategic priorities for the short- and medium-term:

- Continue to develop our distribution, operational and organizational model in order to reduce costs and accelerate progress in our digital transformation.
- Boost revenue by focusing on developing the corporate segment and moving towards a simple and complete offer for individuals, with continuous customer experience improvement. In addition, strengthen our leadership position in Private Banking and CIB.
- Adapt the risk management model and policies, strengthening the recovery management model and mitigating operational risks.
- Optimize the use of capital, focusing on value-added segments and higher profitability products.
- Foster a responsible banking culture across the organization.

See more information in the Consolidated Directors' Report.

5. Non-financial information

This Statement of Non-Financial Disclosures of Banco Santander, S.A., which is part of the Separate Directors' Report, contains the non-financial disclosures set out in the Consolidated Directors' Report of Grupo Santander together with other material useful comparative information for Banco Santander, S.A. that is appropriate for an understanding of the trends, results, status and impact of the activities of Banco Santander, S.A., including information on matters of the environment, society, human rights, the fight against corruption and bribery, and personnel.

When drawing up the non-financial information contained in this Separate Statement Of Non-Financial Disclosures, Banco Santander performed a materiality analysis, in line with the international reporting framework developed by the Global Reporting Initiative (GRI), which enabled it to identify the most important aspects about which to inform its stakeholders in accordance with the GRI standards.

General information

The purpose of Santander Group is to help people and businesses prosper. To achieve this, it has a distinctive business model that seeks to satisfy the needs of all kinds of customer: private individuals with varying income levels; companies of any size and sector; private corporations and public institutions.

Long-term personal relationships with its customers are the basis of the business. Through innovation, Banco Santander is transforming its commercial model to capture a greater number of loyal and digital customers, thereby driving a more profitable and sustainable business.

Banco Santander considers the proper integration of environmental, social and governance (ESG) criteria in its financial activity to be critical.

To achieve this, and in compliance with the international best practices regarding sustainability and responsible banking, Banco Santander has a sound corporate governance structure, with the board of directors as the maximum decision-making body of the Banco Santander, with the exclusive power to approve Grupo and Banco Santander general policies and strategies, including those regarding sustainability.

It also has a general sustainability policy that defines our general sustainability principles and our voluntary commitments with the aim of generating long-term value for our stakeholders, and with a new environmental and social risk management policy that governs the Groups's financial activity in sectors such as energy, mining/metals and soft commodities (e.g. palm oil, soya and timber). It also has a defence sector policy outlining the criteria for the group's operations with companies that perform defence-related activities. Likewise, the Bank has a sensitive sector policy that sets down guidelines for assessment and decision making about Banco Santander's participation in certain sectors, whose potential impact could lead to reputational risks. These policies are reviewed annually.

Banco Santander's responsible banking strategy is also underpinned by other internal regulations such as the general code of conduct, the corporate culture policy (which includes principles of diversity and inclusion governing the Group), the human rights policy, the consumer protection policy, the cybersecurity policy, or the Third-party certification policy (which includes the principles on the responsible behaviour of suppliers).

Moreover, Banco Santander redesigned and strengthened its corporate governance, both to ensure it is compliant and to help address the challenges that were identified.

The responsible banking, sustainability and culture committee has been created which will help the board of directors to comply with its responsibilities regarding the definition and supervision of the responsible banking, sustainability and culture strategy.

The committee is supported by the culture steering group and the inclusive & sustainable banking steering group. The culture steering, promotes, supports and tracks the implementation of The Santander Way (our corporate culture), to tackle the challenge of adapting Banco Santander to the new business environment, ensuring that Banco Santander has the appropriate competencies, framework and digital and business practices to meet the expectations of its stakeholders. The inclusive & sustainable banking steering reviews and tracks initiatives to tackle social and financial inclusion; extend and improve access to education and training; support by financing in the transition to a low carbon economy; and support investment which benefits society as a whole

The corporate Responsible Banking unit coordinates and drives the responsible banking agenda. Supporting this unit, Santander has a Senior Advisor on Responsible Business Practices, who reports directly to the executive chairman.

In addition, in 2019 metrics and medium and long-term public commitments have been established to drive Santander´s and embed Responsible Banking agenda into the heart of Group Santander's business strategy (these public commitments are carved out throughout the report).

The identification of non-financial risks associated with its activity is a priority for Banco Santander.

Banco Santander 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 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.

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

Banco Santander is part of the main initiatives at international level regarding sustainability (United Nations World Agreement, Banking Environment Initiative, World Business Council for sustainable Development, UNEP FI, Equator Principles, Responsible Banking Principles, CEO Partnership for Financial Inclusion, etc.). In addition, we are one of the founding signatories of the United Nations Principles of Responsible Banking. The aim is to contribute to the fight against climate change and the achievement of the United Nations' Sustainable Development Goals.

In 2020 we joined the United Nations Global Compact's gender equality programme. We also joined the Target Gender Equality (TGE) programme. We also joined the Green Recovery Alliance of the European Union and the Consultative Group of the Taskforce on Scaling Voluntary Carbon Markets.

In Spain, we are member of Foretica, of the Green Growth Spanish Group as well as Fundación SERES.

In addition, Banco Santander forms part of the main stock market indices that analyse and evaluate companies' actions on sustainability.

For 20 years in a row, Banco Santander has featured on the international DJSI World ranking. In 2020, we are again among the 25 financial institutions selected out of 253 companies assessed. Our score was 83 points out of 100, just six points below the leader, ranking us 14th. We obtained the top score (100) in financial inclusion, anti-corruption policy and measures, fiscal strategy, customer relationship management, environmental reporting, and social reporting.

Likewise, in 2020, Sustainalytics improved our ESG risk rating score from 32.7, considered high risk, to 27.1 medium risk. It recognized us for above average preparedness measures to address resilience, human capital, data privacy and security issues. CDP also improves our calification from C to B, reaching "Management level" in the financial sector group, which implies a coordinated action on climate issues. And we have, once again, been named a constituent of the FTSE4Good Index Series, raising our score to 4.3 out of 5. Furthermore, according to the ISS-ESG Corporate Rating, our ESG performance is above the sector-specific Prime threshold.

We are also assessed by other ESG analysts such as MSCI and Vigeo Eiris.

At the beginning of 2021, we also achieved the highest score among our global peers in the Bloomberg Gender Equality Index (BGEI). We are 7th overall and 5th among banks. This remains well above average (+18.67) and above financial services scores (+16.93 pp), with top marks in Equal Pay and Gender Pay Parity.

Information about environmental issues

We are already playing a major role in helping to tackle climate change and hasten the transition to the green economy. As a supporter of the Paris Agreement and a signatory to the UN's Collective Commitment to Climate Action, our strategy has four elements.

First, measuring and disclosing our impact. As we implement the recommendations of the Task Force on Climate-related Financial Disclosures (TFCD), we have disclosed new data about our lending related to fossil fuels, and we have increased our disclosure on material metrics.

Second, we continue to review our policies and practices related to sensitive sectors.

Third, we are supporting the green transition. We are a world leader in financing renewables, and in 2020 we financed renewable energy projects capable of powering the equivalent of 10.3 million households a year. We also launched our second EUR 1 billion green bond, created a taxonomy to classify which of our credit activity is "green", and established a new ESG team in SCIB.

The fourth element is reducing our own impact on the environment. This year, for the first time, we have offset all remaining emissions becoming carbon neutral.

Banco Santander also continued to make progress in meeting the public commitments set out in 2019, which show its commitment to the fight against climate change and to the transition to a low-carbon economy.

- financing or facilitating the mobilisation of EUR 120 billion up to 2025 and EUR 220 billion up to 2030

- To be carbon neutral by 2020.

- That 100% of the electricity we use comes from renewable sources by 2025.

- Eliminate the use of unnecessary single-use plastic in all our offices and buildings.

Banco Santander's actions on environmental matters are focused on the following lines of work:

a) The reduction of consumption and emissions

Since 2009, Banco Santander has measured, calculated and controlled the environmental footprint of all the Group's installations. The environmental footprint includes data on the consumption of electricity, fuel, water and paper, data on waste generation and a breakdown of emissions of greenhouse gases.

In 2020, Banco Santander. has continued reducing its CO_2 emissions by 56.7% compared to 2019. Additionally, 100% of the electricity used by Banco Santander S.A. comes from green energy sources.

Banco Santander continues to hold the ISO 14001 environmental certificate for the Santander Group City in Boadilla, the bank's headquarters. 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.

In addition, by 2020, Grupo Santander has gone a step further and offset all its CO_2 emissions to become carbon neutral, through the support of five projects that provide us with the necessary carbon credits. These projects are diverse and cover areas such as renewable energies, reforestation, substitution of fossil fuels, etc. All of them are certified by the most recognised international standards in the sector.

In Spain, in particular, we support a reforestation project using native species on more than 1,000 hectares burnt by forest fires in the municipality of Alcoroches (Guadalajara).

b) The inclusion of social and environmental risks in loan approval processes

Banco Santander 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 Banco Santander policies and to external commitments such as the Equator Principles.

In 2020, 34 projects in Spain were analysed within the scope of the Equator Principles. 26 included under category B, which are those classified with potential limited adverse environmental and social risks and/or impacts, and 8 under category C, which are those classified with minimal or no adverse environmental and social risks and/or impacts.

c) Financing

As part of its climate change strategy, Banco Santander 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 Banco Santander are:

• Funding renewable energy projects: In 2020 Banco Santander helped to finance new renewable energy projects in Spain with an installed capacity of 706 MW. Equivalent to the consumption of three hundred thousand households in one year (Equivalence calculated from data on final electricity consumption for the residential sector by country published by the International Energy Agency. Source updated in 2020 with 2018 data).

• Management of credit lines in relation to energy efficiency in collaboration with multilateral institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). These entities are gradually increasing their investment in this area, which is an important business opportunity for Banco Santander.

In 2020 the Bank signed with the European Investment Fund (EIF) a credit line to improve access to finance for SMEs and Small Mid Caps established in Spain and promote their investments in climate action (the latter by at least EUR 10 million).

• Financing of low-emission vehicles, Banco Santander offers Ecological Car loans for the purchase of hybrid or electric cars with reduced interest rates.

Information about labour questions and employees

Banco Santander 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 2020, Banco Santander, SA had a headcount of 26,309 employees, 1.8% less than in 2019, with an average age of 45, of whom 48% were women and 52% men.

Some 99.9% of labour contracts are permanent full-time.

In 2020, a total of 427 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.

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

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

The gender pay gap at Banco Santander is 15% (in median) and the difference in compensation for identical positions is 6.1%. The difference in comparison with the Group (1.5%) is due mainly to the legacy of the mergers carried out in recent years and to changes in functions or the fact that some positions are not equivalent.

Employees with a disability account for 1.2% of the total (+0.1 vs 2019). To comply with the General Law of Rights for disability people and their social inclusion, Banco Santander 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.

b) Work organisation

Banco Santander encourages the transition towards more flexible ways of working that improve the work/life balance thanks to tools that enable continuous communication with teams working remotely.

The corporate FlexiWorking policy, applicable to Santander S.A. and the entire Group, encompasses a wide range of measures so that employees can benefit according to their personal needs and professional situation. These measures refer mainly to:

• How the working day is organised (flexibility and working hours): time of starting and finishing work, alternative configurations for the working day, organisation of holidays, guidelines and recommendations for the rational use of e-mail and meetings, etc.

• Where employees work from (flexibility as to the workplace): remote working on certain days and at certain times, full-time teleworking.

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

It is also redesigning its offices with new office spaces that encourage collaboration and teamwork.

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

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

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

In addition, we created the **BeHealthy at Home** brand to empower and enable colleagues to be healthy **and look**

after their families. Our teams gave advice on working and exercising at home and on nutrition.

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 Banco 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 Santander 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 Banco Santander projects and to obtain their feedback, in the understanding that their support is necessary and is directly related to the satisfactory implementation of these projects.

In Spain, practically 100% of the workforce is covered by a collective labour agreement.

e) Training

Continuous training is critical **to help our employees** adapt to a work environment undergoing constant rapid change. With this goal in mind, and to ensure the highest levels of training, Banco Santander has a global induction, knowledge and development policy that establish several criteria for the design, review, implementation and supervision of training with a view to:

- Supporting business transformation.
- Promoting global talent management, facilitating innovation, encouraging knowledge sharing and identifying key employees in various areas of knowledge.
- Supporting the cultural transformation of the company under the corporate governance regulations established for Grupo Santander.

f) Accessibility

Improving access to our products and services is a key aspect of Banco Santander's commitment to be a bank that is Simple, Personal and Fair.

The corporate works manual includes minimum accessibility criteria based on Design for All (DfA) principles. These criteria, which refer to office architecture, furniture, lighting, signage and the functional allocation of spaces, are applied by default in new offices and in those upgrades in which this is technically possible.

Banco Santander also wants to provide maximum accessibility for all the users of its various websites. In this respect, both in the development and maintenance of its websites, the bank applies the accessibility guidelines established by the Web Accessibility Initiative (WAI) working group of the World Wide Web Consortium (W3C), at level AA.

g) Equality

Banco Santander believes that diversity enriches human capital, resulting in an inclusive and diverse work environment that achieves better solutions and offers added value.

The board of directors of Banco Santander is a clear example of diversity in all its aspects. It has diversity of gender (40% 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, Banco Santander 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.).

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

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

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

In 2019, the bank has established various commitments with the objective of achieving equality between men and women.

- To have between 40% - 60% women members on our Group Board by 2021.
- To have 30% women in senior leadership positions by 2025.

Banco Santander is one of the leading companies in the *Bloomberg Gender-Equality Index 2021*, achieving the top score in Equal Pay and Gender Pay parity.

Information about Human Rights

In line with its corporate culture, Banco 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.

Banco Santander has a specific policy that includes 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 2019 Banco Santander's human rights policy was updated to update the main declarations and codes on which it is based. It also gives further specifics on relevant issues regarding our relationships with customers, suppliers and communities; and more detail on the policy governance.

This policy, driven by the Board of Directors, is applicable to Grupo and Banco Santander and is available at www.santander.com

Banco Santander's policy on human rights is in line with Banco Santander's General Code of Conduct and its other policies in respect of sustainability.

Information about the fight against corruption

Banco Santander is staunchly committed to fighting any kind of corruption in the public and private sectors alike. In order to comply with this pledge, Banco Santander has drawn up this Anti-Corruption Policy which lays down all the anti-corruption elements which the Grupo Santander must comply with.

Banco Santander 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.

As a signatory of the ten principles of the UN's Global Compact, Banco Santander undertakes to work against corruption in all its forms, including extortion and bribery.

In addition, Banco Santander 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 2020, some 44 such notices were received, the most common reasons for complaints were related to human resources issues: they represented around three out of every four complaints received. The rest had very wide typology (for example, fraud, conflicts of interest, misselling and others).

Information about society

a) The bank's commitments to sustainable development

Banco Santander contributes to economic and social development through initiatives and programmes that promote education, entrepreneurship, employability and social wellbeing.

Banco Santander has, as one of its priority lines of action to contribute to sustainable development, the financial empowerment of people. We help people to access financing, to create or develop micro-enterprises, and we provide them with the necessary skills to manage their finances through financial education. Our goal is to include and financially empower 10 million people by 2025. Three main focuses of action:

- We help unbanked, underbanked and vulnerable people to access and use basic financial services.

- We offer specific products and services to low-income people, people with financial problems, and vulnerable groups.

- We promote financial education programs

Through Santander Universities, a unique initiative in the world, we focus our efforts on supporting education, entrepreneurship and employment. Banco Santander developed the largest scholarship programme ever launched by a private entity.

Grupo Santander has over 1,400 agreements with universities and academic institutions in 31 countries. In Spain, the bank has agreements with 109 academic institutions.

During 2020 Banco Santander invested a total of EUR 110 million to support higher education. Of this amount, approximately 66 million is earmarked for projects with universities in Spain. Through this initiatives to support education, entrepreneurship and employment, Santander Universities helped around 60,000 students.

The bank also supports the communities where it operates through numerous local programmes, encouraging the participation of bank employees as a way of promoting solidarity, motivation and pride in belonging, maintaining proximity and ties with their surroundings.

In total, in 2020, Banco Santander invested more than EUR 36 million, EUR 11 million in social programs in Spain, helping more than 700,000 people and EUR 25 million through the All Together Fund to alleviate the effects of covid-19, which contributed to mobilise a total of more than 100 million euros for solidarity initiatives to combat the pandemic. This fund was set up from a reduction in the remuneration of senior management, direct donations from the bank (mainly from Santander Universities and local units budgets), and contributions from employees and customers.

The funds have been used in the main geographies where Banco Santander is present to provide health equipment and materials, to provide support to vulnerable groups and to promote research into the virus through collaboration with universities and other organisations.

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 price, quality of service and other traditional criteria, it includes ESG factors, such as diversity and inclusion, human rights and sustainability. These include:

- Whether the supplier has obtained official certifications related to quality, environmental management, labour relations, the prevention of workplace risks, corporate social responsibility and similar.
- Whether they have subscribed to the Global Compact or have their own principles in respect of ethical, social and environmental questions and report about these on a regular basis.
- Or whether they have frameworks, policies, procedures, records of indicators and/or initiatives related to environmental and social matters.

The third-party certification policy include the responsible behaviour principles for suppliers. These principles lay down the minimum conditions that Banco Santander expects of its suppliers around ethics (ethics and conduct), labour matters (human rights, health and safety, and diversity and inclusion) and the environment.

Similarly, Banco Santander has a whistle-blowers' channel for suppliers through which suppliers who provide services to the Bank or any of its subsidiaries in Spain can report inappropriate conduct by Group Santander employees which does not conform to the framework of the contractual relationship between the supplier and the general principles of conduct of the Banco Santander.

c) Consumers

For Banco Santander a key characteristic of a responsible bank is that it manages and oversees the marketing and commercialization of products and services and consumer protection appropriately.

By placing our customers at the heart of what we do, we aim to win and keep their loyalty. To achieve that, we use a range of interactive channels to listen to and understand them better. The Consumer Protection function gathers Banco Santander insights on customers at a global working group called CuVo (Customer Voice) that meets monthly, and includes all global areas that have an impact on customers.

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

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

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

In addition, the corporate consumer protection policy establishes the criteria for the identification, organisation and implementation of consumer protection principles and the mechanism for the overseeing and supervising compliance.

Our **global vulnerable customers** and over-indebtedness prevention guidelines, approved in 2019, aim to ensure a consistent group-wide approach in guaranteeing fair treatment to customers, with empathy according to their particular circumstances, and in avoiding over-indebtedness.

Appropriate management of complaints is another important aspect of a responsible banking strategy. Banco Santander 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 2020 Banco Santander received a total of 152,298 complaints. An increase of 65% compared to 2019 due to the fact that in December 2020 the Ministry of Public Consumption stated that the deadline to claim mortgage expenses ended on January 21, 2021, which produced a flood of claims.

Banco Santander also constantly monitors its customers' opinions and their experiences. This information reveals how the range of services offered can be improved and helps to measure customer loyalty. To measure customer loyalty and satisfaction, Banco Santander uses the Net Promoter Score (NPS). NPS is an indicator that summarizes our relationship with customers. It contributes to the variable remuneration schemes of most employees.

In 2020, we reinforced our customer experience (CX) strategy to ensure we offer the best service, always. The diverse CX initiatives we ran focused on active listening. And we have continued to simplify our processes and product portfolio.

Additionally, we worked hard to help our customers overcome financial challenges produced by the pandemic. In addition to facilitating regulatory and governmental assistance, the measures we took to maintain high-quality, accessible services and relieve financial distress included:

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

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

We increased our call centres' capabilities through plans to facilitate working from home and channel deflection, optimize resource use and anticipate customers' needs.

d) Tax information

Banco Santander pays its fair share in taxes in every jurisdiction where we operate. Our tax strategy, which has been approved by the Board, sets out the principles by which the entire Group Santander operates. It is published on our website.

Banco Santander contributes economically and socially to the countries in which it operates by paying all taxes borne directly by the Grupo Santander (taxes paid by the Group[4]) and collecting or withholding taxes from third parties generated through business activity, cooperating as required with the local tax authorities (taxes from third parties[5]).

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[4] Including net corporation tax payments, VAT and other non-recoverable indirect taxes, employer's social security contributions and other withholding taxes, as well as other charges and tariffs.

[5] Including net payments for salary withholdings and employees' social security contributions, recoverable VAT, tax deducted at source on capital, non-resident taxes and others.

The total taxes collected and paid by Banco Santander in Spain in 2020 amounted to EUR 3,035 million, of which 1,552 million were the bank's own taxes and EUR 1,483 million were third-party taxes.

6. Research, development and innovation

Innovation and technological development are strategic pillars of Grupo Santander. We aim to respond to fresh challenges that emanate from digital transformation, focusing on operational excellence and customer experience.

Moreover, the information from our new technological platforms will help us better understand the customer journey and enable us to design a more accurate digital profile to generate more confidence and increase customer loyalty.

As well as competition from other banks, financial entities must watch out for the new financial system entrants, whose differentiating factor and competitive advantage is their use of new technology.

Developing a competent strategic technology plan must provide:

- Greater capacity to adapt to customers' needs (customized products and services, full availability and excellent service across all channels).
- Enhanced processes for Grupo Santander's professionals to ensure greater reliability and productivity in their functions.
- Proper risk management, supplying teams with the necessary infrastructures to support the identification and assessment of all risks, be they business, operational and reputational risks, or regulatory and compliance ones.

As a global systemically importantBanco Santander and its individual subsidiaries face increasing regulatory demands that impact system models and their underlying technology. This requires additional investments to guarantee compliance and legal security.

The latest European Commission ranking (2020 EU Industrial R&D Investment Scoreboard, based on 2019 data) recognises, as did previous rankings, Santander's technological effort, placing it first among Spanish companies and the second global bank for investment in R&D.

In total EUR 1,124 million was invested in R&D&I in 2020.

In response to business and customer needs, Banco Santander must integrate new digital capabilities such as agile methodologies, public- and private-Cloud-based products and core systems development. We must also broaden our data and technological capabilities (APIs - Application Programming Interface, artificial intelligence, robotics, blockchain, etc.).

Grupo Santander has a network of high-quality data centres (CPDs) interconnected by a redundant communications system. These CPDs are spread across strategic countries to support and develop Grupo Santander's activity. They combine traditional IT systems with the capabilities supplied by an on-premise private Cloud, which, thanks to its fast pace of adoption, enables integrated management of the business areas' technology and accelerates the digital transformation and allows significant cost savings.

The gradual implementation of the Cloud strategy will enable the public Cloud to support other strategic group projects. Thanks to the Local Cloud Centres of Excellence (local CCoEs), coordinated under the Global CCoE, we can guarantee consistent and rigorous adoption of the Cloud across our entities. This minimizes risks in accordance with the Public Cloud policy.

Cybersecurity is one of Banco Santander's main priorities and a crucial element in supporting Grupo Santander's mission of 'helping people and businesses prosper', as well as offering excellent digital services to our customers.

Cybersecurity attacks and defence technologies continue to evolve rapidly. Banco Santander continually develops its defence against current and emerging cybersecurity threats. Banco Santander has a cybersecurity centre in Madrid from which it provides cyber-defence services to all group entities. It has more than 350 professionals and operates 24/7.

In 2020, our Cybersecurity team was a key component of Banco Santander's response to the covid-19 crisis, through four key areas of focus: the increase in remote access capacity to enable employees to maintain Grupo Santander's services safely and efficiently; constant monitoring of new cyber-threats and suspicious activities; increased communication with employees and customers on how to stay "cyber-safe" online and when working remotely; and a constant process of analyzing new risks and implementing additional controls.

The risk management report details the actions to measure, monitor and control cybersecurity risks, and their respective mitigation plans.

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 2021.

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 Grupo Santander, below is a summary of the activity developed by the said Service during 2020, in relation to the management of complaints and claims.

This complaint and customer service department has managed during 2020 the claims of 21 companies of Grupo Santander in Spain, five less than in 2019 after the merger of Allianz Popular Pensiones, E.G.F.P., S.A. with Santander Pensiones, S.A., E.G.F.P., of Allianz Popular Asset Management, S.G.I.I.C., S.A. with Santander Asset Management, S.A., S.G.I.I.C. and of Santander Consumer Finance, S.A. with Santander Consumer, EFC, S.A., together with the liquidations of Popular Gestión Privada SGIIC, S.A. and of Popular Bolsa, SV, SA.

Santander Securities Services also changed its name to Caceis Bank, which has subsequently constituted its own customer service, so claims received until that date are included in the list.

Global evolution of complaints and claims received by Banco Santander in 2020

In 2020, 155,868 claims were accepted in the complaint and customer service department. Of these, 2,927 came through the Customer Ombudsman, 1,933 through the Bank of Spain, 174 through the National Securities Market Commission (CNMV) and 80 through the General Directorate of Insurance and Pension Funds (DGSFP).

Analysis of claims by affected products

Complaints and claims

The following is the classification of complaints received in 2020 according to the type of product:

Number of complaints	2020	2019
Assets	47,806	25,806
Liabilities	33,948	19,723
Services	18,967	16,944
Insurances	1,901	1,162
Funds and Plans	1,922	1,199
Payment methods	24,024	15,870
Securities / Capital Markets / Treasury	25,384	11,301
Others	1,916	1,723
	155,868	**93,728**

Resolution of claims and complaints

As of 31 December 2020, 85% of the complaints and claims received had been resolved.

The average resolution time in 2020 was 28 calendar days. 71% of the complaints and claims resolved have required a processing time of more than 15 calendar days.

In 48% 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 Grupo Santander and their corresponding number of complaints and claims received.

Entities	Admitted to processing	Non-admitted to processing
BANCO SANTANDER, S.A.	143,387	7,273
SANTANDER CONSUMER FINANCE, S.A.	5,570	146
OPEN BANK, S.A.	3,002	12
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA,SA	1,234	23
SANTANDER PENSIONES, S.A., E.G.F.P.	1,044	28
POPULAR VIDA 2020, CÍA. DE SEGUROS Y REASEGUROS	640	6
SANTANDER ASSET MANAGEMENT, S.A., S.G.I.I.C.	520	35
SANTANDER ESPAÑA MERCHANT SERVICES, EP	248	2
ALTAMIRA SANTANDER REAL ESTATE, S.A.	179	19
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C.	30	—
EURO AUTOMATIC CASH	4	—
SANTANDER LEASE, S.A., E.F.C.	4	—
TRANSOLVER FINANCE, E.F.C., S.A.	3	—
SANTANDER REAL ESTATE, S.A.	2	1
SANTANDER INTERMEDIACIÓN CORREIDURÍA DE SEGUROS, S.A.	1	—
LURI 6, S.A.U.	—	—
CACEIS BANK SPAIN, S.A.	—	2
SANTANDER INVESTMENT, S.A.	—	—
SANTANDER BRASIL E.F.C., S.A.	—	—
SANTANDER PRIVATE BANKING GESTIÓN, S.A., S.G.I.I.C	—	—
SANTANDER CAPITAL DESARROLLO, S.G.E.I.C., S.A.U.	—	—
Total	**155,868**	**7,547**

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 Banco Santander, 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.

The acquisition of treasury shares was last authorized at our April 2020 AGM, for five years and subject to the following provisions:

- Treasury shares held at any time cannot exceed 10% of Banco Santander's share capital, which is the legal limit set under the Ley de Sociedades de Capital (Spanish Companies Act).
- The purchase price cannot be lower than the nominal value of the shares nor exceed 3% of the last trading price in the Spanish market for any trades in which Banco Santander does not act on its own behalf.
- The board may establish the purposes for and the procedures through which the authorization may apply.

On 27 October 2020, the board approved the current treasury shares policy, which dictates that treasury share transactions may be carried out for these purposes:

- Provide liquidity or supply of securities in the market for Banco Santander shares, which gives this market depth and minimizes any temporary imbalances in supply and demand.
- Take advantage for the benefit of all shareholders of weakness in the share price in relation to its medium-term outlook.
- Meet Grupo Santander´s obligations to deliver shares to our employees and directors.
- Serve any other purpose authorized by the board within the limits set at the general meeting.

Among other things, the policy also provides for:

- The principles to uphold in treasury share trades, which include protecting financial markets' integrity and prohibiting market manipulation and insider trading.
- The operating rules on how treasury share trades must be carried out, unless in exceptional circumstances as per the policy. These rules include:
  - Responsibility for execution of these trades, which falls on the Investments and Holdings department, kept separate from the rest of Banco Santander.
  - Venues and types of trades. Trades must generally be carried out in the orders market of the *mercado continuo* (continuous market) of Spanish stock exchanges.
  - Volume limits, which in general must not exceed 15% of the average daily trading volume for Banco Santander shares in the previous 30 sessions in the *mercado continuo*.
  - Price limits. In general, (a) buy orders should not exceed the greater of the price of the last trade in the market between independent parties or the highest price in a buy order in the order book and (b) sell orders should not be lower than the lesser of the price of the last trade in the market by independent parties and the lowest price in a sell order in the order book.
  - Time limits, including a 15-day black-out period that applies before each quarterly results presentation.
- Disclosure to the markets of treasury shares trading.

The policy applies to the discretionary trading of treasury shares. It does not apply to transactions in Banco Santander shares carried out to hedge market risks or provide brokerage or hedging for customers.

At 31 December 2020, Banco Santander had no treasury shares.

9.2 Dividend policy:

As required in Banco Santander's by-laws, each year the shareholder remuneration policy is submitted for approval by the AGM.

<u>Remuneration against the 2019 results</u>

- Pre-covid. In February 2019, the board of directors announced its plans for a mid-term payout ratio of 40-50% of underlying profit (up from 30-40%); an in-cash dividend rate not lower than in 2018; and two payments against the 2019 results (as announced at the 2018 AGM).

Consequently, the board in September 2019 approved an interim cash dividend of EUR 0.10 per share against the 2019 results, paid on 1 November 2019. Furthermore, in February 2020, it decided to put to a vote at the April 2020 AGM a second payment against the 2019 results of 0.13 euros per share, with a final cash dividend of 0.10 euros per share (Final Cash Dividend) and a scrip dividend (under the Santander Dividendo Elección (SDE) scheme) that would pay 0.03 euros per share in cash to opting-in shareholders.

If that proposal had been carried out, 46.3% of the 2019 underlying attributable ordinary profit would have been paid out to shareholders, and the cash dividend rate would have been 89.6%, assuming 20% of cash options in the SDE scheme, in line with the objectives announced at the start of 2019. The cash dividend would have increased by 3% year-on-year, in contrast to the one paid against the 2018 results (EUR 0.195 per share in 2018 versus EUR 0.20 per share in 2019), even without considering the cash payout under the SDE scheme.

- Covid-19 and the first ECB recommendation. On 27 March 2020 the ECB issued a recommendation for all European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results until at least 1 October 2020 to preserve capital (ECB Recommendation I).

Considering the ECB Recommendation I and in view of Banco Santander's mission to help people and businesses prosper, on 2 April 2020 the board of directors cancelled the payment of the 2019 final dividend and the dividend policy for 2020, removed the Final Cash Dividend and the SDE scheme proposals from the agenda for the already announced April 2020 AGM and deferred the decision on the application of the 2019 results to a meeting to be held no later than 31 October 2020.

- Second ECB recommendation and October 2020 AGM. On 27 July 2020, the ECB issued a second recommendation extending the term of ECB Recommendation I. It asked the European credit institutions under its supervision to refrain from paying out dividends against the 2019 and 2020 results or from making irrevocable commitments to pay them until 1 January 2021 (ECB Recommendation II).

In September 2020, the board of directors called the October 2020 AGM, proposing to the shareholders to (a) in accordance with ECB Recommendation II, allocate the entirety of Banco Santander's 2019 results to increasing the voluntary reserve, except for the portion already applied to pay the interim dividend (which had been paid out before ECB Recommendation I) and (b) increase capital with a charge to reserves to permit a final remuneration for 2019, in addition to the interim dividend, for the equivalent of 0.10 euro per share in the form of newly-issued shares and without a cash alternative.

Shareholders approved both proposals at the October 2020 AGM. Thus, 51.6% of our underlying attributable profit in 2019 was paid out to shareholders, and the proportion of cash over the total dividend was 49.4%.

Remuneration against the 2020 results

- Pre-covid. The board of directors' originally set about for remuneration against the 2020 results to maintain the announced mid-term pay-out ratio target of 40-50% of underlying profit; make sure the in-cash dividend rate was no lower than in 2019; and to make two payments against the 2020 results. The board proposed to shareholders to, at our April 2020 AGM, set shareholder remuneration with the same flexibility as 2019 by (a) retaining the option of using the SDE scheme (scrip dividend) (in view of its wide acceptance, especially among our retail shareholders) to take advantage of profitable growth opportunities in our markets and (b) renewing the authorization to acquire treasury shares with the option of running share buy-backs to reduce outstanding shares under favourable market conditions.
- Covid-19 and ECB Recommendation I. As mentioned above, ECB Recommendation I led the board of directors to cancel the dividend policy for 2020 on 2 April 2020.
- ECB Recommendation II and October 2020 AGM. Following ECB Recommendation II which extended the term of ECB Recommendation I to 1 January 2021, the board of directors proposed to shareholders at the October 2020 AGM a payment in 2021 of up to 0.10 euros per share against share premium as remuneration against 2020 results, contingent on the ECB's approval and recommendations, a CET1 ratio maintained within or above our target range of 11-12%, and the total distribution not exceeding 50% of our consolidated ordinary (underlying) profit.

The proposal aimed to apply a 100% cash dividend policy and to make a payment to shareholders with respect to 2020 in line with the one announced in early 2020 (40-50% of the group's consolidated ordinary (underlying) profit) as soon as market conditions normalized and subject to regulatory recommendations and approvals.

Shareholders approved the proposal at the October 2020 AGM.

- Third ECB recommendation. On 15 December 2020, the ECB recommended that all credit institutions under its supervision limit shareholder remuneration until 30 September 2021 to the lowest between 15% of the adjusted profit for 2020 (and 2019 but only for those entities that, as opposed to Banco Santander, did not make any dividend payments against the 2019 results) and the equivalent of 20 basis points of the CET1 ratio.

On 3 February 2021, Banco Santander made public its 2020 results and the board's intention to pay a cash dividend of EUR 2.75 cents per share as shareholder remuneration for 2020, the maximum allowed in accordance with the limits set by the last ECB recommendation. This dividend will be paid under the resolution of the October 2020 AGM mentioned above.

Remuneration against the 2021 results

The board aims to restore a payout ratio of 40-50% of underlying profit, in cash, in the medium term. With respect to the remuneration against the 2021 earnings, the intention is to resume payments once the ECB recommendations so allow. The ECB has said it intends to repeal the recommendation in September 2021 in the absence of materially adverse developments. In the meantime, and in line with the announcement of April 2020, the dividend policy will remain suspended.

9.3 Stock market information:

Banco Santander shares are listed on Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, under the trading symbol 'SAN'), the New York Stock Exchange (NYSE) as American Depositary Shares (ADS) under the trading symbol 'SAN' (each ADS represents one Banco Santander share), the London Stock Exchange as Crest Depositary Interests (CDI) under trading symbol 'BNC' (each CDI represents one Banco Santander share), the Mexican Stock Exchange under the trading symbol 'SAN', and the Warsaw Stock Exchange under the trading symbol 'SAN'.

Government measures to contain the health crisis ensuing from the rapid spread of covid-19 had a very severe economic effect that caused GDP to plummet in the first half of the year like never before. Monetary policies quickly adopted by central banks and the fiscal stimulus packages governments put in place countered the economic slowdown and reduced financial tensions.

Relaxation of lockdowns helped market confidence and economic activity recover in the third quarter. Still, activity was slower than expected owing to new outbreaks and fears of new lockdown measures, which dragged the stock markets down.

During the year, the main indices performed better than the banking sector, which was under the influence of recommendations the ECB, the Bank of England, the Federal Reserve and other central banks had issued at the start of the pandemic to limit dividend payouts and share buybacks.

In this context, the Ibex 35 in Spain declined 15.5%; the DJ Stoxx 50 in Europe, 8.7%; DJ Banks, 24.5% and the MSCI World Banks,14.2%.

By 31 December 2020, Banco Santander's market capitalization of EUR 44,011 million was the second largest in the eurozone and 32nd largest in the world among the financial institutions.

19,080 million shares traded in the year for an effective value of EUR 45,034 million and a liquidity ratio of 115%.

At 31 December 2020 the total number of Santander shareholders was 4,018,817.

9.4 Average period of payment to suppliers:

The average period of payment to suppliers during 2020 is 11 days, term which is below the maximum established in applicable regulations.

10. Events after the reporting period

No significant events occurred from 1 January 2021 to the date on which these financial statements were authorized for issue.

11. Annual corporate governance report

According to article 540 of the Spanish Corporate Enterprise Act, Santander has prepared the 2020 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 1/2020, of 6 October, of the CNMV. This report includes a section that refers to the compliance of the corporate governance recommendations in Spain. In addition, all the information required by the provisions of article 539 of the Corporate Enterprise Act is available on the Bank's corporate website (www.santander.com).

The annual corporate governance report is included, as a separate section, in the Individual Directors' Report in accordance with the provisions of article 538 of the Corporate Enterprise Act. The aforementioned report is sent individually, as a material fact, to the National Securities Market Commission (CNMV), and is included in the consolidated directors' report as a separate section. It is available on the Bank's corporate website (www.santander.com) and on the CNMV website (www.cnmv.es).

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