

INTERNAL CONTROL

ENTITY'S INTERNAL CONTROL MECHANISMS, INCLUDING ADMINISTRATIVE AND ACCOUNTING PROCEDURES.

Banco Santander, S.A. (hereinafter Banco Santander, the Bank or the entity, together with its subsidiaries, Santander Group) follows a risk management and control model based on three lines of defence.

The business functions or activities that take or generate risk exposure are the first line of defence against risk. The assumption or generation of risks in the first line of defence must comply with the risk appetite and limits defined. To serve its function, the first line of defence must have the responsibility to identify, measure, process and report the risks assumed.

The second line of defence comprises the risk control and supervision function and the compliance function. This second line of defence oversees the effective control of risks and ensures that they are managed in accordance with the appetite level of defined risk.

Internal audit, as the third line of defence and in its role as the last control layer, regularly assesses whether the policies, methods and procedures are adequate and verifies their effective implementation.

The risk control function, the compliance function and the internal audit function have sufficient separation and independence between each other and those they control or supervise. To perform their duties, they have access to the board of directors and/or its committees through their senior officers.

Internal control and risk management systems in relation to the financial reporting process

The main characteristics of the internal control and risk management systems established in the Santander Group in relation to the financial reporting process are described below, covering the following aspects:

- Control environment
- Risk assessment of financial reporting
- Control activities
- Information and communication
- Monitoring of system operation

1. Control environment of Banco Santander:

1.1. Responsible bodies and/or functions.

Banco Santander's board of directors prepares the financial information that Banco Santander must publish on a regular basis as a listed company and is ultimately responsible for the internal control and risk management systems. In accordance with article 17.4.e) of its Rules and Regulations, this power is conferred on the audit committee which shall:

“ e) Supervise the financial reporting process and the internal control systems. In particular, the audit committee shall:

(i) supervise the process of preparing and presenting the required financial information relating to the Company and to the Group, as well as non-financial and diversity information, in accordance with the applicable regulations and leading international standards. It shall also supervise the integrity thereof, reviewing compliance with regulatory requirements, the proper demarcation of the scope of consolidation and the correct application of accounting standards, ensuring that all of this information is always up to date on the Company's website;

(ii) supervise the effectiveness of the internal control systems, reviewing them periodically, so that the principal risks are identified, managed and properly disclosed; and

(iii) discuss with the external auditor any significant weaknesses detected in the internal control system during the course of the audit.”

In addition, pursuant to article 41.2 of the Rules and Regulations of the Board, the Board shall adopt the necessary measures to ensure that the quarterly, half-yearly and any other financial information made available to the markets is prepared in accordance with the same principles, professional practises and criteria used to prepare the annual accounts and are as reliable as these financial statements. For this purpose, such information shall be reviewed by the audit committee before it is made public.

The financial accounting and control units are responsible for each of the countries in which the Group operates - each of which is headed by a head (*controller*) - and the corporate internal control department, depending on the operational risk control área are the responsible of the the existence, maintenance, implementation and documentation of an appropriate ICFR. Further information on the functions performed by the controllers and the corporate internal control department is included in section 1.2 below

The Group's General Code of Conduct, approved by the Bank's board of directors, establishes the guidelines and rules of conduct and the ethical principles that must govern the actions of all Santander Group employees and, therefore, it is the central element of the Group's Compliance function. It also establishes the rules of conduct to be followed in relation to accounting obligations and financial reporting in its section 34. The correct implementation of ICFR is ensured through an internal control system described in section 35.

These sections are reproduced below.

34. Accounting obligations

1. Reliability and strictness shall be applied in the drawing-up of the Group's financial information, ensuring that:

i) The transactions, facts and other events contained in the financial information actually exist and have been recorded at the appropriate time.

ii) The information reflects all transactions, facts and other events in which the institution is an affected party.

iii) Transactions, facts and other events are recorded and valued according to applicable regulations.

iv) Transactions, facts and other events are classified, presented and divulged in the financial information in accordance with applicable regulations.

v) The financial information reflects, as of the respective date, the rights and obligations through the

respective assets and liabilities, in accordance with applicable regulations.

2. Financial information includes all and any accounting and economic data which the Group may present to securities markets and file with supervisory bodies, irrespective of frequency or purpose. In the case of Banco Santander S.A. as the Group parent, this includes the annual financial report, the half-yearly financial report and interim individual and consolidated statements, and any prospectuses drawn up by the Group for the issuance of financial instruments.

35. Internal controls

1. All the internal control procedures established by the Group to guarantee the correct entry of transactions and their appropriate reflection in the financial information published by the Group shall be observed.

2. On preparing financial information, the Group functions responsible for each activity, process and subprocess must certify that they have observed the controls established by the Group, and that the information supplied is correct.

3. The Audit Committee will supervise the financial information presentation process, the effectiveness of internal controls and the internal audit.

4. The Risk Committee (known at the Corporation as the Committee for Supervision of Risks, Regulation and Compliance) shall supervise risk management systems.

The General Code of Conduct assigns management and other employees responsibilities in relation to previous obligations, as appropriate.

1.2. Financial reporting process.

□ Departments and/or mechanisms in charge

The Group, through the corporate organisation area and the organisational units for each country/entity or business, defines, implements and maintains the organisational structures, catalogue of job positions and size of units. Specifically, the corporate organisation function defines a reference management and staff structure, which serves as a manual across the Group.

The business and support areas channel any initiative related to their structure through these organisational units. These units are responsible for analysing, reviewing and, where appropriate, incorporating any structural modifications into the corporate technology tools. The organisational units are responsible for identifying and defining the main functions under the responsibility of each structural unit.

Based on this assignment, each of the business/support areas identify and document the necessary tasks and controls in its area within the Internal Control Model (ICM), based on its knowledge and understanding of its activities, processes and potential risks.

Each unit thus detects the potential risks associated with those processes, which are covered by the ICM. This detection is based on the knowledge and understanding that management has of the business and associated process.

It also has to define those persons responsible for the various controls, tasks and functions of the documented processes, so that all the members of the division have clearly assigned responsibilities.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of ICFR.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has financial accounting and control units in each of its operating markets; these are headed up by a financial controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements as required.
- Ensuring that organisational structures in place are conducive to performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's Financial Accounting and Control division.

In addition, to support the existence of adequate documentation for the Group's ICM, the corporate nonfinancial risk control department is responsible for establishing and reporting the methodology governing the process of documenting, evaluating and certifying the internal control model that covers the ICFR system, among other regulatory and legal requirements. It is also responsible for keeping all necessary documentation fully up to date including organizational and regulatory changes.

In addition, together with the Financial Accounting and Control division and, if appropriate, the representatives of the divisions and/or companies concerned, it is responsible for presenting the conclusions of the ICM evaluation process to the audit committee. There are similar functions at each unit that report to the corporate non-financial risk control department.

□ Code of conduct

The Group's General Code of Conduct, approved by the Bank's board of directors, sets out guidelines for conduct, amongst other matters, in relation to accounting obligations and financial reporting.

This Code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A., who acknowledge so when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

The Group provides all employees with *online training courses* on the aforementioned General Code of Conduct, and the possibility of sending any queries regarding the same to compliance management.

The Human Resources function is responsible for imposing disciplinary sanctions for breaches of the General Code of Conduct and for proposing corrective actions, which may result in employee sanctions, without prejudice to any administrative or criminal sanctions that may arise. The function is assisted for this purpose by a committee comprising representatives from various areas of the Group.

□ Whistleblowing channel

Article 17.4.g of the Rules and Regulations of the Board of Directors states that the audit committee shall be responsible amongst its duties for:

(g) Become apprised of and, if applicable, respond to the initiatives, suggestions or complaints put forward or raised by the shareholders regarding the area of authority of this committee and which are submitted thereto by the office of the general secretary of the Company. The committee shall also:

- (i) Receive, deal with and keep a record of the claims received by the Bank on matters related to the process for generating financial information, auditing and internal controls.*
- (ii) Establish and supervise a mechanism whereby Group employees may communicate, confidentially and anonymously, potentially significant irregularities as to matters within its area of authority, especially of a financial and accounting nature.”*

Banco Santander has a whistleblowing channel, called 'Canal Abierto', through which employees can report, confidentially and anonymously, any allegedly unlawful acts or breaches of the General Code of Conduct as well as behaviours not aligned with the corporate ones that comes to their knowledge during the course of their professional activities.

In addition, through this whistleblowing channel, employees can confidentially and anonymously report irregularities in accounting or auditing matters, in accordance with SOX. When reports concerning accounting or auditing matters are received, the compliance and conduct function will report them to the audit committee to adopt the appropriate measures.

To preserve the confidentiality of communications prior to their examination by the audit committee, the procedure does not require the inclusion of personal data from the sender. In addition, only certain persons in the compliance and conduct function review the content of the communication in order to determine whether it is related to accounting or auditing matters, and, if applicable, submit it to the audit committee.

□ Training and periodic update programmes

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the Financial Accounting and Control division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of elearning and on site sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

The training and periodic update programmes taught in 2019 have focused, among other subjects, on: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

45,061 employees from the Group's entities in the various countries in which it operates were involved in these training programmes, involving over 1,000,000 training hours at the corporate centre in Spain and remotely (elearning). In addition, each country develops its own training programme based on that developed by the parent.

2. Financial reporting risk assessment:

Santander Group's ICM is defined as the process carried out by the board of directors, senior management and the rest of the Group's employees to provide reasonable assurance that their targets will be attained.

The Group's ICM complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICM documentation is implemented in the main Group companies using standard and uniform methodology to ensure inclusion of appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk. Its scope is greater than all of the risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by the ICM is based on the knowledge and understanding that management have of the business and its operating processes, taking into account criteria associated with the type, complexity or the structure of the business itself.

In addition, the Bank ensures the existence of controls covering the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of:

i) the existence of the assets, liabilities and transactions as at the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICM model are worth highlighting:

- i* It is a corporate model involving the whole organisational structure through a direct scheme of responsibilities assigned individually.
- ii* The management of the ICM documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the non-financial risk control department. This department issues general criteria and guidelines

- to ensure uniformity and standardisation of the documentation of procedures, control assessment tests, criteria for the classification of potential weaknesses and rule changes.
- iii* It is an extensive model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas. These do not generate a direct impact on the accounting process but could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/ or fraud.
 - iv* It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
 - v* It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICM.

All of the Group companies' ICM documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the Financial Accounting and Control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over, or is exposed to, its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, the audit committee is responsible for supervising the Bank and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

3. Control activities:

3.1. Procedures for the review and authorisation of financial information.

The audit committee and the board of directors oversee the process of preparing and presenting the mandatory financial information regarding the Bank and the Group. An assessment of its competences, compliance with regulatory requirements and accounting standards which, together, ensure its accuracy and timely update on the Bank's website.

The process of creating, reviewing and authorising the financial information and the description of the ICFR is documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off transactions (stock trading, property deals, etc.), as well as aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the methodology for, reviewing and authorising procedures for generating financial information.

The audit committee has the duty to report to the board, prior to its adoption of the decisions, regarding the financial information that the Group must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices used to prepare the financial statements with the same degree of reliability.

The audit committee is responsible for reporting to the board, prior to the latter's adoption of the corresponding decisions, on the financial information that the Group must periodically publish, Ensuring that it is prepared in accordance with the same principles and practises as the annual accounts and is equally reliable as the financial statements.

The most significant aspects of the accounting close process and review of material judgements, estimates, measurements and projections used are as follows:

- i. Impairment losses on certain assets;
- ii. The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;
- iii. The useful life of the tangible and intangible assets;
- iv. The measurement of goodwill arising on consolidation;
- v. The calculation of provisions and the consideration of contingent liabilities;
- vi. The fair value of certain unquoted assets and liabilities;
- vii. The recoverability of tax assets; and
- viii. The fair value of the identifiable assets acquired, and the liabilities assumed, in business combinations.

Our Group chief accounting officer presents the Group's financial information to the audit committee for validation on a quarterly basis, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

The Group has in place an assessment and certification process which verifies that the ICM is working properly and is effective in practice. This assessment starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions drawn, the tasks and functions related to the generation of financial information are certified so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the chief accounting officer/financial controller certify the effectiveness of the ICM.

There is also a committee called “accounting and financial management information Committee” which is responsible for the governance and supervision of matters relating to accounting, financial management and control, and for ensuring that the Bank makes appropriate and adequate financial disclosures of these matters in accordance with laws and regulations, ensuring that such disclosure is fair, accurate and not misleading.

The annual process identifies and assesses the criticality of risks and the effectiveness of the controls identified in the Group.

The Non-Financial Risk Control unit prepares a report detailing the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- i. Detail of the certifications obtained at all levels.
- ii. Any additional certifications considered necessary.
- iii. Specific certification of all significant outsourced services.
- iv. Tests about the design and operation of ICM performed by those responsible for its maintenance and/or by independent experts.

This report also itemises the main deficiencies identified throughout the certification process by any of the parties involved, indicating whether these deficiencies have been properly resolved or, if not, what remediation plans are in place to correct them in a satisfactory manner.

The conclusions of these evaluation processes are presented to the audit committee by the non-financial risk control department, together with Financial Accounting and Control division and, if appropriate, the sponsors of the divisions and/or work companies concerned, after having been presented to the risk control committee.

Lastly, based on this report, the Group’s chief accounting officer / controller, chief financial officer and its chief executive officer certify the effectiveness of the ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

Since 2018, the Group has worked to strengthen the identification and documentation of the most relevant controls relating to the internal control over financial reporting (special monitoring controls). This has included the reinforcement of existing mechanisms within the organization to promote a culture of preventive risk identification and management in a more precise way.

Finally, during 2019, the Group defined within its governance scheme a new meeting called 'Internal Control Steering Meeting' where the main stakeholders of the Group’s ICM monitor progress with the main control deficiencies and the strategy and evolution of the Group’s ICM.

3.2. Internal control policies and procedures for information systems.

The Technology and Operations Division draws up the corporate policies relating to the Group's information systems which, directly or indirectly, relate to the financial statements, guarantee, at all times, through a specific internal control system, the correct preparation and publication of financial information.

For internal control purposes, are particularly relevant the policies relating to the following aspects:

- Internal policies and procedures, updated and disseminated, relating to system security and access to applications and computer systems, based on roles and in accordance with the functions and ratings assigned to each unit/position, in order to ensure adequate segregation of duties.
- The Group's methodology ensures that the development of new applications and the modification or maintenance of existing applications is through a circuit of definition, development and testing that ensures the reliable processing of financial information.
 - In this way, once the development of the applications has been completed based on the standardised definition of requirements (detailed documentation of the processes to be implemented), comprehensive tests are carried out by a specialist development laboratory in this field.
 - Subsequently, in a pre-production environment (computer environment that simulates real situations) and prior to their definitive implementation, a complete software testing cycle is run, which includes: technical and functional tests, performance tests, user acceptance tests and pilot and prototype tests that are defined by the entities, before making the applications available to end users.
- Based on corporate methodology, the Group guarantees the existence of continuity plans to ensure the performance of key functions in the event of disasters or events that may suspend or interrupt activity. To this end, there are back-up systems with a high degree of automation that guarantee the continuity of critical systems with minimum human intervention, thanks to redundant systems, high availability systems and redundant communication lines.

3.3. Internal control policies and procedures designed to supervise the management of activities subcontracted to third parties.

The Group has established an action framework and specific implementation policies and procedures to ensure the adequate coverage of the risks associated with subcontracting activities to third parties.

This framework is in line with the EBA's requirements for outsourcing arrangements and risk management with third parties, and must be complied within all companies of the Group.

The relevant processes include:

- i. The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- ii. The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- iii. The provision of other material support services not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- i. Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.

- ii. All of the Group's service providers document and validate the main processes and controls related to the services they provide.
- iii. Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels. Thus enables the identification and implementation of inherent risk mitigation plans to ensure that residual risk is within the entity's risk appetite.

The Group assesses its evaluation internally according to the control model guidelines mentioned. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements and are detailed in the service level agreements reflected in the respective contracts with third parties.

4. Information and communication:

4.1. Responsible for accounting policies

The Financial Accounting and Control division includes the accounting policies area, the head of which reports directly to the financial controller and has the following exclusive responsibilities:

- i. Defining the accounting treatment of the transactions that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- ii. Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- iii. Enhancing and standardising the Group's accounting practices.
- iv. Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Corporate Accounting, Financial Reporting and Management Framework sets out the principles, guidelines and procedures for accounting, financial reporting and management that apply to all entities of the Santander Group as a key pillar of good governance. The structure of the Group calls for the application of consistent principles, guidelines and procedures so that each Group entity can rely on effective consolidation methods and apply uniform accounting policies. The principles set out in this Framework are appropriately implemented and specified in the Group's accounting policies.

Accounting policies must be treated as a supplement to the financial and accounting standards that apply in the given jurisdiction. Their overarching objectives are as follows: (i) financial statements and other financial information made available to management bodies, regulators and third parties must provide accurate and reliable information for decision-making relating to the Group, and (ii) all Group entities must be enabled to comply in a timely manner with legal duties and obligations and regulatory requirements. The Accounting Policies are subject to revision whenever the reference regulations are modified and, at least, once a year.

Additionally, on a monthly basis, the accounting policies area publishes an internal bulletin that contains relevant news on accounting matters, including both new published regulations and the most relevant guidance. These documents are stored in an accounting standards library, which is accessible to all Group units.

The Financial Accounting and Control division has put in place procedures to ensure it has all the information it needs to update the accounting plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

4.2. Mechanisms for drawing up financial information.

The Group's computer applications are configured into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply different kinds of services, including:

- i. General information systems: these provide information to division/business unit heads.
- ii. Management systems: these produce information for business monitoring and control purposes.
- iii. Business systems: software encompassing the full product-contract-customer life cycle.
- iv. Structural systems: these support the data shared and are used by all the applications and services. These systems include all necessary accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- i. General software architecture, which defines the design patterns and principles for all systems.
- ii. Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to, and consultation of, the various levels of supporting data.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to, and consultation of, the various levels of supporting data.

These accounting entries and movements are designed, authorised and maintained by the Financial Accounting and Control division.

The applications execute all the transactions performed in a given day across various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the 'daily transaction register'.

This register generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting infrastructure application.

Monitoring of system operation

The board has approved a corporate internal audit framework for the Santander Group, defining the global function of internal audit and how it is to be carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with

independent assurances with regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit reports to the board audit committee and to the board of directors on a regular basis and at least twice a year, as an independent unit, has free and unfettered direct access to the board whenever it deems it appropriate.

Internal audit evaluates:

- i. The efficacy and efficiency of the processes and systems cited above;
- ii. Compliance with applicable legislation and requirements of supervisory bodies;
- iii. The reliability and integrity of financial and operating information; and
- iv. The integrity of assets.

Internal audit is the third line of defence, independent of the other two. The scope of its work encompasses:

- i. All Group entities over which it exercises effective control;
- ii. Separated assets (for example, mutual funds) managed by the entities mentioned in the previous section; and
- iii. All entities (or separated assets) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder, and in outsourced activities pursuant to the agreements reached in each case.

Each year, Internal Audit prepares an audit plan based on a self-assessment exercise of the risks to which the Group is exposed. Internal Audit is solely responsible for executing the plan. From the reviews carried out, audit recommendations may be prepared. These are prioritised according to their relative importance and are monitored continuously until their complete implementation.

The main objectives of the internal audit reviews were to:

- i. Verify compliance with sections 302, 404, 406, 407 and 806 of the Sarbanes-Oxley Act.
- ii. Check the existing governance on information related to the internal control system over financial information.
- iii. Review the functions performed by the internal control departments and other departments, areas or divisions involved in compliance with the SOX Act.
- iv. Check that the SOX support documentation is updated.
- v. Verify the effectiveness of a sample of controls based on an Internal Audit risk assessment methodology.

- vi. Evaluate the accuracy of the certifications carried out by the different units, especially their consistency with any observations and recommendations set forward by Internal audit, the auditors of the statutory accounts and different supervisors.
- vii. Verify the implementation of the recommendations issued in the execution of the audit plan.

In 2019, the board audit committee and the board of directors were kept informed of the work carried out by the Internal Audit division on its annual plan and other issues related to the audit function.

The board audit committee is officially tasked with overseeing the financial information process and the internal control systems. It deals with any control deficiencies that might affect the reliability and accuracy of the financial statements. To this end, it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

The board audit committee, as part of its remit to oversee the financial reporting process and the internal control systems, is responsible for discussing with the external auditors any significant weaknesses detected in the course of the audit.

As part of its supervision work, our board audit committee assesses the results of the work of the Internal Audit division, and can take action as necessary to correct any deficiencies identified in the financial information.

In 2019, the board audit committee was informed about the evaluation and certification of the ICM corresponding to year 2018.

6. External auditor report:

The external auditor has issued a reasonable independent assurance report on the design and effectiveness of the ICFR and the description of the ICFR set out in this document when it comes to auditing the consolidated financial statements.

The auditor's report relating to ICFR is included in the Corporate Governance chapter which forms part of the Annual Report.

For further details, see both [the 2019 Annual Report](#) available on the Bank's corporate website (www.santander.com).