Santander Consumer Finance, S.A. and Subsidiaries composing the Santander Consumer Finance Group (Consolidated)

Consolidated Financial Statements
and Consolidated Directors' Report
for the year ended 31 December 2019

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 47). In the event of a discrepancy, the Spanish-language version prevails.

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

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Santander Consumer Finance, S.A.

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Santander Consumer Finance, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

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

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Estimation of the impairment of financial assets at amortised cost - loans and advances	
The estimation of the impairment of loans and advances to customers due to credit risk is one of the most significant and complex estimates when preparing the accompanying consolidated annual accounts. The functioning of the expected loss impairment calculation models required by International Financial Reporting Standard 9 (IFRS 9) entails a high degree of judgement to determine such impairment losses. In this context, the Group is developing a general framework for risk models, although each geography and business takes into consideration the peculiarities of each market. These internal models allow them to estimate both collective provisions and provisions for risk estimated individually. In the expected loss models development by the Group, given the characteristics of the parameters and items considered, the level of judgement and complexity is higher when estimating certain items such as: • The most relevant assumptions used to define the criteria for identifying and staging the assets. • Definition and assessment of the parameters of the macroeconomic scenarios employed in the expected loss models. • Estimation of probability of default (Pd) and loss given default (LGD) parameters. • The main assumptions, such as the classification of borrower risk and the expected life of the operation used to determine individual risks. The Group's business is centred mainly on products for financing the purchase of cars and consumer financing. It is concentrated in nine main markets (Germany, Nordic countries (Norway, Sweden, Denmark and Finland), Spain, France, Italy and Austria). See Notes 2 and 10 to the accompanying consolidated annual accounts at December 31, 2019.	The work carried out, with the assistance of our risk specialists, on the estimation of the impairment of assets at amortised cost - loans and advances to customers, focused on the analysis and assessment of internal control, testing controls and performing tests of detail on provisions estimated both collectively and individually. As regards internal control, we performed tests of detail and control tests on the following stages of the process: • Calculation methodologies, recalibration and backtesting processes completed by Management. • Regulatory compliance of parameter estimation and recalibration methods and of the functioning of the internal models approved by Management. • Reliability of the data sources used in the calculations and the suitability of models in the circumstances. • Periodic review of borrowers to determine classification and measurement. • Review of the calculations obtained for the main models and portfolios. We also performed the following tests of detail: • Verification, for the main models, with respect to: i) calculation and segmentation methods; ii) expected loss parameter estimation methods; iii) data and main estimates employed; iv) criteria for the stage classification of loans; and v) information on scenarios and related assumptions. • Re-calculation of collective provisions. • Obtainment of a sample of individual case files to assess classification and recognition, loss estimation methods and, if applicable, related impairment. No differences outside a reasonable range were identified in the tests described above.

Key audit matter

Goodwill measurement

The Group estimates annually the recoverable amount of each cash-generating unit (CGU) to which goodwill has been assigned, using quoted prices, if available, market references (multiples), internal estimates or independent expert valuations.

In view of its relevance to the Group, Management pays special attention to goodwill from the cash-generating units of Germany, Austria and the Nordic countries (Norway, Sweden and Denmark).

Management estimates the recoverable amount of the above-mentioned cash-generating units by calculating value in use using the discounted projected cash flow method. Determining the most relevant assumptions used in impairment testing, such as discount rates, results projections and constant growth rates in the long term requires a complex estimate by Management that includes a high degree of judgement and therefore the assumptions made in this process are particularly relevant.

See Notes 2 and 14 to the accompanying consolidated annual accounts.

How our audit addressed the key audit matter

Assisted by our valuation specialists, we documented our understanding and our review of the assessment process followed by Management.

As regards internal control, we performed tests of detail and control tests on the following stages of the process:

- Criteria for defining the Group's CGUs.
- Management's methodology for estimating goodwill impairment, including process oversight controls and related approvals.
- Budgeting process on which the results projections used to discount protected cash flows are based.
- Management's reliable prediction capacity, by comparing prior-year forecasts and impairment assessments with actual results.
- Review of annual valuation reports prepared by the Group and by external experts, assessing goodwill impairment.

We also carried out tests to verify the discounted projected cash flows used by the Group's in its estimates, taking into account market practice and specific industry expectations. This assessment included verifying assumptions such as growth and discount rates.

In addition, we performed the following procedures:

- Assessment of the reasonableness of the main assumptions employed by Management, including projections, the discount rate and the growth rate.
- Verification of the mathematical accuracy of the discounted projected cash flows, including the validation of key inputs based on external data.
- Specific sensitivity analysis of the key inputs, such as those related to: i) financial projections for the coming years; ii) forecast long-term rate of growth; and iii) discount rate calculation method and assumptions.

Key audit matter	How our audit addressed the key audit matter
	• We also checked the suitability of the information disclosed in the accompanying consolidated annual accounts. As a result of the above-mentioned procedures, we consider Management's assessment to be reasonable. Management's main estimates are not outside a reasonable range in the context in which the consolidated annual accounts are prepared.
Information systems	
The Group's financial information relies largely on the information technology (IT) systems in the geographies in which it operates, so suitable control over the systems is a key to assuring the correct processing of the information. The technology environment has been developed mainly by the Group, although a part has also been developed by External Partners and other Santander Group service companies. In this context, it is essential to assess aspects such as the organisation of the Technology and Operations Area of the Group, the External Partners and the service companies, controls of application maintenance and development, physical and logical security, and system operation. In this regard, Management is drawing up a plan to bolster internal control over IT systems. This plan includes aspects such as access control and internal governance of the IT processes that support the Group's processes, including the Cybersecurity model. See Note 47 to the accompanying consolidated annual accounts at December 31, 2019.	With the help of our IT systems specialists, our work consisted of assessing and verifying internal control over systems, databases and applications supporting the main business activities that impact the Group's financial information. To this end, internal control review procedures and substantive tests were carried out on environment of both the Group and the External Partners and service companies, related to: • Functioning of the IT governance framework. • Access control and logical security of the applications, operating systems and databases that support relevant financial information. • Change management and application development. • IT operation maintenance. In addition, in view of the plan to improve the Group's internal control, our audit approach and plan has focused on the following aspects: • Implementation of the changes made as part of that plan and of the new strategic solutions for access control implemented by the Group in 2019. • Verification, through sampling, of the design and operability of the new controls put in place by Management. We have no relevant observations to make in this regard as a result of the above-mentioned procedures.

Other information: Consolidated management report

Other information comprises only the 2019 consolidated management report, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information, that consists of verifying solely that the aforementioned information has been provided in the consolidated management report or, if appropriate, that the consolidated management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

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

On the basis of the work performed, as described above, we have ascertained that the consolidated management report includes a reference that the information mentioned in paragraph a) above has been provided in the Group Banco Santander, S.A. and subsidiaries consolidated management report in which the Group is integrated and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

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

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

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

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

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

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

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

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

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

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

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 28, 2020.

Appointment period

The General Shareholders' Meeting on April 25, 2019 appointed us as the Group´s auditors for a one-year period, as from the year ended on December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders´ Meeting and we have audited the accounts continuously since year ended December 31, 2016.

Services provided

Services provided to the Group for services other than the audit of the accounts are described in the note 40 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Ignacio Martínez Ortiz (23834)

February 28, 2020

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(EUR Thousands)

ASSETS	Note	31/12/2019	31/12/2018(*)
Cash and balances at central banks	2	**7,828,983**	**5,871,676**
Financial assets held for trading	9	**20,141**	**17,289**
Derivatives		20,141	17,289
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
Non-trading financial assets mandatorily at fair value through profit or loss	8	**103**	**213**
Equity instruments		103	213
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
Financial assets at fair value through profit or loss		**-**	**-**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
Financial assets at fair value through other comprehensive income		**953,385**	**1,272,619**
Equity instruments	8	21,709	16,999
Debt instruments	7	931,676	1,255,620
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
Financial assets at amortised cost		**100,184,450**	**93,469,351**
Debt instruments	7	1,618,836	1,426,596
Loans and advances		98,565,614	92,042,755
Central banks		2,765	4,417
Credit institutions	6	264,237	157,979
Customers	10	98,298,612	91,880,359
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*88,243*	-
Derivatives – hedge accounting		**59,791**	**134,143**
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	29	**17,763**	**33,426**
Investments in associates and joint-ventures	12	**617,663**	**590,277**
Joint-ventures		197,288	170,794
Associates		420,375	419,483
Assets under insurance and reinsurance contracts		-	-
Tangible assets	13	**769,798**	**412,138**
Property, plant and equipment		769,798	412,138
For own use		*424,294*	*161,117*
Leased out under operating leases		*345,504*	*251,021*
Investment property		-	-
Memorandum items: acquired through finance lease		*309,265*	*47,993*
Intangible assets		**2,227,912**	**2,150,076**
Goodwill	14	1,912,858	1,881,898
Other	15	315,054	268,178
Tax assets:	22	**1,054,229**	**972,488**
Current tax assets		412,241	352,280
Deferred tax assets		641,988	620,208
Other assets	16	**843,113**	**679,249**
Inventories		4,023	3,710
Other		839,090	675,539
Assets included in disposal groups classified as held for sale	11	**5,872**	**9,331**
Total assets		**114,583,203**	**105,612,276**

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated balance sheet for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED BALANCE SHEETS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

LIABILITIES (*)	Note	31/12/2019	31/12/2018(*)
Financial liabilities held for trading	9	**21,221**	**19,541**
Derivatives		21,221	19,541
Financial liabilities at fair value through profit or loss		**-**	**-**
Financial liabilities at amortised cost		**97,636,981**	**89,177,577**
Deposits		57,359,747	56,110,775
Central banks	*17*	*7,859,636*	*7,039,711*
Credit institutions	*17*	*12,218,597*	*14,529,965*
Customers	*18*	*37,281,514*	*34,541,099*
Debt securities in issue	19	38,276,995	32,274,687
Other	20	2,000,239	792,115
Memorandum items: subordinated liabilities	17	*1,377,336*	*933,475*
Derivatives – hedge accounting		**97,410**	**92,631**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	11	**-**	**-**
Liabilities under insurance and reinsurance contracts		**-**	**-**
Provisions	21	**905,598**	**844,199**
Pensions and other retirement benefit obligations		*603,472*	*510,230*
Other long term employee benefit obligations		*48,882*	*56,013*
Taxes and other legal contingencies		*80,932*	*66,102*
Contingent liabilities and commitments		*38,928*	*40,565*
Other		*133,384*	*171,289*
Tax liabilities		**1,016,222**	**874,774**
Current tax liabilities		250,834	230,598
Deferred tax liabilities	22	765,388	644,176
Other liabilities	16	**1,662,832**	**1,430,474**
Liabilities included in disposal groups classified as held for sale		**-**	**-**
Total liabilities		**101,340,264**	**92,439,196**
Shareholder's equity		**11,889,059**	**12,045,975**
Capital	23	5,638,639	5,638,639
Called-up share capital		*5,638,639*	*5,638,639*
Memorandum items: uncalled capital		-	-
Share premium	24	1,139,990	1,139,990
Other equity instruments	23	1,050,000	1,050,000
Equity component of hybrid securities		-	-
Other		1,050,000	1,050,000
Other equity		-	-
Retained earnings	25	3,247,679	2,854,557
Revaluation reserves		-	-
Other reserves	25	124,836	143,858
Reserves or accumulated losses in investments in joint ventures and associates		*328,069*	*287,509*
Other		*(203,233)*	*(143,651)*
(-) Treasury stock		-	-
Profit or loss after tax attributable to equity holders of the parent		1,133,367	1,218,931
(-) Dividends paid	3	(445,452)	-
Other comprehensive income/(loss)		**(529,200)**	**(462,909)**
Items that may be reclassified to profit or loss	26	(167,170)	(112,753)
Items not reclassified to profit or loss	26	(362,030)	(350,156)
Non-controlling interests	27	**1,883,080**	**1,590,014**
Other comprehensive income		*(929)*	*(656)*
Other		*1,884,009*	*1,590,670*
Equity		**13,242,939**	**13,173,080**
Total liabilities and equity		**114,583,203**	**105,612,276**
Memorandum items: off-balance sheet items		24,557,573	24,444,179
Loans commitment granted	28	23,523,284	23,434,253
Financial guarantees granted	28	614,943	540,264
Other	28	419,346	469,662

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated balance sheet for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	Note	Income / (Expenses)	
		31/12/2019	31/12/2018(*)
Interest income	30	3,944,520	3,767,172
Financial assets at fair value through other comprehensive income		-	*1*
Financial assets at amortised cost		*3,943,541*	*3,766,531*
Other		*979*	*640*
Interest expense	31	(516,491)	(454,611)
Net interest income		**3,428,029**	**3,312,561**
Dividend income		136	121
Income from companies accounted for using the equity method	32	83,491	88,535
Commission income	33	1,118,735	1,082,233
Commission expense	34	(331,393)	(317,943)
Gains or losses on financial instruments not at fair value through profit or loss, net	35	(215)	(93)
Gains or losses on financial instruments held for trading, net	35	(1,956)	(5,454)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	35	(14)	183
Gains or losses on financial instruments at fair value through profit or loss, net	35	-	-
Gains or losses from hedge accounting, net	35	1,295	18,046
Currency translation differences, net	36	(9,193)	(6,991)
Other operating income	37	149,471	104,016
Other operating expenses	38	(170,324)	(140,750)
Income from assets under insurance or reinsurance contracts		-	-
Charges from liabilities under insurance or reinsurance contracts		-	-
Operating income		**4,268,062**	**4,134,464**
Administration and general expenses		(1,637,078)	(1,609,449)
Staff costs	*39*	*(788,372)*	*(756,958)*
Other	*40*	*(848,706)*	*(852,491)*
Depreciation and amortisation cost	14 y 15	(164,109)	(153,633)
Provisions or reversal from provisions, net	21	(75,018)	(77,510)
Impairment charges and reversals from financial assets not at fair value through profit or loss	10	(380,934)	(258,932)
Financial assets at fair value through other comprehensive income		*70*	*(1,925)*
Financial assets at amortised cost		*(381,004)*	*(257,007)*
Impairment charges or reversal of investments in joint ventures and associates	3.b	-	-
Impairment charges or reversal of non-financial assets	41	(31,000)	(6,794)
Tangible assets		*(3,436)*	*(4,345)*
Intangible assets		*(18,305)*	*(2,383)*
Other		*(9,259)*	*(66)*
Gains or losses on non-financial assets, net	42	8,457	(1,508)
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale from discontinued operations	43	(3,068)	(1,530)
Profit or loss before tax in respect of continuing operations		**1,985,312**	**2,025,108**
Operating tax expense or income from continuing operations	22	(575,245)	(565,942)
Profit or loss after tax from continuing operations		**1,410,067**	**1,459,166**
(Loss)/profit after tax from discontinued operations		-	-
Profit/(loss) after tax		**1,410,067**	**1,459,166**
Attributable to non-controlling interests	*27*	*276,700*	*240,235*
Attributable to equity holders of the parent		*1,133,367*	*1,218,931*
Earnings per share:			
Basic	4	*0,57*	*0,62*
Diluted	4	*0,57*	*0,62*

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated income statement for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	Note	31/12/2019	31/12/2018 (*)
Profit or loss after tax		**1,410,067**	**1,459,166**
Other comprehensive income		**(66,564)**	**(48,960)**
Items that will not be reclassified to profit or loss		**(55,809)**	**13,688**
Actuarial gains or losses on defined benefit pension plans	26	(87,600)	21,213
Non-current assets held for sale		-	-
Other recognised income and expense from investments in joint ventures and associates		(123)	12
Other valuation adjustments		5,414	(508)
Income tax in respect of items not reclassified to profit or loss	22	26,500	(7,029)
Items that may be reclassified to profit or loss		**(10,755)**	**(62,648)**
Hedges of net investments in joint ventures and associates (effective portion)		(22,968)	636
Revaluation gains/(losses)	*26*	*(22,968)*	*636*
Amounts transferred to the income statement		-	-
Other reclassifications		-	-
Currency translation differences		15,712	(46,445)
Revaluation gains/(losses)	*26*	*15,712*	*(46,445)*
Amounts transferred to the income statement		-	-
Other reclassifications		-	-
Cash flow hedges		(3,563)	(4,361)
Revaluation gains/(losses)	*26*	*(19,724)*	*(15,223)*
Amounts transferred to the income statement		*16,161*	*10,862*
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		82	(2,811)
Revaluation gains/(losses)		*152*	*(2,623)*
Amounts transferred to the income statement		*(70)*	*(188)*
Other reclassifications		-	-
Assets included in disposal groups classified as held for sale		-	-
Revaluation gains/(losses)		-	-
Amounts transferred to the income statement		-	-
Other reclassifications		-	-
Share of other recognised income of joint ventures and associates	26	707	(14,264)
Income tax in respect of items that may be reclassified to profit or loss	22	(725)	4,597
Total recognised income and expenses for the year		**1,343,503**	**1,410,206**
Attributable to non-controlling interests		*276,427*	*239,826*
Attributable to equity owners of the parent		*1,067,076*	*1,170,380*

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of recognised income and expense for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	Capital (Note 23)	Share premium (Note 24)	Equity instruments issued other than capital	Other equity instruments	Retained Earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own shares	Profit or loss attributable to shareholders of the parent	(-) Interim dividends paid	Other comprehensive income	Non-controlling interests (Note 27)		Total
												Other comprehensive income	Other	
Balance as of 31/12/19	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,854,557**	**-**	**143,858**	**-**	**1,218,931**	**-**	**(462,909)**	**(656)**	**1,590,670**	**13,173,080**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beginning of period balance (01/01/19)	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,854,557**	**-**	**143,858**	**-**	**1,218,931**	**-**	**(462,909)**	**(656)**	**1,590,670**	**13,173,080**
Total recognised income and expenses (Note 4)	-	-	-	-	-	-	-	-	**1,133,367**	-	**(66,291)**	**(273)**	**276,700**	**1,343,503**
Other changes in equity	-	-	-	-	**393,122**	-	**(19,022)**	-	**(1,218,931)**	**(445,452)**	-	-	**16,639**	**(1,273,644)**
Common stock issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred stock issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity instruments issued (Note 23)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Redemption or maturity of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt conversion to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reduction of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (Note 4)	-	-	-	-	(789,410)	-	-	-	-	(445,452)	-	-	(133,440)	(1,368,302)
Stock buybacks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	1,182,532	-	36,399	-	(1,218,931)	-	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	110,102	110,102
Vesting of shares under employee share schemes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase/(decreases) of equity	-	-	-	-	-	-	(55,421)	-	-	-	-	-	39,977	(15,444)
End of period balance 31/12/19	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**3,247,679**	**-**	**124,836**	**-**	**1,133,367**	**(445,452)**	**(529,200)**	**(929)**	**1,884,009**	**13,242,939**

(*) Presented for comparison purposes only.

Notes 1-47 and Appendices I-VI are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	Capital (Note 23)	Share premium (Note 24)	Equity instruments issued other than capital	Other equity instruments	Retained earnings (Note 25)	Revaluation reserves	Other reserves	(-) Own shares	Profit or loss attributable to shareholders of the parent	(-) Interim dividends paid	Other comprehensive income	Non-controlling interests (Note 27)		**Total**
												Other comprehensive income	Other	
Balance as of 31/12/18 (*)	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,175,234**	**-**	**241,907**	**-**	**1,079,387**	**(400,343)**	**(413,350)**	**(247)**	**1,448,987**	**11,760,204**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	**(63,070)**	-	-	-	**(1,008)**	-	**9,683**	**(54,395)**
Beginning of period balance (01/01/18) (*)	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,175,234**	**-**	**178,837**	**-**	**1,079,387**	**(400,343)**	**(414,358)**	**(247)**	**1,458,670**	**11,705,809**
Total recognised income and expenses (Note 4)	-	-	-	-	-	-	-	-	**1,218,931**	-	**(48,551)**	**(409)**	**240,235**	**1,410,206**
Other changes in equity	-	-	**200,000**	-	**679,323**	-	**(34,979)**	-	**(1,079,387)**	**400,343**	-	-	**(108,235)**	**57,065**
Common stock issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred stock issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity instruments issued (Note 23)	-	-	200,000	-	-	-	-	-	-	-	-	-	-	200,000
Redemption or maturity of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt conversion to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reduction of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (Note 4)	-	-	-	-	-	-	-	-	-	-	-	-	(108,250)	(108,250)
Stock buybacks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	679,323	-	(279)	-	(1,079,387)	400,343	-	-	-	-
Increases/(decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vesting of shares under employee share schemes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase/(decreases) of equity	-	-	-	-	-	-	(34,700)	-	-	-	-	-	15	(34,685)
End of period balance 31/12/18 (*)	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,854,557**	**-**	**143,858**	**-**	**1,218,931**	**-**	**(462,909)**	**(656)**	**1,590,670**	**13,173,080**

(*) Presented for comparison purposes only.

Notes 1-47 and Appendices I-VI are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2019.

SANTANDER CONSUMER FINANCE, S.A. AND SUBSIDIARIES COMPOSING THE SANTANDER CONSUMER FINANCE GROUP (CONSOLIDATED)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

(*)	Note	31/12/2019	31/12/2018
Cash flow from operating activities		**2,658,739**	**1,493,315**
Profit or loss after tax		**1,410,067**	**1,459,166**
Adjustments made to obtain the cash flows from operating activities:		**1,535,898**	**1,410,236**
Amortisation		*164,109*	*153,633*
Other		*1,371,789*	*1,256,603*
Net increase/(decrease) in operating assets		**(6,319,475)**	**(5,142,047)**
Financial assets held for trading		*(2,711)*	*17,185*
Non-trading financial assets mandatorily at fair value through profit or loss		*110*	*1,925*
Financial assets at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income	*7, 8*	*324,856*	56,911
Financial assets at amortised cost	*6, 7, 10*	*(6,424,063)*	*(6,045,588)*
Other operating assets		*(217,667)*	*827,520*
Net increase/(decrease) in operating liabilities		**6,484,440**	**4,169,345**
Financial liabilities held for trading		*1,573*	*(9,613)*
Financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		*6,351,355*	*4,575,716*
Other operating liabilities		*131,512*	*(396,758)*
Corporate income tax paid		**(452,191)**	**(403,385)**
Cash flow from investing activities		**(249,495)**	**(175,236)**
Payments		**(459,602)**	**(335,032)**
Tangible assets	*13*	*(237,248)*	*(215,017)*
Intangible assets	*14, 15*	*(146,276)*	*(115,720)*
Investments in joint ventures and associates	*12*	-	-
Subsidiaries and other business units	*3*	*(76,078)*	*(4,295)*
Assets and liabilities included in disposal groups classified as held for sale		-	-
Other cash flows associated with investing activities		-	-
Proceeds		**210,107**	**159,796**
Tangible assets	*13*	*83,695*	*64,007*
Intangible assets	*14, 15*	-	-
Investments in joint ventures and associates	*12*	*52,101*	*51,129*
Subsidiaries and other business units	*3*	*70,606*	*14,395*
Non-current assets held for sale and associated liabilities	*11*	*3,705*	*30,265*
Other cash flows associated with investing activities		-	-
Cash flow from financing activities		**(451,599)**	**(9,085)**
Payments		**(885,099)**	**(226,735)**
Dividends paid		*(601,455)*	-
Subordinated debt	*19*	*(47,999)*	*(69,609)*
Redemption of own equity instruments	*17*	-	-
Repurchase of own equity instruments		-	-
Other cash flows associated with financing activities	*27*	*(235,645)*	*(157,126)*
Proceeds		**433,500**	**217,650**
Subordinated debt	19	433,500	17,650
Issuance of equity instruments	23	-	200,000
Disposal of own equity instruments		-	-
Other cash flows associated with financing activities		-	-
EFFECT OFEXCHANGE RATES ON CASH AND CASH EQUIVALENTS		**(338)**	**(2,475)**
NET INCRESE IN CASH AND CASH EQUIVALENTS		**1,957,307**	**1,306,519**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**5,871,676**	**4,565,157**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**7,828,983**	**5,871,676**
MEMORANDUM ITEMS:			
Cash and cash equivalents comprise:	2		
Of which: held by group entities but not available for the group			
Cash		*87,278*	*83,803*
Cash equivalent balances at central banks		*5,267,648*	*3,862,829*
Other financial assets		*2,474,057*	*1,925,044*
(Less)- Bank overdrafts repayable on demand			

(*) Presented for comparison purposes only

The accompanying notes, 1 to 47, and Appendices I-VI are an integral part of the consolidated cash flow statement for the year ended 31 December 2019.

Santander Consumer Finance, S.A. and Subsidiaries composing the Santander Consumer Finance Group

Notes to the Consolidated Financial Statements for the year ended 31 December 2019

1. Introduction, basis of presentation of the consolidated financial statements, basis of consolidation and other information

a) Introduction

Santander Consumer Finance, S.A. ("the Bank") was incorporated in 1963 under the name of Banco de Fomento, S.A.. It is a private-law entity subject to the rules and regulations applicable to banks operating in Spain, and has its headquarters at Avenida de Cantabria s/n, Edificio Dehesa, Boadilla del Monte, Madrid, where the bylaws and other public information on the Bank can be consulted. The Bank is registered in the Official Register of Institutions of the Bank of Spain under code 0224.

The Bank's object is to receive funds from the public in the form of deposits, loans, repos or other similar transactions entailing the obligation to refund them, and to use these funds for its own account to grant loans and credits or to perform similar transactions. Also, as the holding company of a finance group (the Santander Consumer Finance Group, "the Group"), the Bank manages and handles the investments in its subsidiaries.

The Bank is part of the Santander Group, the parent entity of which (Banco Santander, S.A.) owns, directly or indirectly, all the share capital of the Bank at 31 December 2019 and 2018 (see Note 23). Banco Santander, S.A. has its registered office at Paseo de Pereda 9-12, Santander. In this regard, the Bank's activity should be considered to be carried on in the framework of its belonging to and the strategy of the Santander Group, with which it performs transactions that are relevant to its activity (see Note 46). The consolidated financial statements for 2018 of the Santander Group were authorised for issue by the Directors of Banco Santander, S.A. at its Board of Directors Meeting on 26 February 2019, were approved by the shareholders at the Annual General Meeting on 12 April 2019 and were filed at the Santander Mercantile Registry. The consolidated financial statements of the Santander Group for 2019 are expected to be authorised for issue by its Directors on 27 February 2020.

The Bank has one branch (Madrid), is not listed and, in 2019, it carried on most of its direct business activities in Spain.

Additionally, since December 2002 the Bank has been the head of a European corporate group, consisting mainly of financial institutions, which engages in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities. As of 31 December 2019, the Group had 264 branches distributed throughout Europe, 51 of which were located in Spain (31 December 2018: 384 branches, 62 of which were located in Spain).

As required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, the accompanying Appendix IV lists the agents of the Group at 31 December 2019.

b) Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU member state and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards (hereinafter "IFRSs") previously adopted by the European Union (hereinafter "EU-IFRSs").

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats, repealed on 1 January 2018 in favour of Circular 4/2017 and its subsequent amendments.

The Group's consolidated financial statements for 2019 were formally prepared by the Directors of the Bank, as Parent (at the Board Meeting on 21 February 2020), in accordance with the regulatory financial reporting framework applicable to the Group (as well as the International Financial Reporting Standards as adopted by the European Union, taking into account Bank of Spain Circular 4/2017 and its subsequent amendments, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2 to these consolidated financial statements and, accordingly, they presented fairly the Group's consolidated equity and consolidated financial position on 31 December 2019 and 2018, and the consolidated results of its operations, income and expense recognised, the changes in consolidated equity and its consolidated cash flows in the year then ended 2019 and 2018. These consolidated financial statements have been prepared from the accounting entries registered by the Bank and the rest of the entities that conform the Group, and includes all adjustments and reclassifications needed to standardise all accounting policies and valuation criteria applied by the Group.

These notes to the consolidated financial statements contain information in addition to that presented in the accompanying consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows for 2019.The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and disaggregation of items presented in those statements.

The Group's consolidated financial statements for 2018 were approved by the Shareholders at the Annual General Meeting of the Bank on 25 April 2019 and filed at the Madrid Mercantile Registry. The 2019 consolidated financial statements of the Group and the 2019 financial statements of the Bank and of substantially all the Group entities have not yet been approved by their Shareholders at the respective Annual General Meetings. However, the Bank's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

The following standards and amendments came into force and were adopted by the European Union in 2019:

IFRS 16 Leases

On 1 January 2019, IFRS 16 Leases became effective. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that both lessee and lessor provide relevant information that represents a true and fair view of such transactions. The Group has chosen not to apply the standard early and has opted to apply the approach that equates, at the inception of the old operating leases, the right-of-use asset with the lease liability, all measured from 1 January 2019. In this regard, the Group has analysed all the contracts and classified them as leases or services from 1 January 2019.

The adoption of IFRS 16 has led to changes in the Group's accounting policies for the recognition, measurement, presentation and breakdown of lease contracts.

a) Leasing accounting policy

From January 1st, 2019, leases are recognised as a right of use asset and the corresponding liability on the date on which the leased asset is available for use by the group. Each lease payment is allocated between the liability and the finance expense. The finance charge is allocated to income over the term of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The asset for right of use is depreciated over the useful life of the asset or the lease term, whichever is shorter, on a straight-line basis.

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

- fixed payments (including fixed payments in substance), less any lease incentive receivable,
- variable lease payments that depend on an index or rate,
- the amounts the tenant is expected to pay as residual value guarantees,
- the exercise price of a call option if the lessee is reasonably certain that he will exercise the option, and
- penalty payments on termination of the lease, if the term of the lease reflects the exercise by the lessee of that option.

Lease payments are discounted using the interest rate implicit in the lease. The discount rate used is the lessee's incremental borrowing rate to date. For this purpose, the entity has calculated this incremental interest rate taking as a reference the quoted debt instruments issued by the Group; in this regard, the Group has estimated different rate curves depending on the currency and economic environment where the contracts are located.

Specifically, in order to construct the incremental interest rate, a methodology has been developed at the corporate level. This methodology is based on the need for each entity to consider its economic and financial situation, for which the following factors must be considered:

- Economic and political situation (country risk).
- The entity's credit risk.
- Monetary policy.
- Volume and seniority of the Entity's debt instrument issues.

The incremental interest rate is defined as the interest rate that a lessee would have to pay to borrow, for a term similar to the duration of the lease and with similar security, the funds necessary to obtain an asset of similar value to the asset by right of use in a similar economic environment. The Group entities have a large stock and variety of financing instruments issued in different currencies to the euro (pound, dollar, etc.) that provide sufficient information to be able to determine an "all in rate" (reference rate plus credit spread adjustment at different terms and in different currencies). In cases where the lessee entity has its own financing, this has been used as the starting point for determining the incremental interest rate. On the other hand, for those Group entities that do not have their own financing, the information from the financing of the consolidated subgroup to which they belong was used as the starting point for estimating the entity's curve, analysing other factors to assess whether it is necessary to make any kind of negative or positive adjustment to the credit spread initially estimated.

Assets for usage rights are measured at cost which includes the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made on or before the start date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low value assets are recognized on a straight-line basis as an expense in income. Short-term leases are leases with a term of less than or equal to 12 months.

b) Recognized effects on the adoption of the standard

With the adoption of IFRS16, the Group recognised lease liabilities in relation to leases that were previously classified as "operating leases" under the principles of IAS17 Leases, which was effective at 31 December 2018. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and the lease liability immediately prior to the transition as the carrying amount of the right-to-use asset and the lease liability at the date of initial application. The measurement principles in IFRS 16 apply only after that date.

As a result of the entry into force of IFRS 16, the Group's first-time application impact relates primarily to the recognition of assets for rights of use and a lease liability of EUR 269 million. The assets for right of use recorded mainly relate to land and buildings recorded under "Tangible assets - Property, plant and equipment - leased out under an operating lease".

IBOR (Interest Borrowing Offering Rate) Reform on Reference Interest Rates (Amendments to IFRS 9, IAS 39 and IFRS 7) - The Group applies IAS 39 for hedge accounting and, therefore, the amendments to IFRS 9 referred to in this section are not applicable to it. The contractual cash flows of the accounting hedges, both of the hedged items and of the hedging instruments, which are based on a reference interest rate that currently exists, will be modified by the substitution of said rate by an alternative interest rate or modification of its calculation methodology, in order to adapt it to the new regulatory requirements. The amendments to the standard permit the temporary application of certain exceptions to compliance with hedge accounting requirements that may be directly affected by the IBOR reform, specifically requirements regarding highly probable future transactions in cash flow hedges, prospective and retrospective effectiveness (exemption from compliance with the 80-125% effectiveness ratio) and the need to identify the risk component separately. These exemptions are no longer applicable when

- uncertainty regarding the timing and amount of cash flows based on the benchmark is no longer present, or
- the coverage relationship is interrupted.

The amendments to IAS 39 will apply to all hedging relationships directly affected by uncertainties related to the IBOR reform for annual periods beginning on or after 1 January 2020, with the possibility of early application. In this regard, following their entry into force for use in the European Union, the Group has chosen to apply the amendments to IAS 39 and IFRS 7 in the preparation of the financial statements for the year ended 31 December 2019.

The exceptions given by the amendments to IAS 39 mean that the IBOR reform had no impact on the hedging relationships affected in the year ended 31 December 2019. The main assumptions or judgements made by the Group in applying the amendments to IAS 39 are detailed below:

– For cash flow hedges, the Group has assumed that the cash flows covered (which are based on the benchmark index) are not modified as a result of the aforementioned reform, and therefore continue to comply with the highly probable future transaction requirement.

– To determine the prospective effectiveness of hedges, the Group has assessed that the economic relationship between the hedged item and the hedging instrument continues to exist since the interest rate benchmark on which the hedged item and the hedging instrument are based is not changed as a result of the IBOR reform. Below is the nominal amount of the hedging instruments corresponding to the hedging relationships directly affected by uncertainties related to the IBOR reform:

Thousands of euros	CHF LIBOR	OTHERS OTROS LIBOR	TOTAL
Total hedging instruments affected			
Cash Flow Hedges	93,053	-	93,053
Fair Value Hedges	165,837	-	166
Total hedging instruments affected	258,891	-	259

Thousands of euros	CHF LIBOR	OTHERS OTROS LIBOR	TOTAL
Due after the transition date	-	-	-
Cash Flow Hedges	72,784	-	72,784
Fair Value Hedges	72,784	-	72,784

In order to manage the transition process to the new reference rates, the Group has established a global corporate project to identify the risks and challenges arising from this reform, with the involvement of senior management, and which extends to all the affected geographies and businesses. In addition, Santander is continuously monitoring all regulatory and market developments and is actively participating in the discussion forums created by the various public authorities in order to support an orderly transition to the new interest rates.

- IFRIC23 Uncertainty in the Treatment of Income Tax - applies to the determination of taxable profit or tax loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty about the treatment of taxes under IAS 12.

- Amendment to IFRS 9 Financial Instruments - allows entities to measure certain financial assets payable in advance with negative compensation at amortised cost. These assets, which include some loans and debt securities, would have to be measured at fair value through profit or loss.

  In order to apply the measurement at amortised cost, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held for collection' business model.

- Amendment to IAS 28 Investments in Associates and Joint Ventures - the amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance are part of the net investment in the associate or joint venture, but to which equity accounting does not apply. Entities are required to account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements of IAS 28 to investments in associates and joint ventures.

- Amendment to IAS 19 Employee Benefits - clarifies the accounting for changes, reductions and settlements on defined benefit plans.

- Amendment to IFRSs Cycle 2015 - 2017 - introduces minor amendments to IFRS3, IFRS11, IAS12 and IAS23:

    - IFRS3: clarifies that obtaining control of a business that is a joint operation is a business combination achieved in stages.
    - IFRS11: clarifies that the party obtaining joint control of a business that is a joint operation should not reassess its previous interest in the joint operation.
    - IAS12 clarifies that the income tax consequences of dividends on financial instruments classified as equity must be recognised in accordance with where the past transactions or events that generated the distributable profits were recognised.
    - IAS23: clarifies that if a specific loan remains outstanding after the related qualifying asset is ready for sale or intended use, it becomes part of the generic loan.

The application of the aforementioned amendments to accounting standards and interpretations has not had a significant effect on the Group's financial statements.

Also, at the date of preparation of these consolidated financial statements, the following standards were in force, the effective date of which was after 31 December 2019:

• Modification of the conceptual framework of IFRSs: The Conceptual Framework of IFRSs, which establishes the fundamental concepts of financial reporting, is amended. The revised Conceptual Framework includes: a new chapter on measurement; guidance on financial reporting; enhanced definitions of assets and liabilities and guidance to support them; and clarifications such as management roles, prudence and measurement uncertainty in financial reporting. It will apply from 1 January 2020.

• Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which uses a consistent definition of materiality, for the purpose of making material judgements and deciding on the information to be included in the financial statements. It is applicable from 1 January 2020.

Finally, at the date of preparation of these consolidated financial statements, the following standards, whose effective dates of entry into force are after 31 December 2019, had not yet been adopted by the European Union:

• Amendment to IFRS 3, Business Combinations: amendments are intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of assets. IFRS 3 continues to adopt a market participant's perspective in determining whether a set of acquired activities and assets is a business. The amendments primarily address: clarifying the minimum requirements for the existence of a business; removing the assessment of whether market participants are capable of replacing any missing elements; adding guidance to assist entities in assessing whether an acquired process is substantive; restricting the definitions of a business to the ability to create products; and introducing an optional fair value concentration test. It will apply from 1 January 2020.

• IFRS 17, Insurance Contracts - a new general accounting standard for insurance contracts, including recognition, measurement, presentation and disclosure. Insurance contracts combine financial and service provision features that, in many cases, generate variable long-term cash flows. To properly reflect these characteristics, IFRS 17 combines the measurement of future cash flows with the recording of the result of the contract during the period in which the service is provided, presents separately the financial results from the results of the service and allows entities, through the choice of an accounting policy option, to recognize the financial results in the income statement or in other comprehensive income. It will be applicable from 1 January 2021.

• Classification of liabilities, amendments to IAS 1, Presentation of Financial Statements, considering non-current liabilities, those in which the entity has the possibility of deferring payment for more than 12 months from the end of the reporting period.

• Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associates or joint ventures": These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor shall recognise the full gain or loss when the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the investor recognises the gain or loss to the extent of other investors' interests. The amendments apply only when an investor sells or contributes assets to its associate or joint venture. Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015, the IASB took the decision to postpone the effective date of these amendments (without setting a new date), as it is planning a broader review that may result in simplifying the accounting for these transactions and other aspects of accounting for associates and joint ventures.

The Group is currently analysing the possible effects of these new standards and interpretations.

All accounting principles and measurement bases with a significant effect on the consolidated financial statements for 2019 were applied in their preparation.

c) Applied estimates

The consolidated results, the valuation of assets and liabilities of the Group, and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the Board of Directors of the Bank in preparing the consolidated financial statements. The information included in these statements is the responsibility of the Bank's Board of Directors. In the consolidated financial statements, estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

1. Impairment losses on certain assets (see Notes 6, 7, 8, 10, 12, 13, 14 y 15);

2. The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Notes 2-r, 2-s and 21);

3. The useful life of tangible and intangible assets (see Notes 13 and 15);

4. The measurement of goodwill arising from consolidation (see Note 14);

5. The calculation of provisions and the consideration of contingent liabilities (see Note 21); and

6. The recoverability of deferred tax assets (see Notes 2-t and 22).

7. The fair value of the identifiable assets acquired and liabilities assumed in business combinations (see Note 3).

Although these estimates were made on the basis of the best information available at the end of 2018 and 2019 on the events analysed, future events might make it necessary to change these estimates (upper or lower) in coming years, which, if necessary, would be done in accordance with current legislation (prospectively, recognising any changes in estimates in the related consolidated income statements for the future years affected).

d) Comparability of information presented

During 2018, the Group changed the accounting policy for recognition of non-controlling interests in equity stake reduction transactions without loss of control. In accordance with international financial reporting standards, the goodwill associated with these transactions must be kept on balance. The non-controlling interests resulting from the equity stake reduction can be accounted for by their participation in the identifiable net assets or by attributing the goodwill associated with the participation sold. In this sense, the Group has chosen to account for the non-controlling interests by its participation in net assets. The application of the accounting policy change, without impact on net equity, was made on 1 January 2018.

Therefore, the information for 2018 contained in these notes to the consolidated financial statements is presented with the information relating to 2019 for comparative purposes only, and, accordingly, does not constitute the Group's financial statements for 2018

e) Basis of consolidation

i. Subsidiaries

Subsidiaries are defined as entities over which the Bank has the capacity to exercise control. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This situation generally occurs when the Bank has, directly or indirectly, over half of the voting rights in the investee or situations where, without reaching that level of participation, agreement or other circumstances exist that give the Bank control over the investee.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 14). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group's equity is presented under “Non-controlling interests” in the consolidated balance sheet (see Note 27). Their share of the profit for the year is presented under Profit attributable to non-controlling interests in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries for which control is lost during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

On 31 December 2019 and 2018, no entities were identified in which the Group did not hold at least 50% of the voting power and were considered subsidiaries. With respect to those entities in which the Bank does not reach this level of ownership and are still considered subsidiaries, and thus, consolidated in this financial statements, agreements or other circumstances exist that give the Bank control over the investees.

Similarly, on 31 December 2019 and 2018, no entities were identified in which the Group held over half of the voting power and were not considered subsidiaries.

Appendix I contains relevant information on the Group's subsidiaries as of 31 December 2019.

ii. Interests in joint ventures (jointly controlled entities)

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (ventures) have interests in entities (jointly controlled entities) or undertake operations or hold assets so that strategic financial and operating decisions affecting the joint venture require the unanimous consent of the ventures.

In the consolidated financial statements, investments in jointly controlled entities are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity.

Appendix II contains relevant information on jointly controlled entities as of 31 December 2019.

iii. Associates

"Associates" are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

Appendix II contains relevant information on associates as of 31 December 2019.

iv. Structured entities

When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes (also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity), the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which this policy applies (mainly investment funds and pension funds), the Group analyses the following factors:

- Percentage of ownership held by the Group; 20% is established as the general threshold.

Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.

- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.

- Existence of currently exercisable removal rights (possibility of removing the manager from his position) since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.

- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal. Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the asset securitisation funds which are consolidated in those cases where, based on the above analysis, it is considered that the Group continues to exercise control.

The exposure associated with unconsolidated structured entities are not material with respect to the Group's consolidated financial statements.

Appendix I contains, amongst other information, the structured entities (Securitisation Funds) that are subject to consolidation in these consolidated financial statements as at 31 December 2019.

v. Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity or business are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, defined as the fair value of the assets transferred, the liabilities incurred and the equity instruments issued, if any, by the acquirer. The cost of the business combination does not include any costs related to the combination, such as fees paid to auditors involved in the transaction, legal advisers, investment banks and other consultants. If, prior to the business combination, the Group already held an equity interest in the acquiree, this equity interest is measured at its fair value and the difference between this fair value and its carrying amount at the date of the business combination is recognised in profit or loss. This equity interest measured at fair value forms part of the cost of the business combination.

- The fair value of the assets, liabilities and contingent liabilities of the acquired entity or business is estimated, including those intangible assets identified in the business combination that might not be recognised by the acquiree, which are included in the consolidated balance sheet at those values, as well as the amount of the minority interests (non-controlling interests) and the fair value of the previous interests in the acquire.

- The difference between these items is recorded in accordance with section k) of this Note 2 if it is positive. If the difference is negative, it is recognised under "Negative Goodwill" in the consolidated income statement.

  Also, any acquisitions or disposals of non-controlling interests carried out after the date on which control of the entity is obtained are accounted for as equity transactions, and, accordingly, the difference between the price paid and the carrying amount of the percentage acquired of the non-controlling interests is recognised directly with a charge or a credit to consolidated equity.

Goodwill is only recognised once, when control of a business is obtained.

vi. Changes in the levels of ownership interests in subsidiaries

Acquisitions and disposals not giving rise to a change in control are accounted for as equity transactions, and no gain or loss is recognised in the consolidated income statement and the initially recognised goodwill is not remeasured. The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in valuation adjustments of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in consolidated profit or loss.

vii. Acquisitions and disposals

Note 3 to these consolidated financial statements provides information on the most significant acquisitions and disposals in 2019 and 2018.

f) *Capital and capital adequacy management*

Management of the Bank's and the Group's capital should be understood within the framework of the management performed by the Santander Group, of which they form part (see Note 1-a). The Santander Group's capital management is performed at regulatory and economic levels.

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

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

Within the framework of the internal capital adequacy assessment process (Pillar 2 of the Basel Capital Accord), the Santander Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Santander Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

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

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

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

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

The CRD IV was transposed into Spanish legislation through Law 10/2014, on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal

Decree-Law 84/2015 and Bank of Spain Circular 2/2016, which complete its adaptation to Spanish regulation.

On 27 December 2017, Regulation 2017/2395 was published, amending the RRC with regard to transitional provisions to mitigate the impact of the introduction of IFRS9, which took place on 1 January 2018. The timetable provides for a gradual implementation period of 5 years, and for the current year (2020) the applicable factor will be 0.7.

In addition, on 28 December 2017 Regulations 2017/2401 and 2017/2402 were published, incorporating the new securitisation framework. The first regulation establishes a new methodology for calculating capital requirements for securitisations and a transitional period ending on 31 December 2019, while the second regulation defines a type of STS securitisation ('simple, transparent and standardised') which, because of its characteristics of simplicity, of financing the real economy, etc., receives preferential treatment in terms of lower capital requirements.

With regard to Non-Performing Exposures (NPEs), rules have been published with the aim of implementing the "Action Plan for Non-Performing Exposures in Europe", published by the European Council in July 2017. The most relevant are the following:

- The ECB's supervisory expectation to address the stock of NPAs through provisioning,

- European Central Bank Guidance on Non-performing loans to credit institutions, published in March 2017: the Appendix to this Guidance, published in March 2018, sets out timetables with quantitative supervisory expectations for provisioning of this type of exposure. Applicable to exposures originated prior to 26 April 2019 and which have become NPE on or after 1 April 2018. Non-compliance could result in a higher charge for Pillar 2.

- Amendment of the RRC by Regulation 2019/630 regarding the minimum coverage of losses arising from doubtful exposures (prudential backstop), published in April 2019: this regulation includes timetables of quantitative requirements for minimum provisioning of NPE's. It applies to PPE's originated after 26 April 2019 and failure to comply would result in a deduction from the institutions' CET1.

On 20 May 2019 the new regulatory package was approved, which is articulated in Regulation 2019/876 (hereinafter CRR II) and Directive 2019/878 (hereinafter CRD V).

As a general rule, RRC II will enter into force on 28 June 2021, with some exceptions that will take effect during a period of time that began on 1 January 2019 and will end on 28 June 2023.

Among these exceptions, we highlight the entry into force on 27 June 2019 of the main changes regarding equity, capital deductions, standard and IRB credit risk and authorisations.

On 27 June CRD V entered into force, which is not yet applicable, as Member States have until 28 December 2020 to transpose it into national law. The CRD V includes significant changes such as the Pillar 2G regulation ('guidance').

In the regulatory package published in June 2019, the TLAC Term Sheet set at international level by the FSB (Financial Stability Board) has been incorporated into RRC II as a Pillar I of minimum equity and computable liability requirements for GSIBs. This package of modifications also includes the modification of the Resolution Directive (BRRD), replacing it with BRRD II, which establishes MREL requirements with Pillar 2 for all resolution entities, whether systemic or not, in which the resolution authority will decide on the requirements on a case-by-case basis.

In 2019, the SRB has established objective MREL requirements based on the 2018 policy, which applies the so-called hybrid approach, whereby only eligible liabilities issued directly from the point of entry will be counted alongside the Resolution Group's own funds. In addition, the policy states that individual requirements will be set for the relevant entities in each Resolution Group. These objectives are set for each Resolution Group, either in MPE (Multiple Point of Entry) strategies, as is the case with Banco Santander, or in SPE (Single Point of Entry) strategies. Additionally, systemic banks are already required to meet the minimum equity and eligible liability requirement of 16% of the RWA under the rules of RRC II.

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

Santander Consumer Finance Group, following Santander Group policies, continues with its proposal to adopt, progressively, over the next few years, the advanced internal ratings-based (AIRB) approach for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adaptation of advanced models within the key markets where it operates.

Accordingly, the Group continued in 2019 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approaches for regulatory capital calculation purposes at the various Group units.

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

With respect to operational risk, the Group currently uses the standardised approach for calculating regulatory capital as foreseen in the Capital Requirements Regulation (CRR).

g) Deposit Guarantee Fund and Single Resolution Fund

The Bank and other consolidated entities participate in the Deposit Guarantee Fund, National Resolution Fund or equivalent scheme in their respective countries.

i. Deposit Guarantee Fund

The Spanish Deposit Guarantee Fund (*Fondo de Garantía de Depósitos*, "FGD") was established by Royal Decree-Law 16/2011, of 14 October, which was amended pursuant to the wording given in final provision ten of Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment services companies (in force as from 20 June 2015). This Law transposes Directive 2014/49/EU, of 16 April 2014, on deposit guarantee schemes into Spanish legislation. The annual contribution to be made to the fund by Spanish institutions is determined by the FGD Management Committee. Contributions are based on the amount of covered deposits, adjusted for the entity's risk profile, which takes into account the phase in the economic cycle and the impact of pro-cyclical contributions, pursuant to article 6,3 of Royal Decree-Law 16/2011.

The purpose of the FGD is to guarantee deposits at credit institutions, up to the limit foreseen in the aforementioned Royal Decree-Law. To fulfil its objectives, the FGD is funded by the above-referenced annual contributions, the extraordinary contributions the fund requires from its members and the resources secured in securities markets and through loans or other financing operations.

Taking into account the foregoing and to strengthen the FGD, Royal Decree-Law 6/2013, of 22 March, on the protection of holders of certain savings and investment products and other financial measures established an extraordinary contribution equal to 3 per thousand of the institutions' deposits at 31 December 2012. This extraordinary contribution was payable in two tranches:

i. Two-fifths to be paid within 20 business days from 31 December 2013.

ii. Three-fifths to be paid within a maximum of seven years in accordance with the payment schedule set by the FGD Management Committee.

The notes to the Bank’s individual financial statements for 2019 include additional information on the contributions of this nature made by the Bank in 2019 and 2018.

ii. Single Resolution Fund

In March 2014, a political agreement was reached between the European Parliament and Council on establishing the second pillar of the Banking Union, the Single Resolution Mechanism (“SRM”). The main objective of the SRM is to ensure that potential future bank failures in the banking union are managed efficiently, with minimal costs to taxpayers and the real economy. The scope of the SRM mirrors that of the SSM. This means that a central authority -the Single Resolution Board (“SRB”) is ultimately in charge of the decision to initiate the resolution of a bank, while operationally the decision will be implemented in cooperation with national resolution authorities. The SRB started its work as an independent EU agency on 1 January 2015.

While the rules governing the banking union aim to ensure that any resolution is first financed by a bank’s shareholders and, if necessary, also partly by a bank’s creditors, there is now another funding source available that can step in if the contributions of shareholders and creditors are insufficient, namely the Single Resolution Fund (“SRF”), which is administered by the SRB. The legislation establishes that contributions to the SRF will be paid in by the banks over the course of eight years.

In this regard, the SRF, which was introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council, became operational on 1 January 2016. The basis for the calculation of the contributions that must be made by credit institutions and investment firms to the SRF lies with the SRB. As from 2016, these contributions base on: (a) a flat contribution (or basic annual contribution), that is pro-rata with respect to the total liabilities, excluding own funds and guaranteed deposits, of all of the institutions authorised in the territories of the participating Member States; and (b) a risk-adjusted contribution, that shall be based on the criteria laid down in Article 103(7) of Directive 2014/59/EU, taking into account the principle of proportionality, without creating distortions between banking sector structures of the Member States. The amount of these contributions accrues from 2016 in an annual basis.

The amount accrued for contributions to both funds stood at EUR 56,664 thousand as of 31 December 2019 (EUR 57,470 thousand the previous year), recognised under “Other operating expenses” on the accompanying income statement (see Note 38).

National Resolution Fund

In 2015 Royal Decree 1012/2015 of 6 November was published, implementing Law 11/2015 of 18 June on the recovery and resolution of credit institutions and investment service companies and amending Royal Decree 2606/1996 of 20 December on deposit guarantee funds for credit institutions. The aforementioned Law 11/2015 regulates the creation of the National Resolution Fund, whose financial resources should reach 1% of the amount of guaranteed deposits by 31 December 2024, through contributions from credit institutions and investment service companies established in Spain. The details of how the contributions to this Fund are to be calculated are governed by the Delegated Regulation (EU) 2015/63 of the Commission of 21 October 2014 and are calculated by the Fondo de Resolución Ordenada Bancaria ("FROB"), on the basis of the information provided by each institution.

The expense incurred for the contribution made by the Bank to the National Resolution Fund in 2019, which amounted to EUR 229 thousand (EUR 280 thousand in 2018), is recognised under "Other Operating Expenses" in the accompanying income statement (see Note 38).

h) ***Environmental impact***

In view of the business activities carried on by the Group entities, they do not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to the Group's consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

i) ***Events after the reporting period***

On November 1, 2019, the Group, through its Norwegian subsidiary Santander Consumer Bank AS, signed an agreement to acquire 100% of the shares representing the capital stock of Forso Nordic AB, owned by FCSH, GmbH (a Swiss company) and Saracen HoldCo AB (a Swedish company). Forso Nordic AB, located in Sweden, has in turn two branches in Denmark and Norway and a subsidiary in Finland, Forso Finance OY. The focus of this group is the financing of Ford branded cars as well as other related services in the Nordic countries. The purchase transaction is pending completion of the approval process by the European and local authorities, which is expected to be completed during the first half of 2020, when the holding will be taken over. The acquisition of the shareholding will be accompanied, among other documents, by the execution of a cooperation agreement in each of the four Nordic countries.

On February 4, 2020, Santander Consumer Finance, S.A. participated in a capital increase in the Dutch company Vinturas Holding, B.V. through the subscription of 25 shares of EUR 10 par value each (EUR 250 of share capital) and a total share premium of EUR 249,750, for a total of EUR 250,000. The final stake of Santander Consumer Finance, S.A. in this company is 13,66%. The company object of Vinturas Holding, B.V. consists, inter alia, of holding interests in companies that are developing the establishment of a logistics platform using blockchain technology in order to digitise the supply chain.

On 17 February 2020, the Group, through its Italian subsidiary, Santander Consumer Bank, S.p.A., signed an agreement for the creation of a joint venture with the Italian mobile, telecommunications and internet company, TIM, S.p.A., with ownership interests of 51% and 49%, respectively. The main purpose of this joint venture is the financing of telecommunications devices and the sale of other financial products. This joint venture will come into operation once the approval process by the European and local authorities has been completed. With the signing of this agreement, a white label agreement for exclusive financing will be initiated, which will end with the obtaining of regulatory approvals, from which time the exclusive agreement will reside in the joint venture.

j) ***Customer Protection Service Annual Report***

As required by Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on Customer Protection Departments and Services and Customer Ombudsmen of Financial Institutions, following is a summary of the Annual Reports submitted by the heads of the Customer Care Services of each of the Spanish consolidated entities subject to this requirement to the respective Board of Directors:

Santander Consumer Finance, S.A.

i. Statistical summary of claims and complaints handled

In 2019, a total of 2,206 claims were received (1,903 claims in 2018). Of these, 48 were lodged through Customer Service and 29 through the Bank of Spain (18 and 55 respectively in 2018).

As of 31 December 2019, 89% of the claims and complaints submitted were resolved (95% in 2018). The detail by type of claims and complaints filed in 2019 and 2018 is as follows:

	Number of claims	
	2019	2018
Assets	830	1,157
Payment methods	1,344	724
Insurance	4	1
Other	28	21
	2,206	1,905

The Bank's Directors state that the matters not yet resolved by 2019 year-end will not have a significant effect on these consolidated financial statements.

ii. Summary of resolutions

The detail of the responses to customers in 2019 and 2018 is as follows:

	Percentage	
	2019	2018
In favour of claimant	48%	50%
In favour of the Bank	52%	50%

The average handling period for claims was 25 calendar days in 2019 (24 days in 2018).

iii. Recommendations or suggestions based on experience to improve customer service

The Claims and Customer Care Service Department sends the Bank's senior executives updated information on the volume of records entry and holds meetings in order to ensure effective compliance with internal and regulatory regulations. Likewise, based on the analysis of the claims and the opinions issued, conclusions are obtained on the original common causes of certain types of claims to promote the improvement of processes and communications, so that the corresponding processes are corrected. It does not seem necessary to make recommendations or suggestions for all the claims included in this report, since they do not show a breach of the rules of action on transparency and on customer protection of financial services established by the Bank of Spain.

Santander Consumer, E.F.C., S.A.

i. Claims received by the Customer Care Services

In 2019, a total of 464 claims were received (38 claims in 2018). Of these, 16 were lodged through Customer Service and 9 through the Bank of Spain (9 and 8 respectively in 2018). In 52% of the cases the resolutions were in favor of the customers, compared to 57% in the previous year.

As of 31 December 2019, 90% of the claims and complaints submitted were resolved (93% of the claims submitted were resolved and concluded during 2018).

The detail by type of claims and complaints filed in 2019 and 2018 is as follows:

	Number of claims	
	2019	2018
Payment methods	41	20
Assets	406	330
Insurance	17	2
Other	-	12
	464	364

The detail of the responses to customers in 2019 and 2018 is as follows:

	Percentage	
	2019	2018
In favour of the claimants	52%	57%
In favour of the Bank	48%	43%

The average handling period for claims was 28 and 25 calendar days for 2019 and 2018, respectively.

ii. Recommendations or suggestions based on experience to improve customer service

The Claims and Customer Care Service Department sends the company's senior executives updated information on the volume of records entry and holds meetings in order to ensure effective compliance with internal and regulatory regulations. Likewise, based on the analysis of the claims and the opinions issued, conclusions are obtained on the original common causes to certain types of claims to promote the improvement of processes and communications, so that the corresponding processes are corrected. With respect to all the claims included in this report, it does not seem necessary to make any recommendations or suggestions since no breach of the Bank of Spain's rules of conduct relating to transparency and the protection of financial services customers has been observed.

Financiera El Corte Inglés, E.F.C., S.A.

i. Claims received by the Customer Care Services and claims made through the Bank of Spain

During 2019 156 were received by the Customer Care Services of Financiera El Corte Inglés (89 in 2018) and 157 claims were answered, one of which was received at the end of 2018. At year end there were no decisions regarding claims pending.

Of the total claims, 138 were admitted for processing and 19 were not admitted due to non-compliance with the requirements foreseen in Ministry of the Economy Order ECO / 734/2004, of 11 March, on Departments and Customer Service Services and Defender of the Client of the Financial Entities.

The claims that have ended with a report in favor of the Company have been 126, representing 80,25% of the total of the answered claims and 12 have been resolved in favor of the customer, representing 7,65%, having adopted the measures necessary to rectify the situation that is the subject of controversy and informing customers in writing of the decisions taken in all cases. The claims that were not admitted represent a 12,10% of the total.

The Department of Market Conduct and Claims of the Bank of Spain (DCMyR) has received 9 complaints from customers and 11 resolutions, two from 2018, of which only 3 were favourable to the customer. In 4 of these, the DCMyR found no breach of transparency or customer protection rules. In 2 it has not issued a pronouncement and another 2 have not been admitted following the institution's allegations. At the end of the financial year, no decision was pending.

ii. Recommendations or suggestions, based on prior experience, in order to better secure the objectives informing these actions

Throughout 2019, Customer Care Services have continued the actions initiated in 2018 on measures and controls carried out in order to ensure compliance with current regulations and good practice criteria to contribute to a better and more satisfactory customer service, of which we can highlight:

A training course has been carried out which consists of the following modules: Marketing, documentation, admission of operations, operations, recoveries and FECI Customer Service, with the aim of promoting knowledge and emphasising the importance of certain issues such as pre-contractual and contractual information, document conservation, identification, etc, in order to promote information transparency with the client from all areas. Training will continue in 2020.

A change has been made in the tool used to manage Customer Service files, moving from an IMS system to an SAP CRM that is making it possible to speed up management and facilitate the obtaining of more detailed and specific information based on the analysis being carried out.

Regular meetings have been held with the different operational Areas and Departments: Operations, Risks, Litigation, Legal, Audit, Management and Customer Service and Organization to discuss and share problems arising from the various queries, complaints and claims submitted by customers in which compliance with the solution deadlines, the criteria used, the optimization of resources and various proposals for improvement are analyzed and reviewed to quickly and efficiently resolve the issues raised, making the responses more specific and ensuring that the customer is aware at all times of the operation of the products he contracts.

Revisions/actions are made on those reasons that have a greater participation in the complaints received, to correct possible weaknesses or deficiencies that can be detected and as an early detection of problems. Without prejudice to the above, for the 2020 financial year, the FECI Customer Service Department will review all the reasons and catalogues the incidents, complaints and claims with the Departments affected.

A quarterly report has been made by the Head of the Financiera El Corte Inglés Customer Service to the Management Committee of Financiera El Corte Inglés, providing information on the activity: number of files registered by origin, reasons/type, solution and decisions made, solution period and amounts affected, highlighting the incidents detected in each quarter.

Updating of procedures and communication to the Operations Departments of the Shopping Centres of issues related to the information and documentation to be provided to customers in accordance with the provisions of Order EHA/2899/2011, on transparency and protection of banking services customers, developed by the Bank of Spain circular 5/2012, on transparency of banking services and responsibility in the granting of loans.

The clauses of the Personal Payment Formula and Direct Loan have been revised, modifying some of the conditions so that they do not generate any doubt in the minds of customers.

Various training actions have been carried out, recalling the Money Laundering Prevention operation, mainly related to customer identification regulations and cash limits.

The November 2019 Board of Directors approved an update of the Regulations for the Defence of Financiera El Corte Inglés' customers.
Actions have been taken to encourage digitalisation, providing information and tutorials on how to obtain a PIN and the advantages and information available in the customer's private area on the Financiera website.

All the departments concerned have been informed of new products or specific financing campaigns.

We are continuing to provide greater Customer Service. In this regard, for the payment of receipts returned in the previous year, the payment method was opened on the Financiera website, and this year it has been extended to the telephone channel, thus avoiding the need for customers to go to a shopping centre.

In addition, the private area of the website has been set up to query unpaid bills with a breakdown of the composition of the bill.

Control is still maintained to ensure that all claims dealt with by the operational departments in which the customer has expressed his disagreement with the resolution given are reviewed by the Financial Institution's Customer Service Department.

Customers who are not satisfied with the response of the Customer Care Service Holder can turn to the Supervisory Body, Market Conduct and Complaints Department of the Bank of Spain. The client is notified of this power in all resolutions.

Transolver, E.F.C., S.A.

i. Complaints received

In 2019, a total of 11 claims were received (38 claims in 2018). Of these, none were lodged through Customer Service and 1 through the Bank of Spain (no claims or complaints were received in 2018). In 30% of the cases the resolutions were in favor of the customers.

By 31 December 2019, 91% of the claims and complaints received had been resolved, with the average resolution time in 2019 being 28 calendar days. 90% of the claims and complaints resolved required a processing time of more than 15 calendar days.

PSA Financial Services Spain, E.F.C., S.A.

i. Claims received by the Customer Complaints and Claims Services, claims made through the Bank of Spain and other

884 claims were received by the Customer Complaints and Claims Service in 2019 (945 in 2018), of which all were processed. Of these claims, 344 were resolved in favour of the client (378 were processed and resolved in favour of the client in 2018).

The detail of claims and complaints received, by type, is as follows:

	Percentage	
	2019	2018
Early cancellation and contract termination	23%	30%
Collection of unpaid transactions	11%	12%
Delays or mistakes on the filing management	16%	14%
Lack of information in commercialisation process	14%	15%
Request of information/sending of documents	11%	6%
Other	25%	23%

The claims and complaints received in 2019 came through the following channels:

	2019	2018
Bank of Spain	5	2
Municipal Consumer Service Office	25	20
Other Customer Service	10	16
Lawyers in representation of customers	12	13
Directly from customers	832	894

The entity has paid/forgone EUR 9 thousand (EUR 12 thousand in 2018), approximately, as a result of claims resolved in favour of customers. The average handling period was 8 calendar days.

ii. Recommendations or suggestions, based on prior experience:

Claims considered as such by this service based on the requirements established in the Regulations display a steady trend. Comments and suggestions have been made to the operational services regarding the possible defects in processes that have given rise to these claims; these comments and suggestions were submitted at the company's quarterly quality committee meetings, in the compliance committees and in the monthly meetings of action plans for the treatment of repetitive complaints and claims or of the economic or reputational impact.

Likewise, in 2019 the number of complaints and claims has decreased with respect to 2018, as corrective actions have been established that have led to an improvement in the quality of the service.

It should also be noted that despite the decrease in the number of complaints and claims, the number of claims received from the Bank of Spain and the Public Administrations' Consumer Information Offices has increased.

2. Accounting policies and valuation criteria

The accounting policies and valuation criteria used in the preparation of the accompanying financial statements were as follows:

a) Foreign currency transactions

i. Presentation currency

The Bank’s functional and presentation currency, as well as the Group’s presentation currency, is the Euro.

ii. Translation of foreign currency balances

Foreign currency balances are translated into Euro in two stages:

- Translation of the foreign currency to the presentation currency (currency of the main economic environment in which it operates); and

- Translation to Euro of the balances held in the functional currencies of entities whose functional currency is not the Euro.

iii. Translation of foreign currency to the presentation currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in European Monetary Union countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- Non-monetary items measured at historical cost are translated to the presentation currency at the exchange rate at the date of acquisition.

- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.

- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.

- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

iv. Translation of functional currencies to Euro

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

v. Recognition of exchange differences

The exchange differences arising from the translation of foreign currency balances to the presentation currency are generally recognised at their net amount under "Currency translation differences" in the consolidated income statement, except for exchange differences arising from financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising from 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 – Currency translation differences (see Note 26)

The exchange differences arising from the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in Other comprehensive income – Items that may be reclassified to profit or loss- Currency translation differences in the consolidated balance sheet, whereas those arising from the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Other comprehensive income - Items that may be reclassified to profit or loss and Items not reclassified to profit or loss - Other recognised income and expense of investments in subsidiaries, joint ventures and associates, until the related item is derecognised, at which time they are recognised in profit or loss, unless it is part of items not reclassified to profit or loss.

Exchange differences arising from actuarial gains or losses when converting to euros the financial statements denominated in the functional currencies of entities whose functional currency is different from the euro are recognised under equity – Other comprehensive income – Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans (see Note 21)

vi. *Entities located in hyperinflationary economies*

As at 31 December 2019 and 2018 none of the functional currencies of the consolidated entities and associates located abroad related to hyperinflationary economies as defined by International Financial Reporting Standards as adopted by the European Union. Accordingly, at the end of the last three reporting periods it was not necessary to adjust the financial statements of any of the consolidated entities or associates to correct for the effect of inflation.

vii. Exposure to foreign currency risk

The equivalent Euro value of the total assets and liabilities in foreign currency held by the Group as of 31 December 2019 amounted to EUR 15,667 million and EUR 11,468 million, respectively (EUR 16,529 million and EUR 11,389 million, respectively in 2018) –see Note 44–. 99,01% (99,14% on 31 December 2018) of these assets and 100% of these liabilities (100% in 2018), approximately, correspond to Polish zloty, Swiss franc, Norwegian kroner and Swedish kronor. Virtually all the remainder relates to other currencies traded in the Spanish market. The effect on the consolidated income statement and consolidated equity of variations of 1% in the various foreign currencies in which the Group holds significant balances, taking into account the exchange rate hedges arranged by the Group in this connection, would not be significant.

b) 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 the investment that would have to be made in 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 a financial liability and an equity instrument for their issuer (such as convertible bonds that give the holder the right to convert them into equity instruments of the issuing entity).

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

Also, the contingently redeemable perpetual debentures, which may be purchased by the issuer under certain circumstances, whose remuneration is discretionary, and which will be redeemed, in whole or in part, on a permanent basis if the Bank or its consolidable group has a capital ratio below a certain percentage (trigger event), as defined in the related prospectuses, are accounted for by the Group as equity instruments.

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

- Investments in associates and jointly controlled entities (see Note 12).

- Rights and obligations under employee benefit plans (see Note 21).

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 "Assets included in disposal groups classified as held for sale" or they relate to "Cash and balances at central banks", "Derivatives – hedge accounting" and "Investments in joint ventures and associates", which are reported separately.

The classification criteria for financial assets depends both on the business model underlying its management and the characteristics of its cash flows.

The business models refer to the way the Group manages its financial assets to generate cash flows. To define these models, the Group considers the following:

- 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 the assessment of the consistency of these flows with a basic loan agreement. The Group determines whether the contractual cash flows of its financial assets are only payments of principal and interest on the amount of principal outstanding at the beginning of the transaction. This analysis takes into consideration four factors (performance, covenants, contractually linked products and currencies). In this regard, the most significant judgements made by the Group in performing this analysis include the following:

• The return on the financial asset, specifically in cases of periodic interest rate adjustments where the term of the reference interest rate does not coincide with the frequency of the adjustment. In these cases, an assessment is made in order to determine whether 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 purpose 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.

- On this basis, the asset can be measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. IFRS 9 also provides the option to designate an instrument as at fair value through profit or loss if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases. The Group uses the following criteria for the classification of 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 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 models mentioned above, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”. In this section it can be enclosed the portfolios classified under “Financial assets held for trading”, “Non-trading financial assets mandatorily at fair value through profit or loss” and “Financial assets at fair value through profit or loss”.

Equity instruments will be classified at fair value under IFRS 9, with changes in profit or loss, unless the Group decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) in the initial moment.

iii. Classification of financial assets for presentation purposes

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

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

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

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

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

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

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

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

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

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

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

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they must 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.

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

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

v. *Classification of financial liabilities for presentation purposes*

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

- Deposits: includes all repayable balances received in cash by the Group –including subordinated liabilities (amount of the loans received that rank below other loans or securities with regards to claims on assets and earnings) - save for debt instruments in issue. This item also includes those cash bonds and cash consignments received whose amount may be invested without restriction. Deposits are classified based on 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.

- Debt securities in issue: includes the amount of bonds and other debt represented by marketable securities, save for subordinated liabilities (amount of the loans received that rank below other loans or securities with regard to claims on assets and earnings), and includes the amount of the financial instruments issued by the Group which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued. This item includes the liability component of hybrid securities.

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

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

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

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

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

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

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price. Financial instruments not measured at fair value through profit or loss are adjusted by the transaction costs. Financial assets and liabilities are subsequently measured at each year-end as follows:

In this regard, IFRS 9 states that regular way purchases or sales of financial assets shall be recognised and derecognised on the trade date or on the settlement date. The Group has opted to make such recognition on the trading date or the settlement date, depending on the convention of each of the markets in which the transactions take place. For example, in relation to the purchase or sale of debt securities or equity instruments traded in the Spanish market, securities market regulations stipulate their effective transfer at the time of settlement and, therefore, the same time has been established for the accounting record to be made.

At the reporting date, the valuation of the financial assets and liabilities should be performed according to the following criteria:

i. *Measurement of financial assets*

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

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2019 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be assets.

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

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

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

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

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

Equity instruments and contracts relating to those instruments should be measured at fair value. However, in certain specific circumstances the Group considers that the cost is an adequate estimate of fair value. This may be the case if the recent information available is insufficient to measure such fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. The Group has taken out guarantees and other credit enhancements to mitigate its exposure to credit risk, consisting mainly of mortgage guarantees, cash guarantees, equity and personal guarantees, assets leased and rented, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

Financial liabilities are generally measured at amortised cost, as defined above, except for those included under the headings "Financial liabilities held for trading", "Financial liabilities at fair value through profit or loss" and "Financial liabilities designated as hedged items in fair value hedges (or as hedging instruments)", whose carrying amount changes due to changes in their fair value in connection with the risk or risks covered by such hedges. 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 give rise to or increase an accounting mismatch, in which case changes in the fair value of the financial liability in all respects are recognised in the income statement.

iii.Valuation techniques

The following table shows a summary of the fair values, at the end of 2019 and 2018, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	EUR Thousands					
	31-12-2019			31-12-2018		
	Published price quotations in active markets (Level 1)	Internal Models (*)	Total	Published price quotations in active markets (Level 1)	Internal Models (*)	Total
Financial assets held for trading	-	20,141	20,141	-	17,289	17,289
Non-trading assets mandatorily at fair value through profit or loss	-	103	103	-	213	213
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	932,589	20,796	953,385	1,255,620	16,999	1,272,619
Derivatives – hedge accounting (assets)	-	59,791	59,791	-	134,143	134,143
Financial liabilities held for trading	-	21,221	21,221	-	19,541	19,541
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Derivatives – hedge accounting (liabilities)	-	97,410	97,410	-	92,631	92,631

(*) Virtually all the main variables (inputs) used in these models come directly from observable market data (Level 2, compliant with IFRS 7 – Financial Instrument: Disclosures)

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 and derivatives traded in organized markets, securitized assets, shares, and fixed income issued.

In cases where the fair value of a financial instrument cannot be obtained from its market price quotations, the Group makes its best estimate of fair value 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 very specific 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.

Most of the instruments recognised at fair value in the consolidated balance sheet, calculated using internal models, are interest rate swaps (IRS) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate, for information purposes (see Note 44), the fair value of financial instruments measured at amortised cost in the consolidated balance sheet. Expected future cash flows are discounted using the yield curves of the related currencies. In general, the yield curves are observable market data and, therefore, this valuation method does not include the use of assumptions that could have a significant effect on the calculation of the fair value of these financial instruments.

The Group did not make any material transfers of financial instruments between one measurement method and another in 2019 or 2018. Also, there were no changes in the valuation techniques used to measure financial instruments.

General measurement bases-

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

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

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

Fixed income

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.

Equity and exchange rate

The most important products in these asset classes are forward and futures contracts, as well as single derivatives (vanilla), listed and OTC (over-the-counter), on individual underlyings and asset baskets. Plain vanilla options are valued using the standard Black-Scholes model, while more exotic derivatives, involving forward yields, average yield or digital, barrier or callable features are valued using generally accepted industry models or custom models, as appropriate. For illiquid equity derivatives, hedging is performed considering liquidity constraints in the models.

The inputs to the equity models consider interest rate curves, spot prices, dividends, repo margin spreads, implied volatilities, correlation between stocks and indices and cross-correlation between assets. The implied volatilities are obtained from market prices of European and American call and put options. Using various interpolation and extrapolation techniques, continuous areas of volatility are obtained for illiquid stocks. Dividends are generally estimated in the medium and long term. Correlations are obtained, where possible, implicitly from market quotations of correlation-dependent products; in other cases, proxies are made to correlations between reference underlyings or are obtained from historical data.

Inputs to exchange rate models include the interest rate curve of each currency, the spot rate and implied volatilities and the correlation between assets of this type. The volatilities are obtained from European call and put options that are quoted in the markets as at-the-money, risk reversal or butterfly options. Illiquid currency pairs are generally treated using data from liquid pairs from which the illiquid currency can be decomposed.

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 collateralized debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

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

Valuation adjustment for counterparty risk or default risk

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

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

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

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

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

- Discount factor curve.

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

At the end of December 2019, no CVA and DVA adjustments were recorded for significant amounts.

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 uncollateralized component of the OTC derivative portfolio. This includes the uncollateralized component of uncollateralized derivatives in addition to derivatives that are fully uncollateralized. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of 31 December 2019.

Fair value of financial instruments measured using internal models-

The fair value of financial instruments obtained from the aforementioned internal models takes into account, inter alia, the contract terms and observable market data, which include interest rates, credit risk, exchange rates and prepayments.

The valuation models described above do not entail a significant degree of subjectivity, given that the methodologies may be adjusted and recalibrated, where needed, through the internal calculation of fair value and the subsequent comparison with the corresponding actively-traded price. However, certain valuation adjustments may be necessary when quoted market prices are not available for comparison purposes.

Risk sources include uncertain model parameters, illiquid underlying issuers, poor quality market data or missing risk factors (at times, the best option available 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 as follows:

- 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. The disparity of price depending on the different market contributors, or the concentration of the asset, could also be potential sources of risk to consider in the fixed income market.

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

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

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 31 December 2019 and 2018:

	EUR Thousands		
	Fair Values calculated using internal models 31-12-19 (Level 2)	Valuation techniques	Main assumptions
ASSETS:			
Financial assets held for trading	**20,141**		
Derivatives	20,141		
Swaps	*20,141*	Present Value Method	Yield curves, FX market rates, Basis
Other	-	Present Value Method	Yield curves, volatility surface
Non-trading assets mandatorily at fair value through profit or loss	**103**		
Equity instruments	*103*	Present Value Method	Yield curves, market prices, dividends, correlation, liquidity, other
Derivatives – hedge accounting	**59,791**		
Swaps	*48,841*	Present Value Method	Yield curves, FX market rates, Basis
Other	*10,950*	Present Value Method	Yield curves, volatility surface
Financial assets at fair value through other comprehensive income (*)	**20,736**	Present Value Method	
Equity instruments	*20,736*		Yield curves, market prices, dividends, correlation, liquidity, other
TOTAL ASSETS	**100,771**		
LIABILITIES:			
Financial liabilities held for trading	**21,221**		
Derivatives	21,221		
Swaps	*20,943*	Present Value Method	Yield curves, FX market rates, Basis
Other	*278*		Yield curves, volatility surface
Derivatives – hedge accounting	**97,410**		
Swaps	*84,223*	Present Value Method	Yield curves, FX market rates, Basis
Other	*13,187*	Present Value Method	Yield curves, volatility surface
TOTAL LIABILITIES	**118,631**		

(*) This heading also includes Level 3 financial instruments amounting to EUR 60 thousand.

	EUR Thousands		
	Fair Values calculated using internal models 31-12-19 (Level 2)	Valuation techniques	Main assumptions
ASSETS:			
Financial assets held for trading	**17,289**		
Derivatives	17,289		
Swaps	*17,213*	Present Value Method	Yield curves, FX market rates, Basis
Other	*76*	Present Value Method	Yield curves, volatility surface
Non-trading assets mandatorily at fair value through profit or loss	**213**		
Equity instruments	*213*	Present Value Method	Yield curves, market prices, dividends, correlation, liquidity, other
Derivatives – hedge accounting	**134,143**		
Swaps	*113,280*	Present Value Method	Yield curves, FX market rates, Basis
Other	*20,863*	Present Value Method	Yield curves, volatility surface
Financial assets at fair value through other comprehensive income	**16,999**	Present Value Method	
Equity instruments	*16,999*		Yield curves, market prices, dividends, correlation, liquidity, other
TOTAL ASSETS	**168,644**		
LIABILITIES:			
Financial liabilities held for trading	**19,541**		
Derivatives	19,541		
Swaps	*19,258*	Present Value Method	Yield curves, FX market rates, Basis
Other	*283*		Yield curves, volatility surface
Derivatives – hedge accounting	**92,631**		
Swaps	*84,634*	Present Value Method	Yield curves, FX market rates, Basis
Other	*7,997*	Present Value Method	Yield curves, volatility surface
TOTAL LIABILITIES	**112,172**		

iv. Recognition of fair value changes

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

Adjustments due to changes in fair value arising from:

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

- Items charged or credited to Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income and Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the consolidated income statement.
- Unrealised gains on Financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. Hedging transactions

The consolidated entities use financial derivatives to manage the risks of the Group entities' own positions and assets and liabilities ("hedging derivatives") or for the purpose of obtaining gains from changes in the prices of these 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 (and therefore can be classified in one of the following categories):

    - 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");

    - Changes in the estimated cash flows arising from the hedged financial assets and liabilities, commitments and highly probable forecast transactions ("cash flow hedge");

    - 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:

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

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

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

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

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

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

- In cash flow hedges, the effective portion of the change in fair value of the hedging instrument is recognised temporarily under "Other comprehensive income – Items that may be reclassified to profit or loss - Cash Flow Hedges" in the consolidated balance sheet until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability. The ineffective portion, if any, of the change in value of hedging derivatives is recognised under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement.

- 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.

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

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

When fair value hedge accounting is discontinued, the adjustments previously recognised as an adjustment to the carrying amount of the hedged asset or liability 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.

d) Transfers of financial assets and 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:

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

- If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of assets in which the transferor retains a subordinated debt or grants a credit enhancement to the new holders that entails assuming substantially all the credit risk of the transferred 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:

    - An associated financial liability, for an amount equal to the consideration received; this liability is, in general, subsequently measured at amortised cost unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

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

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

    - 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 of the asset 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.

The Group habitually performs financial asset securitisation transactions in which it retains substantially all the risks and rewards of ownership of the assets. The detail, by consolidated entity, of the securitised assets retained on the consolidated balance sheets as at 31 December 2019 and 2018 is included in Note 10 to the accompanying consolidated financial statements.

e) Offsetting of financial instruments

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

No material financial assets and liabilities were offset in the consolidated balance sheets as at 31 December 2019 and 2018.

f) Impairment of financial assets

i. Definition

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

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

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

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

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

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

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

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

The following constitute effective guarantees:

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

    i. Buildings and building elements, distinguishing among:

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

    ii. Urban and developable ordered land.

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

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

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

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

ii. Financial instruments presentation

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

- Normal Risk ("Stage 1"): includes all instruments that do not meet the requirements to be classified in the rest of the categories.
- Normal risk under watchlist ("Stage 2"): includes all instruments that, without meeting the criteria for classification as doubtful or default risk, have experienced significant increases in credit risk since initial recognition.

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

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analysed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into stage 2, each Group unit has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines ensuring a consistent interpretation in all units. Within these quantitative thresholds, two types are considered: a relative threshold is understood to be that which compares the current credit quality with the credit quality at the time of origination in percentage terms of change. Additionally, an absolute threshold compares both references in total terms, calculating the difference between the two. These absolute/relative concepts are used homogeneously (with different values) in all geographies. The use of this type of threshold or another (or both) is determined according to the rational process explained in Note 47, and is marked by the type of portfolio and characteristics such as the starting point of the average credit quality of the portfolio.
Qualitative criteria	In addition to the quantitative criteria indicated, various indicators are used that are aligned with those used by the Group in the normal management of credit risk. Irregular positions of more than 30 days and renewals are common criteria in all Group units. In addition, each unit can define other qualitative indicators, for each of its portfolios, according to the particularities and normal management practices in line with the policies currently in force (e.g. use of management alerts, etc.). The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.

In the case of forbearances, instruments classified as "normal risk under watchlist" may be 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 Stage 3 do not remain and the client does not have balances more than 90 days past due in other loans.

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

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

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

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

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

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

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

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

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

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

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

  In any case, except in the case of financial instruments with collateral covering more than 10% of the balance of the loan, the Group considers as a general rule the following as a remote recovery: the loans of clients who are in the liquidation phase of bankruptcy proceedings and doubtful balances due to non-performing loans older than two years in this category.

  A financial asset amount is maintained in the balance sheet until they are considered as a "default risk", either all or a part of it, and the write-off is registered against the balance sheet.

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

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

iii. Impairment valuation assessment

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

The asset impairment model in IFRS 9 applies to financial assets measured at amortised cost, debt instruments at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

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

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

  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.

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

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

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

The Group performs retrospective and monitoring tests to evaluate the reasonableness of the collective estimate.

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

For the estimation of the parameters used in the estimation of impairment provisions (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default)), the Group based its experience in developing internal models for the estimation of parameters both in the regulatory area and for management purposes, adapting the development of the impairment provision models under IFRS 9.

- Exposure at default: is the amount of estimated risk incurred at the time of the counterparty's analysis.

- Probability of default: is the estimated probability that the counterparty will default on its principal and/or interest payment obligations.

- Loss given default: is the estimate of the severity of the loss incurred in the event of non-compliance. It depends mainly on the updating of the guarantees associated with the operation and the future cash flows that are expected to be recovered.

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

The definition of default implemented by the Group for the purpose of calculating the impairment provision models is based on the definition in Article 178 of Regulation 575/2013 of the European Union (CRR), which is fully aligned with the requirements of IFRS 9, which considers that a "default" exists in relation to a specific customer/contract when at least one of the following circumstances exists: the entity considers that there are reasonable doubts about the payment of all its credit obligations or that the customer/contract is in an irregular situation for more than 90 days with respect to any significant credit obligation.

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

IFRS 9 includes a series of practical solutions that can be implemented by entities, with the aim of facilitating its implementation. However, in order to achieve a complete and high-level implementation of the standard, and following the best practices of the industry, the Group does not apply these practical solutions in a generalised manner:

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

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

This information is provided in more detail in Note 47.c (Credit risk).

g) Details of the individualised estimate of the correction of impairment

For the individualised estimation of the correction for impairment of financial assets, the Group has a specific methodology to estimate the value of the cash flows expected to be collected. Generally, this recovery may be estimated on the basis of:

- Recovery via repayment of the debt for cash flows generated by the debtor's ordinary activities ("Going Concern" approach).

- Recovery through repayment of the debt by execution and subsequent sale of the collateral guaranteeing the operations ("Gone Concern" approach).

If recovery is estimated using a "Gone Concern" approach, each of the Group's units has developed its own methodology based on the following methodological principles:

a. Evaluation of the effectiveness of guarantees

The Group evaluates the effectiveness of all guarantees associated with the financial asset subject to an individual impairment assessment. The following aspects are considered in making this assessment:

• The time required to execute these guarantees;
• The ability of the Group to enforce or value these guarantees in its favour;
• The existence of limitations imposed by the local regulation of each unit on the foreclosure of guarantees.

Under no circumstances does the Group consider that a guarantee is effective if its effectiveness depends substantially on the solvency of the debtor or its economic group, 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 Group considers the following types of guarantees to be effective

• Mortgage guarantees on properties, which are first charge, provided that they are duly constituted and registered in the Group's favour. Real estate includes:

- Buildings and finished building elements, distinguishing between: Dwellings; Offices and commercial premises and multipurpose buildings; Other buildings such as non-multipurpose buildings and hotels.
- Urban land and land for development.
- Rest of real estate where buildings and elements of buildings under construction would be classified, among others, such as developments in progress and stopped developments, and the rest of land, such as rustic properties.

• Pledges on financial instruments such as cash deposits, debt securities of recognised issuers or equity instruments.

• Other types of security interests, including movable property received as security and second and subsequent mortgages on real estate, provided that the entity demonstrates their effectiveness. In assessing the effectiveness of second and subsequent mortgages on property, the Group applies particularly restrictive criteria. It will take into account, inter alia, whether or not the foregoing charges are in the Group's own favour and the relationship between the risk guaranteed by them and the value of the property.

• Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the transaction and involving the direct and joint liability before the entity of persons or entities whose equity solvency is sufficiently proven to ensure repayment of the transaction under the agreed terms.

b. Valuation of guarantees

In this regard, the Group will assess the guarantees associated with the financial instruments based on the nature of the guarantees in accordance with the following

• Mortgage guarantees on properties associated with financial instruments taking into account all available information, using complete individual valuations made by independent valuation experts and under generally accepted valuation standards. If it is not possible to obtain a complete individual valuation, alternative valuations may be used provided that they have been carried out by duly documented and approved internal valuation models.

• Personal guarantees will be individually assessed on the basis of updated information from the guarantor.

• The rest of the guarantees will be valued on the basis of current market values if available or on the basis of other management information.

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

The Group applies a series of adjustments to the value of the guarantees which can be positive or negative in order to adjust the reference values:

• Adjustments based on the historical sales experience of the local units for certain types of assets. These adjustments will be made in the same way if the current valuations are not updated.

• Individual expert adjustments based on additional management information (e.g. if there is a binding offer to acquire the asset or the asset is severely impaired). In addition, the Group will take into account the time value of money when adjusting the value of the guarantees. Basically, for this purpose and based on the historical experience of each of the units, it is estimated:

• Period of adjudication.

• Estimated time of sale of the asset. The Group must also take into account the cash inflows and outflows that would be generated by the guarantee until it is sold. To this end, the Group considers the present value of the future cash flows of the guarantee when estimating the value of the asset:

• Possible future income commitments in favour of the borrower which will be accessible after the award of the asset.

• Estimated foreclosure costs.

• Asset maintenance costs, taxes and community costs.

• Estimated marketing or sales costs. Finally, when it is considered that the guarantee will be sold in the future, the Group applies an additional adjustment ("index forward") in order to adjust the value of the guarantees to future valuation expectations. This adjustment is made on the basis of estimated future price indices or external information.

h) Repurchase agreements and reverse repurchase agreements

Any purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised, where appropriate, in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under “Central Banks”, “Credit Institutions” or “Customers” (“Central Banks”, “Credit Institutions” or “Customer”).

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

i) Assets and liabilities included in disposal groups classified as held for sale

"Assets included in disposal groups classified as held for sale" includes the carrying amount of any 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 carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than through their continuing use.

Similarly, "Liabilities included in disposal groups classified as held for sale" includes the balances payable relating to the assets held for sale or disposal groups and to discontinued operations.

Non-current assets held for sale -both individual items and disposal groups, if any- are generally measured at the lower of fair value less costs to sell and their carrying amount at the date of classification in this category. Non-current assets held for sale are not depreciated as long as they remain in this category. However, any financial instruments, assets arising from employee benefits, deferred tax assets and reinsurance assets classified as "Non-Current Assets Held for Sale" continue to be measured using the methods described in this Note, with no changes being made thereto as a result of the classification of these items as non-current assets held for sale. The Group measures foreclosed property assets located in Spain by taking into consideration the appraisal value on the date of foreclosure and the length of time each asset has been recognised in the consolidated balance sheet.

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2019 are as follows: Gloval Valuation, S.A., Técnicos en Tasación, S.A., Eurovaloraciones, S.A., Valoraciones Mediterráneo, S.A., Tasibérica, S.A., Tasaciones Inmobiliarias, S.A., Gesvalt Sociedad de Tasación, S.A., Arco Valoraciones, S.A., Krata, S.A., UVE Valoraciones, S.A., Sociedad de Tasación, S.A, Instituto de Valoraciones, S.A, CBRE Valuation Advisory, S.A.y Grupo Tasvalor, S.A.

Also, the aforementioned policy stipulates that the various subsidiaries abroad must work with appraisal companies that have recent experience in the local area and with the type of asset under appraisal and that meet the independence requirements established in the corporate policy. They should verify, that the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's total billings.

Impairment losses on an asset or disposal group resulting from the write-down of its carrying amount to its fair value (less costs to sell) and gains or losses on the sale thereof are recognised under "Gains (Losses) on Non-Current Assets Held for Sale Not Classified as Discontinued Operations" in the consolidated income statement. Any gains on a non-current asset held for sale resulting from increases in fair value (less costs to sell) subsequent to impairment increase its carrying amount and are recognised with a credit to the consolidated income statement up to an amount equal to the impairment losses previously recognised.

Assets and liabilities relating to discontinued operations are presented and measured in accordance with the criteria indicated for disposal groups. Revenue and expenses arising from these assets and liabilities are presented net of the related tax effect under "Profit or loss after tax from discontinued operations" in the consolidated income statement.

j) Tangible assets

"Tangible assets" in the consolidated balance sheet includes any buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases, for their own use. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use -including any tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing own 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).

Amortisation 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 depreciation charge is recognised under "Depreciation and Amortisation cost" in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Buildings for own use	1.5%-2%
Furniture	10%
Computer hardware	25%
Other	12%

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

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods with a credit to the consolidated income statement 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 each reporting period with a view to detecting possible significant changes therein. If changes are detected, the depreciation charges relating to the new useful lives of the assets are adjusted by correcting the charge to be recognised in the consolidated income statement in future years.

Upkeep and maintenance expenses are charged to the consolidated income statement for the year in which they are incurred.

ii. Investment property

"Tangible Assets - Investment Property" reflects the net values of any land, buildings and other structures held either to earn rentals or for capital appreciation.

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.

iii. Assets leased out under an operating lease

"Tangible Assets - Property, Plant and Equipment - Leased out under an Operating Lease" in the consolidated balance sheets includes the amount of the assets, other than land and buildings, leased out 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.

k) Leases

Since 1 January 2019 the Group has changed the accounting policy for leases when acting as a lessee (see Note 1-b).

l) Intangible assets

"Intangible Assets" are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities and goodwill other than that arising from acquisition of entities accounted for using the equity method. Only intangible assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

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

i. Goodwill

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

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

- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/or business segments.

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

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

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

ii. Other intangible assets

Intangible assets can have an indefinite useful life –when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities– or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets. The intangible asset amortisation charge is recognised under "Depreciation and Amortisation Charge" in the consolidated income statement.

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to Impairment losses on other assets (net) in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (See Note 2.i).

ii. Group internally developed computer software

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

Any expenses incurred during the research phase are recognised directly in the consolidated income statement for the year in which they are incurred and cannot subsequently be included in the carrying amount of the intangible asset.

m) Other assets and Other liabilities

"Other Assets" in the consolidated balance sheets includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, are in the process of production, construction or development for such sale, or are to be consumed in the production process or in the rendering of services. “Inventories” includes the assets that have been acquired for the purpose of leasing them to third and for which the related operating lease agreements had not been formalised at the date of the consolidated balance sheets.

Inventories are measured at the lower of cost and net realisable value, which is the amount expected to be obtained from lease or sale thereof in the ordinary course of business, less the estimated costs of completion and the estimated costs required for operation.

The amount of any write-down of inventories -such as that due to damage, obsolescence or reduction of selling price- to net realisable value and all other losses of inventories are recognised as an expense in the year in which the write-down or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

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

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

“Other Liabilities” in the consolidated balance sheets includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other consolidated balance sheet line items.

n) Provisions and contingent assets and liabilities

Provisions are present obligations at the reporting date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing, and the consolidated entities expect that an outflow of resources embodying economic benefits will be required to settle such obligations.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include present obligations of the consolidated entities when, although possible, it is not considered probable that an outflow of resources embodying economic benefits will be required to settle them and their amount cannot be measured with sufficient reliability. The Group will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are 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 events beyond the control of the Group. Any contingent assets that arise are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Group’s consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. In accordance with current standards, contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed in the notes thereto.

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 21).

- Provisions for pensions and similar obligations: includes the amount of the provisions made to cover defined-benefit post-employment benefits, commitments to pre-retirees and similar obligations (see Note 21).

- Other long-term employee compensation: includes other obligations assumed with employees taking early retirement (see Notes 2.r and 21)

- Provisions for taxes and other legal contingencies: includes the amount of the provisions made to cover tax and legal contingencies and litigation (see Note 21).

- Provisions for contingent liabilities and commitments: includes the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets (see Note 21).

- Other provisions: includes the amount of other provisions made by the Group (see Note 21).

The provisions considered necessary pursuant to the foregoing criteria are recognised or released, as appropriate, with a charge or credit, respectively, to “Provisions (Net)” in the consolidated income statement. The criteria applied to account for the provisions for pensions and similar obligations are described in Notes 2-r and 2-s.

o) Court proceedings and/or claims in process

At the end of 2019 and 2018 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations. The Group’s legal advisers and the Bank’s Directors consider that any economic loss that might ultimately result from these court proceedings and claims has been adequately provided for (see Note 21) and, therefore, will not have a material effect on these consolidated financial statements.

p) Recognition of income and expenses

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

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from companies other than subsidiaries, associates or jointly controlled entities are recognised as income when the right to receive them arises.

ii. Commissions, fees and similar items

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

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

- Those which meet the conditions to form part of the initial acquisition cost of the financial instruments (other than those measured at fair value through profit or loss) are recognised in the income statement using the effective interest method or at the time the instruments are sold, based on their nature.
- 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-financial 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 and application fees, are credited to the consolidated income statement, on a time-proportion basis, over the term of the loan. The related direct costs incurred in the loan arrangement can be deducted from this amount.

q) Financial guarantees

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

The Group initially recognises financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises, as a balancing entry on the asset side of the consolidated balance sheet, the amount of the fees, commissions and similar interest received at the inception of the transactions and an account receivable 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-f above).

The provisions made for these transactions are recognised under “Provisions - Provisions for commitments and guarantees given” on the liability side of the consolidated balance sheet (see Note 21). These provisions are recognised and reversed with a charge or credit, respectively, to “Provisions or reversal of provisions” in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions recognised under “Financial Liabilities at Amortised Cost - Other Financial Liabilities” in the consolidated balance sheet are reclassified to the appropriate provision.

r) Post-employment benefits

Under the collective agreements currently in force, the financial institutions included in the Group and certain other Spanish and foreign consolidated entities have undertaken to complement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and other welfare benefits.

The Group’s post-employment obligations to its employees are deemed to be “defined contribution plans” when the Group makes pre-determined contributions 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 21).

Defined contribution plans

The Group recognises the defined contributions accrued in the year under “Administrative Expenses - Staff Costs” in the consolidated income statement. At year-end any amount not yet contributed to the external plans funding the obligations is recognised at its present value under “Provisions - Provision for pensions and other employment defined benefit obligations” on the liability side of the consolidated balance sheet (see Note 21).

Defined benefit plans

The Group recognises under “Provisions - Provisions for other long term employee benefits” on the liability side of the consolidated balance sheet (or under “Other Assets” on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets (see Note 21).

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

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan or of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group.

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

Post-employment benefits are recognised as follows:

- Service cost is recognised in the consolidated income statement and includes the following items:

  - Current service cost, i.e. the increase in the present value of the obligations resulting from employee service in the current period, is recognised under “Administrative Expenses - Staff Costs” (see Notes 21 and 39).

  - Any past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of curtailments, is recognised under “Provisions or reversal of provisions” (see Note 21).

  - Any gain or loss arising from plan settlements is recognised under “Provisions or reversal of provisions” (see Note 21).

  - Net interest on the net defined benefit liability (asset), i.e. the change in the year in the net defined benefit liability (asset) as a result of the passage of time, is recognised under “Interest Expense” (“Interest Income” if it constitutes income) in the consolidated income statement (see Notes 21 and 31).

The remeasurement of the net defined benefit liability (asset) recognised in equity under “Other comprehensive income. Items not reclassified to profit or loss. Actuarial gains or (-) losses on defined benefit pension plans” in the consolidated balance sheet includes:

  - Actuarial gains and losses generated in the year, arising from the effects of 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).

None of the above amounts recognised as valuation adjustments are reclassified to the consolidated income statement following their recognition as such.

s) Other long-term benefits and other obligations

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those employees who have ceased to render services at the consolidated entities but who, without being legally retired, continue to have economic rights vis-à-vis the entities until they acquire the legal status of retiree- and long-service bonuses assumed by the consolidated entities are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses which are recognised under Provisions or reversal of provisions in the consolidated income statement (see Note 21).

Certain Spanish Group entities’ obligations for death or disability of current employees until they reach retirement age are covered by an internal fund with renewable temporary annual coverage and, therefore, no contributions are made to plans.

t) 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.

u) Income tax

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in equity.

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

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and any tax loss and tax credit carry forwards that have been recognised. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

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

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

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

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

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

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

v) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheets as at 31 December 2019 and 2018 and of the average annual interest rates in 2019 and 2018 is provided in Note 44.

w) Consolidated statement of recognised income and expense

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

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

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised temporarily in consolidated equity under "Valuation Adjustments".

c. The net amount of the income and expenses recognised definitively in consolidated equity.

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 jointly controlled entities accounted for using the equity method, which are presented net.

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

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

x) Consolidated statement of changes in total equity

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

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors, if any.

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

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

y) Consolidated statements of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
- 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 consolidated equity and liabilities that are not operating activities.

With regards to the cash flows from interests paid and collected, there are no significant differences with those registered in the income statement, which is why they are not presented separately in the consolidated statement of cash flows. Nevertheless, the cash flows from financing activities are presented in Note 17, regardless of their significance.

For the purposes of preparing the consolidated statement of cash flows, “cash and cash equivalents” were considered to be short-term, highly liquid investments that are subject to an insignificant risk of changes in value. Accordingly, the Group considers the following financial assets to be cash and cash equivalents:

- Net cash balances and net balances with central banks, which are recognised under “Cash and Balances with Central Banks and other deposits on demand” in the consolidated balance sheet at 31 December 2019 and 2018, details by type and currency as follows:

	EUR Thousands	
	2019	2018
Type:		
Cash	87,278	83,803
Current accounts	5,267,648	3,862,829
Reciprocal accounts	1,745,236	1,278,910
Other accounts at credit institutions and central banks	728,821	646,134
	7,828,983	**5,871,676**
Currency:		
Euro	7,651,575	5,709,949
Foreign currency	177,408	161,727
	7,828,983	**5,871,676**

z) Own equity instruments

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

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

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

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

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

3. Santander Consumer Finance Group

a) Santander Consumer Finance, S.A.

The Bank is the parent of the Santander Consumer Finance Group (see Note 1). For information purposes, following are the condensed balance sheets, income statements, statements of changes in equity and statements of cash flows of the Bank for 2019 and 2018:

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED BALANCE SHEET AS OF 31 DECEMBER 2019 AND 2018

(EUR Thousands)

ASSETS	2019	2018	LIABILITIES AND EQUITY	2019	2018
Cash and balances at central banks	595,137	289,726	LIABILITIES		
Financial assets held for trading	-	67			
Financial assets through other comprehensive income	3,423,139	2,883,847	Financial liabilities held for trading	202	254
Financial assets at amortised cost	25,034,238	25,477,016	Financial liabilities at amortised cost	30,984,771	29,899,396
Derivatives – hedge accounting	45,639	115,013	Derivatives – hedge accounting	54,634	35,629
Changes of the fair value of hedged items in an interest rate risk hedging portfolio	-	-	Provisions	41,450	40,697
Investments in subsidiaries, joint ventures and associates	12,083,573	12,055,896	Tax liabilities	281,520	258,479
Tangible assets	48	127	Other liabilities	49,540	39,452
Intangible assets	18,322	14,048			
Tax assets	138,372	134,958	**TOTAL LIABILITIES**	**31,412,117**	**30,273,907**
Other assets	2,896	11,482			
Assets included in disposal groups classified as held for sale	2,649	5,632	Equity	9,937,352	10,729,376
			Other comprehensive income	(5,456)	(15,471)
TOTAL ASSETS	**41,344,013**	**40,987,812**			
			TOTAL EQUITY	**9,931,896**	**10,713,905**
Memorandum items: off balance sheet items			**TOTAL LIABILITIES AND EQUITY**	**41,344,013**	**40,987,812**
Loans commitment granted	966,404	1,732,388			
Financial guarantees granted	3,939,106	4,256,464			

SANTANDER CONSUMER FINANCE, S.A.
CONDENSED INCOME STATEMENT AS OF 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	2019	2018
Interest income	288,506	268,874
Interest expenses	(148,303)	(134,485)
NET INTEREST INCOME	**140,203**	**134,389**
Dividend income	572,785	565,188
Income from companies accounted for using the equity method	-	-
Commissions income	32,817	32,163
Commissions expense	(57,807)	(55,140)
Gains or losses on financial instruments not at fair value through profit or loss, net	(249)	14
Gains or losses on financial instruments held for trading, net	-	-
Gains or losses from hedge accounting, net	-	-
Currency translation differences, net	(5,225)	(3,441)
Other operating income	155	203
Other operating expenses	(11,682)	(13,410)
OPERATING INCOME	**670,997**	**659,966**
Administration and general expenses	(75,860)	(56,292)
Depreciation and amortisation cost	(4,047)	(513)
Provisions or reversal from provisions, net	(2,410)	9,195
Impairment charges and reversals from financial assets not at fair value through profit or loss	(44,489)	(49,027)
NET OPERATING PROFIT	**544,191**	**563,329**
Impairment charges or reversals on investments in joint ventures and associates	-	-
Impairment charges or reversals on non-financial assets	-	-
Gains or losses on assets and liabilities included in disposal groups classified as held for sale from discontinued operations	(1,271)	786
PROFIT OR LOSS BEFORE TAX IN RESPECT OF CONTINUING OPERATIONS	**542,920**	**564,115**
Taxation	(34,708)	(4,578)
Gains or losses after tax in respect of continuing operations	508,212	559,537
PROFIT/(LOSS) AFTER TAX	**508,212**	**559,537**

SANTANDER CONSUMER FINANCE, S.A.
CONDENSED STATEMENTS OF CHANGES IN EQUITY
CONDENSED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	2019	2018
PROFIT OR LOSS AFTER TAX	**508,212**	**559,537**
OTHER COMPREHENSIVE INCOME	**10,015**	**(13,100**
Items not reclassified to profit or loss	**(186)**	**(99)**
Actuarial gains or losses on defined benefit pension plan	(1,275)	(193)
Assets included in disposal groups classified as held for sale	-	-
Changes in the fair value of equity instruments at fair value through other comprehensive income	656	54
Income tax in respect of items not reclassified to profit or loss	433	40
Items that may be reclassified to profit or loss	**10,201**	**(13,001)**
Currency translation differences	-	-
Hedging of net investments in joint ventures and associates (effective portion)	-	-
Cash flow hedges (effective portion)	(4,575)	1,050
Financial assets available-for-sale	19,500	(19,624)
Assets included in disposal groups classified as held for sale	-	-
Share of other recognised income	-	-
Income tax in respect of items that may be reclassified to profit or loss	(4,724)	5,573
TOTAL RECOGNISED INCOME AND EXPENSE	**518,227**	**546,437**

SANTANDER CONSUMER FINANCE, S.A.
CONDENSED STATEMENTS OF CHANGES IN EQUITY
CONDENSED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

2019	Capital	Share premium	Equity instruments issued other than capital	Other equity instruments	Retained earnings	Profit/(loss) after tax	Dividends paid	Other comprehensive income	TOTAL
Balance as of 31/12/18	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,341,210**	**559,537**	**-**	**(15,471)**	**10,713,905**
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-
Beginning of period balance (01/01/18)	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,341,210**	**559,537**	**-**	**(15,471)**	**10,713,905**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**508,212**	**-**	**10,015**	**518,227**
Other changes in equity	**-**	**-**	**-**	**-**	**(295,247)**	**(559,537)**	**(445,452)**	**-**	**(1,300,236)**
Common stock issued	-	-	-	-	-	-	-	-	-
Preferred stock issued	-	-	-	-	-	-	-	-	-
Other equity instruments issued	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(789,410)	-	(445,452)	-	(1,234,862)
Transfers between components of equity	-	-	-	-	559,537	(559,537)	-	-	-
Other increases/(decreases) of equity	-	-	-	-	(65,374)	-	-	-	(65,374)
End of period balance 31/12/19	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,045,963**	**508,212**	**(445,452)**	**(5,456)**	**9,931,896**

2018	Capital	Share premium	Equity instruments issued other than capital	Other equity instruments	Retained earnings	Profit/(loss) after tax	Dividends paid	Other comprehensive income	TOTAL
Balance as of 31/12/17	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,347,790**	**462,877**	**(400,343)**	**(2,371)**	**10,036,582**
Adjustments due to errors	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	**(20,241)**	-	-	-	**(20,241)**
Beginning of period balance (01/01/18)	**5,638,639**	**1,139,990**	**850,000**	**-**	**2,327,549**	**462,877**	**(400,343)**	**(2,371)**	**10,016,341**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**559,537**	**-**	**(13,100)**	**546,437**
Other changes in equity	**-**	**-**	**200,000**	**-**	**13,661**	**(462,877)**	**400,343**	**-**	**151,127**
Common stock issued	-	-	-	-	-	-	-	-	
Preferred stock issued	-	-	-	-	-	-	-	-	
Other equity instruments issued	-	-	200,000	-	-	-	-	-	**200,000**
Dividends	-	-	-	-	-	-	-	-	-
Transfers between components of equity	-	-	-	-	62,534	(462,877)	400,343	-	-
Other increases/(decreases) of equity					(48,873)				**(48,873)**
End of period balance 31/12/18	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**2,341,210**	**559,537**	**-**	**(15,471)**	**10,713,905**

SANTANDER CONSUMER FINANCE, S.A.

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(EUR Thousands)

	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES:	**630,163**	**188,935**
Profit or loss after tax	508,212	559,537
Adjustments made to obtain the cash flows from operating activities	122,823	33,381
Net change in operating assets	(112,875)	(4,682,873)
Net change in operating liabilities	112,003	4,278,890
B. CASH FLOWS FROM INVESTING ACTIVITIES:	**(7,922)**	**(156,837)**
Payments	(10,905)	(152,684)
Proceeds	2,983	(4,153)
C. CASH FLOWS FROM FINANCING ACTIVITIES	**(316,830)**	**151,125**
Payments	(1,166,830)	(48,875)
Proceeds	850,000	200,000
E. NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS (A+B+C+D):	**305,411**	**183,223**
F. Cash and equivalents at beginning of period	**289,726**	**106,503**
G. Cash and equivalents at end of period	**595,137**	**289,726**
MEMORANDUM ITEMS		
CASH AND CASH EQUIVALENTS COMPRISE:		
Cash		
Cash equivalent balances at central banks	595,137	289,726
Other financial assets		-
(Less): Bank overdrafts repayable on demand		
TOTAL CASH AND EQUIVALENTS AT END OF PERIOD	**595,137**	**289,726**

b) *Acquisitions and disposals*

The most significant acquisitions and disposals of equity investments in Group entities in 2019 and 2018 and other relevant corporate transactions which modified the Group's scope of consolidation in these years were as follows:

b.1) Financial year 2019

On 23 December 2019, Andaluza de Inversiones, S.A. acquired a 93.89% stake in the company Autodescuento S.L., for a total of 18,449,326,50 euros. There is an agreement between the partners whereby in the next few years up to 100% of the company will be acquired by Andaluza de Inversiones, S.A.. Taking into account the certainty of the execution of this agreement, it has been considered to integrate 100% of Autodescuento, S.L. into the consolidated Group.

On August 22, 2018, the Group, through its German subsidiary Santander Consumer Bank AG, signed an agreement to acquire 51% of the shares representing the capital stock of Hyundai Capital Bank Europe, GmbH, owned by Hyundai Capital Services, Inc., Hyundai Motor Company and Kia Motors Corporation.

On February 15, 2019, the parties signed an amendment to the purchase agreement signed on August 22, 2018, whereby, in order to ensure the expansion of the business during 2019 and at the same time comply with regulatory requirements, they agreed to increase the company's reserves by 90 million euros. Hyundai Capital Services Inc., as the company's final shareholder, following the acquisition by Santander Consumer Bank AG of 51% of the stake (leaving Hyundai Motor Company and Kia Motors Corporation as shareholders), on 31 January 2019 increased the company's reserves by EUR 44.1 million, with the commitment by Santander Consumer Bank AG to contribute EUR 45.9 million, once it is a shareholder.

It was also agreed that the contribution of EUR 44.1 million made by Hyundai Capital Services Inc. would not form part of the calculation of the price to be paid at the time of the acquisition.

On March 28, 2019, and once the corresponding regulatory authorizations (European and local) have been obtained, the parties signed the share transfer agreement whereby Santander Consumer Bank AG acquired 51% of the share capital of Hyundai Capital Bank Europe, GmbH, whose share capital was EUR 11.3 million, fully paid up and represented by 11,257,892 shares with a par value of EUR 1 each, through the acquisition of 5,741,525 shares with a par value of EUR 1 each, all with voting rights, for a total amount of EUR 57.6 million. The acquisition was made as follows:

- Acquisition from Hyundai Motor Company of its entire share capital, consisting of 2,251,578 shares for a total of 22.6 million euros.

- Acquisition from Kia Motors Corporation of its entire stake in the share capital, consisting of 1,688,684 shares for the amount of 16.9 million euros.

- Acquisition from Hyundai Capital Services Inc. of 1,801,263 shares for the amount of 18.0 million euros.

The details of the business acquired are as follows:

Acquired business	**Main activity**	**Acquisition date**	**Percentage of ownership (voting rights) acquired**	**Consideration Transferred (millions of euros)**
Hyundai Capital Bank Europe, GmbH	Automobile financing and other related services	28/03/2019	51%	57.6

The detail of the net assets of the acquired business is as follows:

	Book Value (Millions of euros)
Loans and advances	649.7
Non-current assets	12.3
Current assets	108.4
Financial liabilities at amortised cost	(560.3)
Non-current and current liabilities	(91.5)
Net Assets	**118.6**
Capital increase	(44.1)
Total net assets	**74.5**
Minority	(36.5)
Consideration transferred	57.6
Goodwill	**19.6**

The business of Hyundai Capital Bank Europe, GmbH is the financing of Hyundai and Kia cars (end customer and dealers) as well as other related services by obtaining funds from the public via deposits and loans. This business combination aims to expand the presence of Santander Consumer Finance Group in the market for consumer loans for the purchase of vehicles in Europe.

At the date of issue of these financial statements, the business combination had been provisionally recognised, since, in accordance with IFRS 3, the Group has one year to study the allocation of the price to the net assets acquired.

The fair value of the accounts receivable acquired, mainly of a financial nature, amounts to EUR 649.7 million and does not differ from their gross contractual amounts. The Parent's directors do not consider that at the date of acquisition there were any indications that they would not be collected in full.

At 31 December 2019, this company contributed a loss of EUR 9.4 million to the consolidated Group's profit. If the business combination had taken place on 1 January 2019, the results contributed at 31 December 2019 would have been a loss of approximately EUR 10.6 million.

Net cash flow on the acquisition:

	Millions of Euros
Cash paid	57.6
Less: cash and cash equivalents (*)	(69.8)
Total	**(12.2)**

(*) Includes the contribution made by Hyundai Capital Services, Inc in the amount of 44.1 million euros which was not part of the price to be paid at the time of acquisition

As a result of the business combination described above, a difference has arisen between the consideration transferred and the carrying amount of the net assets of the businesses acquired. In accordance with the expectations regarding the performance of the automotive financing market, together with the synergies that will arise from the businesses acquired and the business plans prepared, the Group considers that the recovery of the goodwill is sufficiently accredited.

On April 17, 2019, Santander Consumer Bank AG contributed EUR 45.9 million of committed reserves.

On September 26, 2019, the General Shareholders' Meeting of Hyundai Capital Bank Europe, GmbH agreed to a capital increase of EUR 60 million, which was fully subscribed and paid in by its shareholders in accordance with their percentages of ownership. Santander Consumer Bank AG paid in EUR 30.6 million and Hyundai Capital Services, Inc. paid in EUR 29.4 million.

There were no other significant changes in the Group's scope of consolidation.

b.2) Financial year 2018

PSA Renting Italia S.p.A

On 1 January 2018, Banca PSA Italia agreed to purchase 125 shares of PSA Renting Italia S.p.A., which represents a 100% ownership interest in the company. The transaction price was EUR 6,094 thousand, paid in full on the same day.

Santander Consumer Technology Services GmbH and Santander Consumer Operations Services GmbH

On 16 October 2018, Santander Consumer Bank AG signed the acquisition of Isban DE GmbH from Software Bancario S.L. and Produban Servicios Informáticos Generales, S.L. for EUR 22,700 thousand. The effective date for the transaction was 1 November 2018. The contract includes a valuation adjustment dependent on the changes in Isban DE's equity between 31 October 2017 (valuation date) and 1 November 2018 (effective date). On 18 December 2018, an adjustment has been recognised and Santander Consumer Bank AG has paid an extra EUR 1,500 thousand. Nevertheless, the sellers will have to pay back EUR 2,100 thousand to the buyer in another adjustment that has not yet been made. The total value of the acquired assets amounts to EUR 159,867 thousand, of which EUR 26,335 thousand correspond to cash and cash equivalents, whereas the value of the acquired liabilities amounts to EUR 148,474 thousand.

On 20 November 2018, the corporate name of Isban DE GmbH was changed to Santander Consumer Technology Services GmbH.

Similarly, and on the same date, Santander Consumer Bank AG signed the acquisition of Santander Service GmbH from Geoban, S.A. for EUR 9,100 thousand. The effective date for the transaction was 1 November 2018. The contract includes a valuations adjustment dependent on the changes in Santander Service's equity between 31 October 2017 (valuation date) and 1 November 2018. On 20 December 2018, an adjustment has been recognised and Santander Consumer Bank AG has paid an extra EUR 8,864 thousand. The total value of the acquired assets amounts to EUR 46,511 thousand, of which EUR 30,193 thousand correspond to cash and cash equivalents, whereas the value of the acquired liabilities amounts to EUR 40,592 thousand.

On 9 November 2018, the corporate name of Santander Service GmbH was changed to Santander Consumer Operations Services GmbH.

No other significant variations have been made to the Group's consolidation perimeter.

Capital increases

In 2019 and 2018, in addition to the transactions described above, certain investees carried out capital increases that were fully subscribed and paid. The most significant of these were as follows:

	EUR Thousands	
	2019	2018
Banca PSA Italia S.p.A. (**)	30	-
PSA Bank Deutschland GmbH (**)	10	-
Hyundai Capital Bank GmbH (**)	30.6	-
Santander Consumer Holding, GmbH	-	150
	116.5	**150**

(*) Includes only the disbursements made by the Group in these capital increases.

(**) The amounts reflected are related to the subscription of 50% in the share capital of these Entities.

(***) The amount reflected on 2019 is related to the subscription of 51% of the share capital in this Entity.

Notifications of acquisitions of investments

The notifications of acquisitions of ownership interests which must be disclosed in the notes to the consolidated financial statements in accordance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, was approved the Spanish Consolidated Securities Market Law, are included, as appropriate, in Appendix III.

4. Distribution of the Bank's profit and earnings per share

a) Distribution of the Bank's profit

The distribution of the Bank's net profit for 2019 that the Board of Directors will propose for approval by the shareholders at the Annual General Meeting and the proposal approved by the Bank's Shareholders at the Annual General Meeting held on 25 April 2019 is as follows:

	EUR Thousands	
	2019	2018
Distributable profit		
Balance per the income statement	508,212	559,537
Appropriation:		
To dividends paid	445,452	501,839
To legal reserve	50,821	55,954
To voluntary reserve	11,939	1,744
Total	**508,212**	**559,537**

The Bank's Shareholders' Meeting, at its extraordinary meeting held on December 19, 2019, resolved to distribute a dividend of 633,408 thousand euros, of which 187,956 thousand euros were charged to unrestricted reserves and 445,452 thousand euros were recorded as an interim dividend. 445,452 thousand was recorded as an interim dividend. At 31 December 2019, these amounts were still pending payment.

The provisional accounting statement required under article 277 of the Consolidated Text of the Spanish Corporate Enterprises Act, prepared by the Bank's Directors and reflecting the existence of sufficient funds to cover the distribution of an interim dividend, is as follows:

	EUR Thousands
	30/11/2019
Estimated profit before tax	525,857
Less:	
Estimated income tax	(18,599)
Appropriation to legal reserve	(50,726)
Distributable profit	**456,532**
Interim dividend to be distributed	**445,452**
Gross dividend per share (euros) (*)	**0.24**

(*) Estimate made based on the number of Bank shares existing at the date of approval of the interim dividend.

Additionally, on 28 February 2019, the Bank's General Meeting of Shareholders approved the distribution of a dividend charged to voluntary reserves in the amount of EUR 99,615 thousand.

Also, at its meeting on 17 January 2019, the Board of Directors approved an interim dividend of EUR 501,839 thousand out of the profit for 2018.

b) *Basic earnings per share*

Basic EPS is calculated by dividing the net profit for the year attributable to the Parent adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity (see Note 23) by the weighted average number of the Bank's shares outstanding during the year, excluding the average number of treasury shares, if any, held in the year.

Accordingly:

	EUR Thousands	
	2019	2018
Consolidated profit attributable to the parent	1,133,367	1,218,931
Remuneration of contingently convertible preferred equity (Note 23)	(65,375)	(48,875)
	1,067,992	1,170,056
Dilutive effect of changes in profit for the year arising from potential conversion of ordinary shares	-	-
Of which		
Profit or loss from discontinued operations (net of non-controlling interests)	-	-
Profit or loss from continuing operations (net of non-controlling interests and CCP)	*1,067,992*	*1,170,056*
Weighted average number of shares outstanding	1,879,546,172	1,879,546,172
Adjusted number of shares	1,879,546,172	1,879,546,172
Basic and diluted EPS (Euro)	0.5682	0.6222
Of which:		
From continuing operations (Euro)	*0.5682*	*0.6222*

5. Remuneration and other benefits of the Bank's directors and senior management

a) Bylaw-stipulated emoluments and other fees

In 2019 the Board of Directors received remuneration amounting to EUR 554 thousand in the form of bylaw-stipulated emoluments and attendance fees (EUR 538 thousand in 2018), related in full to four external Board members on 31 December 2019 and 2018, detailed as follows:

	EUR Thousands	
	2019	2018
Antonio Escámez Torres	260	265
Jean Pierre Landau	112	97
Juan Rodríguez Inciarte (*)	99	67
Luis Alberto Salazar-Simpson Bos	67	111
José Manuel Robles	16	-

(*) Member of the Board of Directors during the financial year 2018.

In 2019 the Bank's Directors have accrued approximately EUR 14,860 thousand from Banco Santander, S.A. (2018: approximately EUR 15,248 thousand), basically in respect of fixed and variable remuneration earned by certain Directors for discharging executive duties at Banco Santander, S.A. and in their capacity as members of the Boards of Directors of other Santander Group entities. The variable remuneration of certain Directors is subject to a three-year deferral period for payment thereof, as appropriate, in cash and/or in shares of Banco Santander, S.A., if certain conditions are met. Additionally, in 2019 Banco Santander, S.A. has paid compensation for a non-compete agreement to one of the external Board members, which amounts to EUR 1,652 thousand (one board member which amounted to 576 thousands of euro en 2018).

Remuneration paid in kind by Banco Santander, S.A. to the Bank's Directors amounted to approximately EUR 759 thousand in 2018 (approximately EUR 774 thousand euro in 2018).

b) Post-employment and other long-term benefits

The Santander Group's supplementary pension obligations to its current and retired employees include the obligations to current and former Directors of the Bank who discharge (or have discharged) executive functions at the Santander Group. The total defined benefits accruing to these directors, together with other insurance policies, amounted to EUR 7,240 thousand on 31 December 2019 (31 December 2018: EUR 7,378 thousand). This amount is covered basically by provisions recorded at Santander Group entities that do not belong to the Santander Consumer Finance Group.

The contributions made for the Bank's Directors to pension plans amounted to EUR 1,189 thousand in 2018, to defined contribution plans externalised at the Santander Group subsidiary Santander Seguros y Reaseguros, Compañía Aseguradora, S.A. (2018: EUR 1,121 thousand). These contributions were made by other Santander Group entities that do not belong to the Group.

The pension payments made to former members of the Bank's Board of Directors amounted to EUR 1,201 thousand in 2019 (2018: EUR 1,197 thousand) and were made mainly by other Santander Group entities that do not belong to the Group.

c) Share option plans for Directors and other remuneration

The policy on variable remuneration for the Bank's executive Directors and certain members of senior management of the Bank and of other Group companies foresees remuneration linked to Santander shares.

In accordance with prevailing regulations and with the Bank's bylaws, this remuneration system requires that specific resolutions be adopted at the Annual General Meeting.

Where necessary or advisable in light of legal, regulatory or similar reasons, in specific cases the delivery mechanisms described below can be adapted, without altering the maximum number of shares linked to the plan or the essential delivery conditions. This includes potentially replacing the delivery of shares with the delivery of an equivalent cash amount.

The plans that include share-based payments are as follows: (i) deferred conditional delivery share plan; (ii) deferred conditional variable remuneration plan, (iii) performance share plan and (iv) deferred variable compensation plan linked to multiannual objectives. The characteristics of the plans are set forth below:

Deferred variable remuneration system	Description	Plan beneficiaries	Conditions	Basis of calculation
(i) Deferred and conditional variable remuneration plan (2015, 2016, 2017, 2018 and 2019)	The purpose of these cycles is to defer part of the variable remuneration of its beneficiaries for a period of three years for the third, fourth and sixth cycles and in three or five years for the fifth, seventh and eighth cycles, to be paid, where appropriate, in cash and Santander shares, with the other part of the variable remuneration being paid immediately in cash and Santander shares, in accordance with the rules set forth below.	Executive directors and certain executives (including senior management) and employees who take risks, who exercise control functions during the period prior to each one, or whose overall remuneration includes them in the same remuneration scale as that of senior management and employees who take risks (third, fourth and fifth cycle).	In the case of the third, fourth, fifth and sixth cycles, the accrual of deferred compensation is conditional, in addition to the beneficiary remaining in the Group, with the exceptions contained in the plan regulations, on none of the following circumstances occurring during the period prior to each delivery on the terms stipulated in each case in the plan regulations: i. Deficient financial performance of the Group; ii. Non-compliance by the beneficiary with internal regulations, including in particular those relating to risks; iii. Material restatement of the Group's financial statements, except where appropriate pursuant to a change in accounting regulations; or iv. Significant changes in the Group's economic capital or risk profile. In the case of the seventh and eighth cycles, the accrual of deferred remuneration is conditioned, in addition to the beneficiary remaining in the Group, with the exceptions contained in the plan regulations, to the non-occurrence of cases in which the financial performance of the entity as a whole or of a specific division or area thereof or of the exposures generated by personnel is deficient, and at least the following factors must be considered: i. Significant risk management failures by the entity, or by a business or risk control unit; ii. The increase in the institution's or a business unit's capital requirements that was not foreseen at the time the exposures were generated; iii. Regulatory sanctions or judicial condemnations for acts that could be attributable to the unit or the personnel responsible for them. Also, non-compliance with internal codes of conduct of the entity; and iv. Irregular conduct, whether individual or collective, especially considering the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made such decisions.	Third cycle (2013), with a 3-year deferral in all cases: - Executive directors: 40% and 60% immediate and deferred payment, respectively. - Division directors and other Group executives with a similar profile: 50% and 50% immediate and deferred payment, respectively. - Other executives: 40% and 60% immediate and deferred payment, respectively. Fourth and fifth cycles (2014 and 2015, respectively): - Executive directors and members of the Identified Group with total variable remuneration ≥ 2,6 million euros: 40% and 60% immediate and deferred payment, respectively, 5 years (deferral period of the years in the fourth cycle). - Division managers, country heads from countries representing at least 1% of the Group's economic capital, other Group managers with a similar profile and members of the Identified Group with total variable remuneration ≥ 1,7 million euros (1,8 million euros in the fourth cycle), and <2,6 million euros: 50% and 50% immediate and deferred payment, respectively. 5 years (Deferral period of the years in the fourth cycle). - Other beneficiaries: 60% and 40% immediate payment and deferred payment, respectively, 3 years. Sixth cycle (2016): - 60% immediate payment and 40% deferred payment within 3 years. Seventh and eighth cycle (2017 and 2018, respectively): - Executive directors and members of the Identified Collective with total variable remuneration ≥ 2,7 million euros: 40% and 60% immediate and deferred payment, respectively, 5 years - Other Group executives with a similar profile and members of the Identified Group with variable remuneration between 1,7 million euros and 2,7 million euros: 50% and 50% immediate and deferred payment, respectively, for 5 years. - Other beneficiaries: 60% and 40% immediate and deferred payment, respectively. 3 years (Deferred period).
(ii) Performance Shares Plan (2014 and 2015) or ILP	The Performance Shares plan, through which part of the variable remuneration of the executive directors and other members of the Identified Group is implemented, consists of a long-term incentive (ILP) in shares based on the Bank's performance over a multi-year period. In addition, the second cycle is also applicable to other Bank employees not included in the Identified Group for whom it is deemed appropriate to include in their compensation package the potential delivery of Bank shares, in order to achieve a better alignment of the employee's interests with those of the Bank.	i. Board of Directors and Senior Management ii. Collective identified iii. Other beneficiaries, in the case of the second cycle (2015)	The delivery of shares payable on each payment date of the PPI based on compliance with the corresponding multi-year target is conditional, in addition to the beneficiary remaining in the Group, with the exceptions contained in the plan regulations, on the Board not being able to meet, at the proposal of the remuneration committee, any of the following circumstances during the period prior to each delivery as a result of actions taken in 2014 and 2015, respectively: i. Deficient financial performance of the Group; ii. Non-compliance by the beneficiary with internal regulations, including in particular those relating to risks; iii. Material restatement of the Group's financial statements, except where required by accounting regulations; or iv. Significant changes in the Group's economic capital or risk profile. For the second cycle (2015), based on the maximum reference value (20%), the Board of Directors, at the proposal of the remuneration committee, set the maximum number of shares whose value in euros is called the "Agreed 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 in relation to those budgeted for that year.	The first cycle (2014) is subject to the fulfilment of a total shareholder return (TRS) target in the cycles 2014-2015, 2014-2016 and 2014-2107 against a reference group of 15 credit institutions. For the second cycle (2015), the calculation basis is the fulfilment of the following targets: - Relative performance of Santander Group's earnings per share growth in 2015-2017 compared with a reference group of 17 credit institutions. - RoTE for the year of Santander Group in 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. - Customer satisfaction, measured by whether or not the corresponding Group company is included in the "Top 3" of the best banks in terms of customer satisfaction index in 2017. - Linking individual customers. - Linking SMEs and related companies.

Deferred variable remuneration system	Description	Plan beneficiaries	Conditions	Basis of calculation
(iii)Deferred variable remuneration plan linked to multi-year objectives (2016, 2017, 2018, 2019)	The plan is approved to simplify the remuneration structure, improve ex-ante risk adjustment and increase the impact of long-term objectives on the Group's top management. The purpose of this plan is to defer part of the variable remuneration of its beneficiaries for a period of three or five years for payment, where appropriate, in cash and Santander shares, with the other part of the variable remuneration being paid immediately in cash and Santander shares, in accordance with the rules set out below. The accrual of a portion of the deferred amounts (the third or the last three fifths in the case of the 3-year and 5-year deferrals, respectively) is also subject to compliance with long-term objectives.	Executive directors, senior management and certain executives holding the most relevant positions in the Group.	In 2016, the accrual of deferred remuneration is conditional, in addition to the beneficiary remaining in the Group, with the exceptions contained in the plan regulations of the following circumstances during the period prior to each of the deliveries in the terms provided for in each case in the plan regulations: i. Deficient financial performance of the Group; ii. Non-compliance by the beneficiary with internal regulations, including in particular those relating to risks; iii. Material restatement of the Group's financial statements, except where appropriate pursuant to a change in accounting regulations; or iv. Significant changes in the Group's economic capital or risk profile In 2017, the accrual of deferred remuneration is conditional, in addition to the beneficiary remaining in the Group, with the exceptions contained in the plan regulations, on the absence of cases in which the financial performance of the entity as a whole or of a specific division or area thereof or the exposures generated by personnel are deficient, with at least the following factors being considered: i. Significant risk management failures by the entity, or by a business or risk control unit; ii. The increase in the institution's or a business unit's capital requirements that was not foreseen at the time the exposures were generated; iii. Regulatory sanctions or judicial condemnations for acts that could be attributable to the unit or the personnel responsible for them. Also, non-compliance with internal codes of conduct of the entity; and iv. Irregular conduct, 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 such decisions. Payment half in cash, half in shares The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average of the weighted average quotations for the fifteen stock market sessions prior to the Friday before (excluding) the date on which the Board agrees the bonus for the Bank's executive directors.	First cycle (2016): - Executive directors and members of the Identified Collective with total variable remuneration ≥ 2,7 million euros: 40% and 60% immediate and deferred payment, respectively 5 years (deferred period). - General managers, country heads of countries representing at least 1% of the Group's capital and other members of the Identified Group with total variable remuneration ≥ 1,7 million euros and 2,7 million euros: 50% and 50% immediate and deferred payment, respectively. 5 years (deferral period). - Other beneficiaries: 60% and 40% immediate payment and deferred payment, respectively 3 years (deferral period). The second (2017) and third (2018) cycles are subject to the same deferral rules for beneficiaries with the exception of variable remuneration to be considered, which is the target (remuneration approved in the first cycle). In 2016, the long-term objectives linked to the delivery of the deferred amounts (last third or last three fifths, in the case of deferral to three and five years, respectively) are - GAP growth in 2018 (% over 2015) - Relative performance of total shareholder return (TSR) in the period 2016-2018 measured against a group of credit institutions. - Compliance with the target ratio of CET1 fully loaded in 2018. - RoRWA growth in 2018 (% over 2015). In the second and third cycle (2017 and 2018, respectively) the long-term objectives linked to the delivery of the deferred amounts (last third or last three fifths, in the case of three- and five-year deferrals, respectively) are - Growth of GAP in 2019 and 2020 (% over 2016 and 2017, respectively) - Relative performance of total shareholder return (TRS) against a group of 17 credit institutions over the period 2017-2019 and 2018-2020, respectively - Compliance with the target capital ratio CET1 fully loaded in 2019 and 2020, respectively

Deferred variable remuneration system	Description	Plan beneficiaries	Conditions	Basis of calculation
(iv) Incentive for the Transformation Digital (2019)	The Digital Transformation Incentive 2019 is a variable remuneration system that includes the delivery of shares and options on shares of the Bank. The purpose of the Digital Incentive is to attract and retain the necessary talent to advance, accelerate and deepen Grupo Santander's digital transformation. With this programme, Santander Group offers an element of remuneration that is competitive with the remuneration systems offered by other market operators competing for digital talent.	The number of beneficiaries of the Digital Incentive is limited to a maximum of 250 people and the total amount of the incentive is limited to 30 million of euros	The determining element of the Digital Incentive is the achievement of important milestones that are aligned with the Group's digital roadmap and determined by the Board of Directors, taking into account the Group's digitalization strategy, with the aim of becoming the best open, responsible and global financial platform. The performance conditions that will be assessed will depend on the success of the following five initiatives: 1. 2. The launch of a global merchant services (GMS) platform 3. The migration of Openbank, as the Group's digital bank, to a new generation platform and its launch in three countries. 4. The extension of Brazil's SuperDigital initiative to at least one other country. 5. The launch of our application for international payments based on blockchain technology to new customers outside the Group. Any delivery of shares, either directly or through the exercise of stock options, will generally be subject to the provisions of malus and clawback as described in Santander Group's remuneration policy and to the beneficiary's remaining at Santander Group.	At the beginning of 2020, and following the proposal of the remuneration committee, the board of directors verified whether the milestones set for 2019 had been achieved, and finally approved 83% of the initial level of financing corresponding to this plan. The Digital Incentive is instrumented in 50% of Banco Santander shares and 50% of options on Banco Santander shares, taking into account for these purposes the fair value of the options at the time they are granted. For members of the Identified Group subject to the five-year deferral period, the Digital Incentive (shares and share options) will be granted in thirds on the third, fourth and fifth anniversary of its grant. For members of the Identified Group subject to the three-year deferral period and members not subject to the deferral period, the incentive will be delivered in full on the third anniversary of grant. Finally, the share options granted may be exercised until maturity, which will be after ten years from the date of grant.

Fair value

For the calculation of the fair value of the defined variable remuneration plan linked to the 2018 and 2019 multi-year objectives, on the date of grant, it was determined on the basis of the valuation report of an independent expert, Willis Towers Watson. Based on the design of the plan for 2017 and the levels of achievement of similar plans at comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%, and therefore the fair value was estimated at 70% of the maximum.

d) Loans and deposits

On 31 December 2019 and 2018, the Group was not exposed to direct risks in connection with loans, credits and guarantees provided to Bank Directors (see Note 46). At the end of 2019 and 2018, the Bank's Directors did not hold any customer deposits with the Group.

All the transactions with the Group were performed on an arm's-length basis or the related remuneration in kind was recognised.

e) Senior managers

For the purposes of the preparation of these consolidated financial statements, senior managers are considered to be those persons that have formed part of the Executive Committee or the Management Committee of the Bank.

The remuneration received by the Bank's non-director senior managers (12 and 11 persons in 2019 and 2018, respectively) amounted to EUR 6,662 thousand in 2019 (EUR 6,481 thousand in 2018) and was paid in full by other Santander Group entities that do not belong to the Group.

The remuneration in kind paid to the Bank's non-director senior managers totalled approximately EUR 142 thousand in 2019 (2018: EUR 118 thousand), which were paid by other Santander Group entities that do not belong to the Group.

In 2019 contributions amounting to EUR 869 thousand (EUR 417 thousand at 31 December 2018) were made to defined contribution pension plans for the Bank's non-director senior managers. These contributions were made by other Santander Group entities that do not belong to the Group. In 2019 and 2018 no payments were made in this connection.

The principles governing the share options granted to the Bank's senior managers, excluding Directors, are the same as those explained in Note 5-c. As of 31 December 2018, the Bank's direct risk exposure to senior managers who are not Bank Directors amounted to EUR 5 thousand euro (EUR 6 thousand at 31 December 2018). It should also be noted that these senior managers held deposits at the Bank totalling EUR 542 thousand at 31 December 2019 (EUR 717 thousand at 31 December 2018) -see Note 46-.

All the transactions with the Group were performed on an arm's-length basis or the related remuneration in kind was recognised.

f) Termination benefits

The executive Directors and senior executives at Santander Group entities have indefinite-term employment contracts. Executive Directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the contract is terminated for any other reason, they will be entitled only to the corresponding legally-stipulated termination benefit.

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

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

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

Without prejudice to the foregoing, following is a detail of the declarations by the Bank's Directors at 31 December 2019 with respect to their investments and the investments of persons related to them in the share capital of companies whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat:

Director	Corporate Name	Line of business	Ownership Interest (%)	Functions
D. Antonio Escámez Torres	Open Bank, S.A.	Financial Institution	-	Vice president
D. Andreu Plaza López	Open Bank, S.A.	Financial Institution	-	Director (non-executive)
	Banco Santander Chile, S.A.	Financial Institution	-	Director (non-executive)
	Banco Santander Totta, S.A.	Financial Institution	-	Director (non-executive)
	Banco Santander Uruguay, S.A.	Financial Institution	-	Director (non-executive)
Dña. Magdalena Salarich Fernández de Valderrama	Banco Santander, S.A.	Financial Institution	Lower Than 0.001%	General Director
	Financiera El Corte Inglés E.F.C, S.A.	Financial Institution	-	Director (non-executive)
	Santander Consumer Holding GmbH	Financial Institution	-	Member of the Supervisory Board
	Santander Consumer Bank AG	Financial Institution	-	Member of the Supervisory Board
	Casa de Bolsa Santander SACV	Financial Institution	-	Director (non-executive)
	Banco Santander, S.A. (Mexico)	Financial Institution	-	Director (non-executive)
	Santander Consumo SACV	Financial Institution	-	Director (non-executive)
	Grupo Financiero Santander México, S.A.	Financial Institution	-	Director (non-executive)
	Santander Vivienda SACV	Financial Institution	-	Director (non-executive)
D. David Turiel López	Banco Santander Consumer Portugal, S.A.	Financial Institution	-	President/Administrator (non-executive)
	Santander Consumer Banque, S.A.	Financial Institution		Member of the Supervisory Board
	Finance Professional Services S.A.S.	Financial Institution	-	Sole Administrator of Directory
	Santander Consumer Bank, S.A. (Poland)	Financial Institution		Member of the Supervisory Board
	Santander Consumer Bank, S.p.A.	Financial Institution	-	Director (non-executive)
	PSA Finance Polska sp.z.o.o	Financial Institution	-	Director (non-executive)
	Compagnie Générale De Credit Aux Particuliers- CREDIPAR	Financial Institution	-	Director (non-executive)
	PSA Banque de France, S.A.	Financial Institution	-	Director (non-executive)
D. Bruno Montalvo Wilmot	Santander Consumer Bank, S.A. (Poland)	Financial Institution	-	Vice-President of the Supervisory Board
	Santander Consumer Bank A.S. (Norway)	Financial Institution	-	Vice-President of the Board of Directors
	Santander Consumer UK Plc.	Financial Institution	-	Director (non-executive)
	PSA Finance UK Limited	Financial Institution	-	Director (non-executive)
	PSA Finance Polska sp.z.o.o	Financial Institution	-	Member of the Supervisory Board
Dña. Inés Serrano González	Santander Consumer Holding GmbH	Financial Institution	-	Member of the Supervisory Board
	Compagnie Générale De Credit Aux Particuliers- CREDIPAR	Financial Institution	-	Director (non-executive)
	Santander Consumer Banque S.A.	Financial Institution	-	President of the Supervisory Board
	Financiera El Corte Inglés, E.F.C, S.A.	Financial Institution	-	Director (non-executive)
	PSA Banque France, S.A.	Financial Institution	-	Director (non-executive)
	Santander Consumer Bank AG	Financial Institution	-	Member of the Supervisory Board
D. Javier Francisco Gamarra Antón	Santander Consumer E.F.C., S.A.	Financial Institution	-	President of the Board of Directors
D. Jose Luis De Mora Gallardo (*)	Banco Santander, S.A.	Financial Institution	0.002%	General Director
	Bank Zachodni Wbk	Financial Institution	-	Member of the Supervisory Board
	Santander Consumer Holding, GmbH	Financial Institution	-	Member of the Supervisory Board
	Santander Consumer Bank AG	Financial Institution	-	Member of the Supervisory Board
D. Jean Pierre Landau	Santander Consumer Banque, S.A.	Financial Institution	-	Member of the Supervisory Board
D. José Manuel Robles Fernández	Banco Bilbao Vizcaya Argentaria, S.A	Financial Institution	Lower than 0.001%	-
Dña. Alejandra Kindelan Oteyza	Banco Santander Rio, S.A.	Financial Institution	-	Non-executive Board Member
Dña. Benita Ferrero-Waldner	Caixabank, S.A.	Financial Institution	Lower than 0.001%	-

With regard to situations of conflict of interest, as stipulated in Article 18 of the Rules and Regulations of the Board, the Directors must notify the Board of any direct or indirect conflict of interest that they might have with the Bank. If the conflict arises from a transaction, the director shall not be allowed to conduct it unless the Board, following a report from the Appointments Committee, approves such transaction.

The Director involved shall not participate in the deliberations and decisions on the transaction to which the conflict refers, and the body responsible for resolving conflicts of interest is the Board of Directors itself.

In 2019 and 2018 the Bank's Directors did not report to the Board of Directors or to the Shareholder's Meeting any direct or indirect conflict of interest that they or persons related to them might have.

6. Loans and advances to credit institutions

The detail, by type and currency, of "Loans and Advances to Credit Institutions" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Type:		
Time deposits	36,363	106,079
Reverse repurchase agreements	108,638	9,734
Other accounts	119,236	42,166
	264,237	**157,979**
Currency:		
Euro	143,423	144,035
Foreign currency	120,814	13,944
	264,237	**157,979**

Note 44 contains a detail of the terms to maturity and estimated fair value of these assets at 31 December 2019 and 2018 and of the related average interest rates and fair values in the years then ended.

A significant portion of the loans and advances to credit institutions relates to balances with associates and Santander Group entities (see Note 46).

At 31 December 2019, the breakdown of the exposure by impairment phase of the assets recognised under IFRS9 was EUR 267,323 thousand, EUR 35 thousand and EUR 27 thousand (EUR 160,667 thousand and EUR 15 thousand in 2018) and of the impairment loss provision was EUR 3,100 thousand, EUR 35 thousand and EUR 13 thousand (EUR 2,693 million and EUR 10 million in 2018) in phase 1, phase 2 and phase 3, respectively.

7. Debt instruments

The detail, by classification, type and currency, of Debt Instruments in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Classification:		
Financial assets at fair value through other comprehensive income	931,676	1,255,620
Financial assets at amortised cost	1,618,836	1,426,596
	2,550,512	**2,682,216**
Type:		
Spanish sovereign debt	926,903	1,251,603
Foreign sovereign debt	1,221,906	958,800
Issued by financial institutions	397,996	468,796
Other fixed income securities	4,042	3,017
Impairment losses	(335)	-
	2,550,512	**2,682,216**
Currency:		
Euro	1,684,007	1,993,033
Foreign currency	866,840	689,183
Gross total	**2,550,847**	**2,682,216**
Less – Impairment losses	(335)	-
	2,550,512	**2,682,216**

At 31 December 2019 and 2018, the amount regarding the exposure by impairment staging relating to "Debt securities" as well as the allowance for impairment was classified in its entirety in stage1.

The balance at 31 December 2019 and 2018 of the "Spanish Government Debt Securities" account in the foregoing table relates mainly to Treasury bills acquired by Santander Consumer Finance, S.A.

The balance at 31 December 2019 of the "Foreign Government Debt" account in the foregoing table relates mainly to Danish and Swedish Treasury bills acquired by the subsidiary Santander Consumer Bank AS (Norway) for approximately EUR 211,891 thousand and EUR 134,128 thousand, respectively. EUR 128 thousand relate to Italian Treasury bills acquired by the Italian subsidiaries Santander Consumer Bank S.p.A. and Banca PSA Italia S.p.A. for approximately EUR 441,589 thousand and to Finnish Treasury bills acquired by the subsidiary Santander Consumer Finance Oy (Finland) for approximately EUR 106,131 thousand, respectively.

The balance at 31 December 2018 of the "Foreign Government Debt" account in the foregoing table related mainly to Swedish Treasury bills acquired by the subsidiary Santander Consumer Bank AS (Norway) for approximately EUR 111,182 thousand, Italian Treasury bills acquired by the Italian subsidiaries Santander Consumer Bank S.p.A. and Banca PSA Italia S.p.A. for approximately EUR 384,924 thousand and German Treasury bills acquired by the subsidiary Santander Consumer Finance Oy (Finland) for approximately EUR 115,181 thousand.

The balance at 31 December 2019 of "Debt securities - issued by financial institutions" in the foregoing table includes mainly bonds issued by the financial institutions Nykredit Realkredit A/S, Nordea Eiendomskreditt AS, Nordea Hypotek AB, DNB Boligkredit AS, Swedbank Hypotek AB, Skandinaviska Enskilda Banken AB, Stadshypotek AB, acquired by the subsidiary Santander Consumer Bank A. S. (Norway) amounting EUR 390,298 thousand; and bonds issued by the financial institution SC Germany Consumer Synthethic 2019 Designated Activity Company (Ireland) acquired by the subsidiary Santander Consumer Bank AG (Germany) for EUR 7,715 thousand.

The balance at 31 December 2018 of the "Debt securities - issued by financial institutions" account in the foregoing table included mainly bonds issued by the financial institutions Realkredit Danmark A/S, Nykredit Realkredit A/S, Nordea Eiendomskreditt AS, Danske Bank AS, DNB Boligkredit AS and Swedbank Hypotek AB (Sweden), acquired by the subsidiary Santander Consumer Bank A. S. (Norway) for EUR 445,145 thousand; and bonds issued by the financial institution Nordea Kredit Realkredit (Denmark) acquired by the subsidiary Santander Consumer Finance, Oy (Finland) for EUR 23,651 thousand.

Note 44 to these consolidated financial statements details the maturity of these financial assets at the end of 2019 and 2018 and their average interest rates in those years.

8. Equity instruments

The detail of Equity instruments in the accompanying consolidated balance sheets for the years ended 31 December 2019 and 2018, based on their classification, currency and type is as follows:

	EUR Thousands	
	2019	**2018**
Classification:		
Financial assets at fair value through other comprehensive income	15,062	15,767
Mandatory to VR with results changes	103	213
	15,165	**15,980**
Type:		
Foreign companies	15,165	15,980
	15,165	**15,980**
Add – Valuation adjustments	6,647	1,232
	21,812	**17,212**

The changes in “Financial assets at fair value through other comprehensive income – equity instruments” (IFRS 9) as of 31 December 2019 and “Financial assets available for sale – Equity instruments” (IAS 39) as of 31 December 2018 are as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	16,999	9,910
Net additions (disposals)	(705)	7,598
Valuation adjustments	5,415	(509)
Currency translation and other differences	-	-
Balance at end of period	**21,709**	**16,999**

9. Financial assets and liabilities held for trading

In the following table, the detail of the fair value of the trading derivatives held by the Group as of 31 December 2019 and 2018 is presented, classified according to their inherent risk:

	EUR Thousands			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate risk	19,171	20,942	11,541	14,976
Foreign exchange rate risk	970	279	5,748	4,565
	20,141(*)	**21,221(*)**	**17,289(*)**	**19,541(*)**

(*) Of which, on 31 December 2019, EUR 10,507 thousand and EUR 10,997 thousand of asset and liability balances, respectively, correspond to balances with Santander Group entities (EUR 4,103 thousand and EUR 10,119 thousand of asset and liability balances, respectively, corresponded to balances with Santander Group entities on 31 December 2018) -see Note 46.

The table above shows the maximum credit risk exposure of the asset balances.

10. Loans and receivables - Customers

a) Balance composition

The composition of these balances in the consolidated balance sheets, broken down by classification is as follows:

	EUR Thousands	
	2019	2018
Financial assets at amortised cost	98,298,612	91,880,359
Of which:		
Impairment losses	*(1,938,389)*	*(1,908,163)*
Loans and advances to customers regardless of impairment	**100,237,001**	**93,788,522**

Note 44 shows the detail of the maturity of financial assets at amortised cost and their average interest rates.

b) Detail

Following is a detail of the loans and advances granted to the Group's customers, which reflect the Group's exposure to credit risk in its core business, excluding the balance of impairment losses, in accordance with the type and status of the transactions, the geographical area of their residence and the type of interest rate on the transactions:

	EUR Thousands	
	2019	2018
Loan type and status:		
Commercial credit	3,746,006	3,266,402
Secured loans	5,471,421	5,915,805
Other term loans	67,984,959	64,097,722
Finance leases	17,671,956	15,415,560
Receivables on demand and other	908,640	704,197
Credit card receivables	2,484,220	2,527,292
Impaired assets	1,969,799	1,861,544
	100,237,001	**93,788,522**
Geographical area:		
Spain and Portugal	17,623,816	16,540,228
Italy	9,205,963	8,681,567
France	14,160,374	12,262,834
Austria and Germany	38,565,275	36,360,828
Scandinavia	16,761,390	16,438,538
Other	3,920,183	3,504,527
	100,237,001	**93,788,522**
Interest rate formula:		
Fixed rate	78,792,901	73,080,259
Floating rate	21,444,100	20,708,263
	100,237,001	**93,788,522**
Currency		
Euro	85,201,245	79,080,825
Foreign currency	15,035,756	14,707,697
	100,237,001	**93,788,522**
Less:		
Impairment charges	*(1,938,389)*	*(1,908,163)*
TOTAL	**98,298,612**	**91,880,359**

The total amount of Loans and receivables as of 31 December 2019 is EUR 100,237,001 thousand, of which 98,267,202 were in a non-doubtful situation (EUR 93,788,522 thousand and EUR 91,926,978 thousand in 2018). The percent distribution these loans according to the credit quality of the counterparty is the following: 87% AAA/BBB- and 13% BB+/C (95% and 5% respectively in 2018)

The ratings above were obtained through the conversion of internal solvency ratings given by the Group to its customers (see Note 47) in the raking of external ratings developed by Standard & Poor’s, in order to make the comparison easier.

On 22 May 2014, the Bank subscribed 4,152 mortgage participation certificates issued by Banco Santander, S.A. for EUR 424,397 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet and are included in the heading “secured loans” in the table above. These mortgage securities relate to loans with a maturity that varies between 3 and 39 years and accrue annual interest varying between 0.58% and 5.34%.

On 26 April 2012, the Bank subscribed 3,425 mortgage participation certificates issued by Banco Santander, S.A. for EUR 416,625 thousand, which were recognised under “Loans and Receivables - Loans and Advances to Customers” in the consolidated balance sheet. These mortgage participation certificates relate to loans maturing at between 1 and 38 years and earn annual interest of between 0.54% and 4.67%.

The outstanding balance of these mortgage participation certificates amounted to EUR 453,436 thousand on 31 December 2018 (31 December 2018: EUR 505,211 thousand) (see Note 18).

On 31 December 2019, loans to customers assigned to own or third-party commitments totalled EUR 600,000 thousand (EUR 650,000 thousand on 31 December 2018) (see Notes 18 and 19), without taking into consideration for these purposes the consolidated loan portfolio held through various securitisation special-purpose vehicles included in the Group's scope of consolidation (see Appendix I).

Note 47 contains certain information relating to the restructured/refinanced portfolio, as well as the detail of loans to customers by activity, net of impairment charges, as of 31 December 2019 and 2018.

Following is the changes in the gross exposure broken down by impairment stage of loans and advances to customers recognised under "Financial assets at amortised cost" and “Financial assets at fair value through other comprehensive income” during 2019 and 2018:

2019	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**87,556,913**	**4,370,065**	**1,861,544**	**93,788,522**
Movements				
Transfers:				
Transfer to Stage 2 from Stage 1	(3,065,487)	3,065,487	-	-
Transfer to Stage 3 from Stage 1	(508,551)	-	508,551	-
Transfer to Stage 3 from Stage 2	-	(615,250)	615,250	-
Transfer to Stage 1 from Stage 2	2,509,285	(2,509,285)	-	-
Transfer to Stage 2 from Stage 3	-	158,303	(158,303)	-
Transfer to Stage 1 from Stage 3	6,126	-	(6,126)	-
Net changes in financial assets	8,272,933	(1,097,988)	(157,548)	7,017,399
Write-offs	-	-	(685,117)	(685,117)
Exchange differences and other	115,076	9,575	(8,452)	116,197
Balance at end of period	**94,886,295**	**3,380,907**	**1,969,799**	**100,237,001**

In addition, the Group has EUR 24,557,573 thousand under loans commitments and financial guarantees granted, subject to impairment, of which EUR 24,350,163 thousand are under stage 1, EUR 164,025 thousand under stage 2 and EUR 43,385 thousand under stage 3.

2018	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	82,535,726	4,065,765	1,934,477	**88,535,968**
Movements				
Transfers:				
Transfer to Stage 2 from Stage 1	(3,099,987)	3,099,987		-
Transfer to Stage 3 from Stage 1	(446,964)		446,964	-
Transfer to Stage 3 from Stage 2		(439,675)	439,675	-
Transfer to Stage 1 from Stage 2	1,332,516	(1,332,516)		-
Transfer to Stage 2 from Stage 3		127,607	(127,607)	-
Transfer to Stage 1 from Stage 3	31,192		(31,192)	-
Net changes in financial assets	7,311,442	(1,135,684)	(108,003)	**6,067,755**
Write-offs	-	-	(681,271)	**(681,271)**
Exchange differences and other	(107,012)	(15,419)	(11,499)	**(133,930)**
Balance at end of period	**87,556,913**	**4,370,065**	**1,861,544**	**93,788,522**

In addition, the Group has EUR 24,444,179 thousand under loans commitments and financial guarantees granted, subject to impairment under IFRS 9, of which EUR 24,244,708 thousand are under stage 1, EUR 183,233 thousand under stage 2 and EUR 16,238 thousand under stage 3.

c) *Impairment losses on loans and advances to customers at amortised cost and at fair value through other comprehensive income*

The changes in the impairment losses on the assets making up the balances of financial assets at amortised cost and at fair value through other comprehensive income - Loans and advances - Customers:

	EUR Thousands	
	2019	2018
Balance at beginning of period (*)	1,908,163	1,947,946
Impairment losses through profit or loss	705,179	649,968
Of which:		
Impairment charges to profit or loss	*1,546,675*	*1,153,572*
Reversal of impairment charges to profit or loss	*(841,496)*	*(503,604)*
Write-off of impaired balances against recorded impairment allowance	(685,117)	(681,271)
Currency translation differences and other changes	10,164	(8,480)
Balance at end of period	**1,938,389**	**1,908,163**
Of which:		
By asset class:		
Impaired assets	*1,304,085*	*1,271,948*
Other	*634,304*	*636,215*
By geography:		
Spain	*386,002*	*361,438*
Other	*1,552,387*	*1,546,725*
By calculation method:		
Calculated individually	*112,643*	*481,721*
Calculated collectively	*1,825,746*	*1,426,442*

Following is the change in the loan loss provision in 2019 and 2018, broken down by impairment stage of loans and advances to customers, recognised under "Financial assets at amortised cost" under IFRS 9:

2019	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period (gross)	404,037	232,178	1,271,948	1,908,163
Transfers:				
To Stage 2 from Stage 1	(60,648)	243,553		182,905
To Stage 3 from Stage 1	(28,100)		220,508	192,408
To Stage 3 from Stage 2		(137,433)	329,675	192,242
To Stage 1 from Stage 2	31,393	(140,657)		(109,264)
To Stage 2 from Stage 3		17,353	(88,353)	(71,000)
To Stage 1 from Stage 3	160		(2,586)	(2,426)
Net changes in financial assets	61,914	9,288	249,112	320,314
Write-offs	-	-	(685,117)	(685,117)
Exchange differences and other	3,108	(1,842)	8,898	10,164
Balance at end of period	411,864	222,440	1,304,085	1,938,389

2018	EUR Thousands			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period (gross)	412,476	249,033	1,286,437	1,947,946
Transfers:	-	-	-	-
To Stage 2 from Stage 1	(102,366)	188,130		85,764
To Stage 3 from Stage 1	(75,528)		292,376	216,848
To Stage 3 from Stage 2		(77,199)	196,160	118,961
To Stage 1 from Stage 2	20,758	(63,018)		(42,260)
To Stage 2 from Stage 3		17,094	(57,301)	(40,207)
To Stage 1 from Stage 3	466		(9,730)	(9,264)
Net changes in financial assets	149,101	(81,398)	252,423	320,126
Write-offs	-	-	(681,271)	(681,271)
Exchange differences and other	(870)	(464)	(7,146)	(8,480)
Balance at end of period	404,037	232,178	1,271,948	1,908,163

On 31 December 2019 and 2018, the Group had no significant amounts in purchased impaired assets.

In 2019, a reversal of EUR 82 thousand was recognised under Fixed Income (EUR 1,823 thousand in 2018). Written-off assets recovered, including sales of portfolios of written-off and non-performing assets, amounted to EUR 324,163 thousand (EUR 392,859 thousand in 2018) and are presented as a deduction from "Impairment charges and reversals from financial assets at amortised cost" in the consolidated income statements for the years then ended. The amount under impairment of financial assets at fair value through profit or loss is EUR 380,934 thousand and EUR 258,932 thousand in 2019 and 2018, respectively.

In 2019 and 2018, the Group has sold the following portfolios of written-off loans:

Company	EUR Thousands	
	31/12/2019	31/12/2018
	Nominal Value	Nominal Value
Santander Consumer Bank AG (Germany)	137,800	145,000
Santander Consumer Bank S.p.A. (Italy)	120,900	230
Santander Consumer Finance Benelux B.V. Netherlands)	14,600	18,660
Santander Consumer Bank AS (Norway)	218,400	282,500
Santander Consumer Finance Oy (Finland)	16,800	32,500
Santander Consumer Bank GmbH (Austria)	83,500	21,000
Banco Santander Consumer Portugal S.A. (Portugal)	26,200	32,400
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	111,500	-
Santander Consumer, E.F.C., S.A. (Spain)	212,100	247,020
Compagnie Generale de Credit Aux Particuliers - Credipar (France)	-	104,000
PSA Financial Services Spain, E.F.C., S.A. (Spain)	94,400	-
PSA Bank Deutschland Gmbh (Germany)	-	42,600
	1,036,200	**925,910**

The selling price of the portfolios of written-off loans in 2019 was EUR 291,900 thousand (EUR 294,700 thousand in 2018). The profit from these sales was registered in "Impairment charges and reversals from financial assets not at fair value through profit or loss – Financial assets at amortised cost" of the accompanying consolidated income statement.

Written-off assets

The changes in 2019 and 2018 in Financial assets at amortised cost – Customers considered to be impaired at 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	2,654,622	2,273,885
Additions	685,117	681,271
Withdrawals	(1,195,406)	(300,534)
Balance at end of period	**2,144,333**	**2,654,622**

Home purchase loans granted to households by the main businesses in Spain

The quantitative information on the home purchase loans granted to households by the Group's main businesses in Spain at 31 December 2019 and 2018 is as follows:

	31-12-2019 EUR Thousands		31-12-2018 EUR Thousands	
	Gross amount	Of which: non-performing	Gross amount	Of which: non-performing
Loans for home purchases				
- Without mortgage guarantee	-	-	-	-
- With mortgage guarantee	1,678,833	67,507	1,835,264	67,872
	1,678,833	**67,507**	**1,835,264**	**67,872**

The detail, by loan-to-value ratio, of the home purchase mortgage loans granted by the Group to households in Spain at 31 December 2019 and 2018 is as follows:

	31-12-2019 Loan-to-value ratio					
EUR millions	0-40%	40-60%	60-80%	80-100%	Over 100%	TOTAL
Gross amount	340	427	337	208	367	**1,679**
Of which: non-performing	4	7	13	8	36	**68**

	31-12-2018 Loan-to-value-ratio					
EUR millions	0-40%	40-60%	60-80%	80-100%	Over 100%	TOTAL
Gross amount	302	394	435	198	506	**1,835**
Of which: non-performing	4	7	14	8	35	**68**

Securitisation

The balance of Financial assets at amortised cost – Customers in the accompanying consolidated balance sheets for the years ended 31 December 2019 and 2018 includes the securitised loans transferred to third parties on which the Group has retained risks, albeit partially, and which therefore, in accordance with current regulations, cannot be derecognised. The breakdown of the securitised amounts as of 31 December 2019 and 2018, classified by the subsidiaries which originated the securitised portfolio, and on the basis of whether the requirements for derecognition had been met (see Note 2-d), is as follows:

	EUR Thousands	
	2019	2018
Derecognised	**-**	**-**
Maintained in balance sheet	**26,493,021**	**22,672,392**
Of which:		
Santander Consumer Bank AG (Germany)	*10,537,861*	*8,898,837*
Santander Consumer, E.F.C., S.A. (Spain)	*2,274,671*	*2,063,151*
Compagnie Generalé de Credit Aux Particuliers-Credipar (France)	*5,105,158*	*4,475,104*
Santander Consumer Bank S.p.A. (Italy)	*2,493,908*	*2,446,425*
Santander Consumer Bank A.S. (Norway)	*448,852*	*585,180*
Santander Consumer Finance Oy (Finland)	*1,326,647*	*567,125*
PSA Financial Services, Spain, E.F.C., S.A. (Spain)	*860,370*	*1,076,302*
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	*1,178,666*	*1,134,391*
Banca PSA Italia S.p.A. (Italy)	*1,280,208*	*717,369*
PSA Bank Deutschland GmbH (Germany)	*986,680*	*647,908*
Santander Consumer Bank GmbH (Austria)	-	*60,600*
Total	**26,493,021**	**22,672,392**

The securitised assets relate mainly to vehicle financing and consumer finance.

In 2019 and 2018 the subsidiaries mentioned in the foregoing table securitised receivables amounting to EUR 4,136,000 thousand (2018: EUR 5,653,000 thousand). Since substantially all the risks and rewards associated with these receivables had not been transferred, they were not derecognised.

Note 19 details the liabilities associated with these securitisation transactions.

Impaired assets

The changes in the balance of the financial assets classified as financial assets at amortised cost - Customers and considered to be impaired due to credit risk (non-performing assets) as of 31 December 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of year	1,861,544	1,934,477
Additions net of recoveries	801,824	619,837
Written-off assets	(685,117)	(681,271)
Exchanges differences (net)	(8,452)	(11,499)
Balance at end of year	**1,969,799**	**1,861,544**

The amounts above, once the corresponding provisions are deducted, represent the Group's best estimate of the discounted cash flows expected to be recovered from impaired assets.

Additionally, following is a detail of the financial assets considered to be impaired due to credit risk (non-performing assets) at 31 December 2019 and 2018, classified by geographical location of risk and by age of the oldest past-due amount at those dates:

2019						
	EUR Thousand					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	47,778	84,247	54,887	49,406	154,361	390,679
Germany and Austria	122,234	74,167	52,089	50,675	413,987	713,152
Italy	27,490	25,332	18,378	14,713	41,538	127,451
Scandinavia	169,190	88,938	55,744	48,126	75,846	437,844
France	103,877	24,885	15,958	11,328	85,201	241,249
Other	10,406	12,205	8,786	16,047	11,980	59,424
	480,975	**309,774**	**205,842**	**190,295**	**782,913**	**1,969,799**

2018						
	EUR Thousand					
	With No Past-Due Balances or Less than 3 Months Past Due	With Balances Past Due by				
		3 to 6 Months	6 to 9 Months	9 to 12 Months	More than 12 Months	Total
Spain and Portugal	59,793	65,396	40,294	33,271	168,602	367,356
Germany and Austria	144,012	85,902	63,431	54,279	389,587	737,211
Italy	59,876	24,970	17,435	13,629	47,182	163,092
Scandinavia	154,172	68,226	39,456	15,434	56,728	334,016
France	54,258	23,262	24,667	9,022	91,465	202,674
Other	8,641	6,167	4,610	26,241	11,536	57,195
	480,752	**273,923**	**189,893**	**151,876**	**765,100**	**1,861,544**

The non-performing loans ratio is calculated by dividing the financial assets at amortized cost (customers) in Stage 3 and contingent risks recorded in the consolidated balance sheets at December 31 of this year by the total balance of financial assets at amortized cost (customers and contingent risks). The ratio stood at 2.01% at 31 December 2019 (2.00% at 31 December 2019).

Past-due amounts receivable

In addition, at 31 December 2019 and 2018, there were assets with amounts receivable that were past due by three months or less, the detail of which, by age of the oldest past-due amount, is as follows:

2019			
	EUR Thousands		
	Under 1 month	1-2 months	2-3 months
Loans and advances to customers	85,829	56,739	39,403
Of which: Government entities	*4*	*2*	*1*
Total	**85,833**	**56,741**	**39,404**

2018			
	EUR Thousands		
	Under 1 month	1-2 months	2-3 months
Loans and advances to customers	61,380	75,489	157,898
Of which: Government entities	-	-	-
Total	**61,380**	**75,489**	**157,898**

11. Assets and liabilities included in disposal groups classified as held for sale

The balance of “Non-Current Assets Held for Sale” in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 includes the amount of foreclosed assets (recovered by the consolidated entities on non-performing loans), net of impairment losses, and the assets of subsidiaries classified as discontinued operations, the detail being as follows:

	Thousand Euros	
	2019	2018
Foreclosed tangible assets	5,202	8,569
Of which Foreclosed tangible assets in Spain	*3,059*	*7,134*
Other tangible assets held for sale	670	762
	5,872	**9,331**

As of 31 December 2019, hedges constituted for real estate assets in Spain represent 80% (73% as of 31 December 2018). The net provisions made during the years 2019 and 2018 amounted to EUR 6,642 thousand and EUR 9,766 thousand, respectively, and the recoveries made during those years amounted to EUR 4,853 thousand and EUR 8,998 thousand, respectively (see Note 43).

Disclosures on assets received by the businesses in Spain in payment of debts

The detail of the foreclosed assets of the Group's businesses in Spain, based on the purpose of the initially granted loans or credit facilities giving rise to them, at 31 December 2019 and 2018 is as follows:

EUR Thousands	31/12/2019				31/12/2018			
	Gross book value	Impairment losses	Of which: impaired since acquisition	Carrying value	Gross book value	Impairment losses	Of which: impaired since acquisition	Carrying value
Property assets arising from financing granted for construction and property development	-	-	-	-	-	-	-	-
Of which:	-	-	-	-				
Completed buildings	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Land	-	-	-	-	-	-	-	-
Developed land	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Property assets arising from home purchase mortgage financing granted to households	22,051	(19,020)	(11,281)	3,031	31,054	(23,970)	(13,958)	7,084
Other property assets received in payment of debts	117	(89)	(50)	28	276	(226)	(139)	50
Total property assets	**22,168**	**(19,109)**	**(11,331)**	**3,059**	**31,330**	**(24,196)**	**(14,097)**	**7,134**

12. Investments in joint ventures and associates

The detail, by company, of Investments in joint ventures and associates in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Associates:		
Santander Consumer Bank S.A. (Poland)	394,595	395,337
Santander Consumer Multirent, Sp, Zoo	10,404	9,871
Santander Consumer Finanse S.A. (Poland)	6,143	6,119
Payever Gmbh	1,384	1,373
PSA Finance Polska SP. Z.O.O.	7,528	6,583
Other	321	200
	420,375	**419,483**
Of which, Goodwill:		
Payever Gmbh	*1,238*	*1,373*
Santander Consumer Bank S.A. (Poland)	*106,799*	*105,691*
	108,037	*107,064*
Joint ventures:		
Fortune Auto Finance Co. Ltd. (China)	155,347	130,115
PSA Insurance Europe Ltd (Malta)	36,063	31,458
PSA Life Insurance Europe, Ltd (Malta)	5,738	9,114
Other	140	107
	197,288	170,794
	617,663	**590,277**

The changes in 2019 and 2018 in investments in joint ventures and associates is as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	590,277	567,348
Purchases and capital increases	-	-
Sales	-	-
Dividends paid	(52,101)	(51,129)
Effect of equity method accounting (Note 32)	83,491	88,535
Changes in the consolidation perimeter	-	-
Value impairment adjustments (Note 3.b)	-	-
Currency translation differences and other	(4,325)	(14,477)
Balance at end of period	**617,342**	**590,277**

Impairment losses

In 2019 and 2018 there is no evidence of significant impairment of the Group's investments.

The financial information on the associates and jointly controlled entities is summarised below:

	EUR Millions	
	2019	2018 (*)
Data on 31 December		
Total assets	10,110	8,626
Total liabilities	(8,733)	(7,331)
Equity	(1,377)	(1,295)
Group's share of the net assets of associates	509	483
Goodwill	108	107
Total Group share	**618**	**590**
Data for the year		
Total income	1,464	1,354
Total profit	194	50
Group's share of the profit of associates	83	89

(*) This information was obtained from the financial statements of each of the investees, which had not yet been approved by the respective control bodies at the date of preparation of these consolidated financial statements. However, the Bank's Directors consider that they will be approved without any changes.

13. Tangible assets

The changes in 2019 and 2018 in the balance of “Tangible Assets” in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 were as follows**:**

	Tangible Assets				Of which: Right of use for operational lease			
EUR Thousand	Personal Use	Other Assets assigned in Operating Lease	Real Estate Investments	Total	Personal Use	Other Assets assigned in Operating Lease	Real Estate Investments	Total
Cost:								
Balances as of 31 December 2017	**404,412**	**205,839**	**-**	**610,251**				
Additions/Disposals (net)	(39,709)	107,665	-	67,956				
Additions	34,751	180,266	-	215,017				
Disposals	(74,460)	(72,601)	-	(147,061)				
Net additions/disposals due to changes in the consolidation perimeter	22,169	-	-	22,169				
Currency translation differences	(61)	449	-	388				
Transfers and other	(150)	(3,103)	-	(3,253)				
Balances as of 31 December 2018	**386,661**	**310,850**	**-**	**697,511**				
Impact IFRS16	**266,984**			***266,984***	**266,984**			**266,984**
Balances as of 1 January 2019	**653,645**	**310,850**	**-**	**964,495**	**266,984**	**-**	**-**	**266,984**
Additions/Disposals (net)	34,670	127,149	-	161,819	34,225	-	-	34,225
Additions	*66,978*	*205,808*	-	*272,786*	*35,538*			35,538
Disposals	*(32,308)*	*(78,659)*	-	*(110,967)*	*(1,313)*			(1,313)
Net additions/disposals due to changes in the consolidation perimeter	*2,347*	-	-	2,347	-			-
Currency translation differences	*(113)*	*172*	-	59	*(93)*			(93)
Transfers and other	*2,943*	-	-	2,943	*2,977*			2,977
Balances as of 31 December 2019	**693,492**	**438,171**	**-**	**1,131,663**	**304,093**			**304,093**
Accumulated Amortization:								
Balances as of 31 December 2017	**(246,550)**	**(54,522)**	**-**	**(301,072)**				
Net additions/disposals due to changes in the consolidation perimeter	(21,327)	-	-	(21,327)				
Charges (1)	(29,658)	-	-	(29,658)				
Disposals and retirements	67,660	14,299	-	*81,959*				
Currency translation differences	(47)	237	-	190				
Transfers and other	4,378	(10,843)	-	(6,465)				
Balances as of 31 December 2018	**(225,544)**	**(50,829)**	**-**	**(276,373)**				
Balances as of 1 January 2019	**(225,544)**	**(50,829)**	**-**	**(276,373)**	**-**			**-**
Net additions/disposals due to changes in the consolidation perimeter	(894)	(69)	-	(963)	-			-
Charges (1)	(72,367)	-	-	(72,367)	(41,457)			(41,457)
Disposals and retirements	18,403	15,955	-	34,358	170			170
Currency translation differences	5,278	39	-	5,317	(22)			(22)
Transfers and other	5,926	(44,082)	-	(38,156)	(349)			(349)
Balances as of 31 December 2019	**(269,198)**	**(78,986)**	**-**	**(348,184)**	**(41,658)**			**(41,658)**
Impairment losses:								
Balances as of 31 December 2017	**-**	**(4,768)**	**-**	**(4,768)**				
Net additions/disposals due to changes in the consolidation perimeter	-	-	-	-				
Charges	-	(4,530)	-	(4,530)				
Releases	-	185	-	185				
Disposals and retirements	-	113	-	113				
Transfers and other	-	-	-	-				
Balance as of 31 December 2018	-	(9,000)	-	(9,000)				
Balances as of 1 January 2019	-	(9,000)	-	(9,000)				
Net additions/disposals due to changes in the consolidation perimeter	-		-	-				
Charges	-	(3,436)	-	(3,436)				
Releases	-		-	-				
Disposals and retirements	-	229	-	229				
Transfers and other	-	(1,474)	-	(1,474)				
Balances as of 31 December 2019	**-**	**(13,681)**	**-**	**(13,681)**				
Net tangible asset:								
Balances as of 31 December 2018	**161,117**	**251,021**	**-**	**412,138**				
Balances as of 31 December 2019	**424,294**	**345,504**	**-**	**769,798**	**262,435**	**-**	**-**	**262,435**

(1) The period depreciation charges are recognised under “Amortisation” in the consolidated income statement.

The balance of tangible assets acquired under finance leases amounted to EUR 46,830 thousand as of 31 December 2019 (EUR 47,993 thousand in 2018). It is part of the Group's policies to arrange for insurance contracts to cover all possible risks deriving from all elements in its tangible assets.

The Group has incurred EUR 8,457 thousand in net gains from the sale of tangible assets in 2019 (EUR 982 thousand net losses in 2018), which correspond mainly to assets leased out on operating leases.

The detail, by class of asset, of "Property, Plant and Equipment - For Own Use" in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	EUR Thousands			
	Cost	Accumulated depreciation	Carrying amount	Of which: Right-of-use for operating lease
Buildings	73,162	(17,294)	55,868	-
Furniture	167,235	(100,771)	66,464	-
IT equipment	101,841	(87,742)	14,099	-
Other	44,423	(19,737)	24,686	-
Balance as of 31 December 2018	**386,661**	**(225,544)**	**161,117**	**-**
Buildings	365,114	(55,106)	310,008	260,321
Furniture	173,295	(104,088)	69,207	1,205
IT equipment	108,540	(90,169)	18,371	895
Other	46,543	(19,835)	26,708	14
Balance as of 31 December 2019	**693,492**	**(269,198)**	**424,294**	**262,435**

The net balance of "Property, Plant and Equipment for Own Use" on 31 December 2019 includes approximately EUR 419,924 thousand (EUR 156,888 thousand on 31 December 2018) relating to property, plant and equipment owned by Group subsidiaries located abroad.

14. Goodwill

The detail of "Goodwill" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018, based on the cash-generating units which originate it, is as follows:

	EUR Thousands	
	2019	2018
Germany	1,229,708	1,210,101
Austria	98,074	98,074
Nordics (Scandinavia)	496,273	501,880
Netherlands	35,550	35,550
Spain/Portugal	53,253	36,293
Total	**1,912,858**	**1,881,898**

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable amount to below its carrying amount).

The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising from the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

This book value to be recovered from the cash generating unit is compared with its recoverable amount in order to determine whether there is impairment.

The Group assesses the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing certain information, including the following: (i) various macroeconomic variables that might affect its investments (population data, political situation and economic situation -including the banking sector-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio and return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, if available, market references (multiples), internal estimates, and appraisals performed by independent experts.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the price earnings ratios of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flows. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the directors which normally cover a three- five year period (unless a longer time horizon can be justified), ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) growth rates to estimate earnings to perpetuity that do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related units and the Group's Directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.

b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.

c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2019 and 2018 year-end, of the most significant cash-generating units valued using the discounted cash flow method:

	2019		
	Projected period	Discount rate (*)	Nominal perpetuity growth rate
Austria	3 years	8.2%	2.5%
Germany	5 years	8.2%	2.5%
Nordics (Scandinavia)	5 years	8.6%	2.5%

(*) Post-tax discount rate used for consistency with earnings projection estimates

	2018		
	Projected period	Discount rate (*)	Nominal perpetuity growth rate
Austria	3 years	8.5%	1.7%
Germany	5 years	8.5%	2.5%
Nordics (Scandinavia)	5 years	9.2%	2.5%

(*) Post-tax discount rate used for consistency with earnings projection estimates

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 bps and the perpetuity growth rate by +/-50 bps. Following the sensitivity analysis performed, the value in use of these cash-generating units still exceeds their recoverable amount.

Finally, the Group also estimates the recoverable amount of smaller goodwill amounts using a market multiples measurement approach. This method indicates the value of a company based on a comparison with multiples for comparable companies that are either listed on a stock exchange or form part of a public or private transaction. Its consists of comparing the most significant figures in the income statement of the company being measured against that of listed companies (in the case of comparable companies) or acquired companies (in the case of transactions) of similar characteristics. An analysis of the market multiples of companies engaging in similar businesses provides information regarding investor perceptions and, therefore, the value of the company, to the extent that are considered to be reasonably comparable. After identifying and selecting the theoretically comparable listed companies, or those that recently participating in a private transaction, their businesses and financial profiles are analysed to determine the degree to which they are comparable. Once the universe of comparables has been selected the prices or value multiples of their financial figures are calculated and adjusted, of necessary, for factors such as relative size, growth outlook, profitability, illiquidity, risk and return on investment. The validity of this analysis depends on the comparability (similarity and affinity) of the selected companies with respect to their business and other financial characteristics, as well as the appropriateness of the most relevant ratios in the sector.

Based on the foregoing and on the estimates, projections and sensitivity analyses available to the Bank's Directors, in 2019 and 2018 the Group did not recognise any impairment loss on goodwill.

The changes in 2019 and 2018 in the balance of "Goodwill" in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	1,881,898	1,870,036
Acquisitions	36,935	27,566
Currency translation differences	(5,975)	(15,704)
Balance at end of period	**1,912,858**	**1,881,898**

On 31 December 2019 and 2018, the Group had goodwill associated with cash-generating units located in non-euro currency countries (mainly Scandinavia), which gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. In accordance with current legislation, these exchange differences are recognised with a charge to "Items that may be reclassified to profit or loss - Exchange differences" in consolidated equity. The changes in this line item are disclosed in the accompanying consolidated statement of recognised income and expense.

The additions in the year mainly correspond to the business combinations in Germany and Spain. In the case of Germany, in 2019 goodwill amounting to EUR 19,555 thousand was generated as a result of the acquisition by Santander Consumer Bank A.G. of 51% of the ownership interest in Hyundai Capital Bank Europe, GmbH. Also, in the case of the Spain/Portugal unit, goodwill amounting to EUR 17,380 thousand was recognised as a result of the acquisition by Andaluza de Inversiones, S.A. of Autodescuento, S.L. (see Note 3).

15. Other intangible assets

The detail of "Other Intangible Assets" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	Estimated useful life	EUR Thousands	
		2019	2018
With finite useful lives:			
IT developments	3 years	313,889	266,316
Other		1,165	1,862
		315,054	**268,178**

The changes in 2019 and 2018 in "Other Intangible Assets" in the accompanying consolidated balance sheets were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	267,340	244,194
Net additions	157,342	150,342
Amortisation charges (*)	(91,323)	(123,975)
Impairment losses (Note 41)	(18,305)	(2,383)
Balance at year-end	**315,054**	**268,178**

(*) The amortisation charges for the period are recognised under "Amortisation" in the accompanying consolidated income statement.

Most of the additions in 2019 and 2018 relate to the implementation of management and accounting software at certain Group companies, mainly in Germany, Spain, Norway and Portugal.

In 2019 the Group has derecognized intangible asset elements that have generated losses due to obsolescence for EUR 18,305 thousand (EUR 2,383 thousand in 2018) recognised under “Impairment charges and reversals from financial assets not at fair value through profit or loss” in the consolidated financial statements (see Note 41).

16. Other assets and liabilities

The detail of “Other Assets” and “Other Liabilities” in the accompanying consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

	EUR Thousands			
	Assets		Liabilities	
	2019	2018	2019	2018
Inventories	4,023	3,710	-	-
Prepaid expenses	99,218	86,336	-	-
Accrued expenses	-	-	701,570	653,080
Transactions in transit	4,893	7,181	110,851	119,374
Other	734,979	582,022	850,411	658,020
	843,113	**679,249**	**1,662,832**	**1,430,474**

17. Deposits – Central Banks and Deposits – Credit institutions

The balance of “Financial Liabilities at Amortised Cost - Deposits from Central Banks” in the accompanying consolidated balance sheets as of 31 December 2019 and 2018, of EUR 7,859,636 thousand and EUR 7,039,711 thousand respectively, corresponds mainly to term deposits of the Group entities, including the balances of the long-term conditional financing from the European Central Bank TLTRO (Targeted Longer-Term Refinancing Operation).

The detail, by type and currency, of the balance of “Financial Liabilities at Amortised Cost - Deposits from Credit Institutions” in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Type:		
Deposits on demand	188,515	194,190
Term deposits	10,573,632	12,993,283
Reverse repurchase agreements	79,114	409,017
Subordinated deposits	1,377,336	933,475
	12,218,597	**14,529,965**
Currency:		
Euro	12,017,317	14,496,469
Foreign currency	201,280	33,496
	12,218,597	**14,529,965**

A significant portion of these deposits from credit institutions on 31 December 2019 and 2018 relates to transactions performed with Santander Group entities (see Note 46).

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2019 and 2018 and of the related average annual interest rates in the years then ended.

On 31 December 2019 and 2018, the consolidated entities had unused credit facilities amounting to EUR 410,179 thousand and 418,826 thousand, respectively.

The detail of the balance of subordinated liabilities on 31 December 2019 and 2018 based on the currency in which the issue is denominated is as follows:

Currency of issue	EUR Thousands		2019		2018	
	2019	2018	Outstanding amount	Annual interest rate (31/12/19)	Outstanding amount	Annual interest rate
Euros	1,377,336	933,475	1,372,500	2.37%	933	3.07%
Balance at end of period	**1,377,336**	**933,475**				

The list of subordinated liabilities denominated in euro on 31 December 2019 and 2018, set out by company, is as follows:

2019				
Company	EUR Thousands	Counterparty	Early cancellation	Maturity date
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	(2)	06/06/2029
Santander Consumer Finance S.A.	200,000	Banco Santander, S.A.	(2)	05/08/2029
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(1)	22/03/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(1)	22/03/2021
Banca PSA Italia S.p.a.	22,500	Banque PSA Finance	(2)	13/12/2027
Banca PSA Italia S.p.a.	11,000	Banque PSA Finance	(2)	22/11/2029
PSA Banque France	77,500	PSA Finance Nederland B.V.	(2)	15/12/2027
PSA Bank Deutschland GmbH	17,000	Banque PSA Finance	(2)	18/12/2028
PSA Bank Deutschland GmbH	22,500	Banque PSA Finance	(2)	24/10/2029
Hyundai Capital Bank Europe GmbH	22,000	Hyundai Capital Services, Inc	(2)	02/08/2023
Add- Valuation adjustments	4,836			
Total	**1,377,336**			

(1) May not be repaid early.

(2) May be repaid early.

2018				
Company	EUR Thousands	Counterparty	Early cancellation	Maturity date
Santander Consumer Bank S.p.A.	2,500	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Bank S.p.A.	12,500	Banco Madesant, Sociedade Unipessoal, S.A.	(1)	30/09/2019
Santander Consumer Holding GmbH	600,000	Banco Santander, S.A.	(2)	22/03/2021
Santander Consumer Holding GmbH	200,000	Banco Santander, S.A.	(2)	22/03/2021
Banca PSA Italia S.p.a.	22,500	Banque PSA Finance	(3)	13/12/2027
PSA Banque France	77,500	PSA Finance Nederland B.V.	(3)	15/12/2027
PSA Bank Deutschland GmbH	17,000	Banque PSA Finance	(3)	18/12/2028
Add- Valuation adjustments	1,475			
Total	**933,475**			

(1) May be fully or partially repaid starting on the first principal repayment date, after receiving authorization from the Bank of Italy.

(2) May not be repaid early.

(3) May be repaid early.

The change in the consolidated balance sheet heading in 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	933,475	957,370
Additions	433,500	17,000
Of which:		
Germany	*22,500*	*17,000*
Italy	*11,000*	-
France	*400,000*	-
Repayments (*)	(15,000)	(41,500)
Of which:		
Italy	*(15,000)*	*(41,500)*
Net additions/disposals due to changes in the consolidation perimeter	22,000	-
Currency translation differences and other	3,361	605
Balance at end of period	**1,377,336**	**933,475**

(*) The balance corresponding to additions and repayments (EUR 15,000 thousand in 2019 and EUR 41,500 thousand in 2018), as well as the interest paid corresponding to these issuances (EUR 32,999 thousand in 2019 and EUR 28,079 in 2018), are included in the cash flows from financing activities.

18. Deposits - Customers

The detail, by type, geographical area and currency, of “Customer Deposits” in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Type:		
On demand-		
Current accounts	16,684,857	16,056,933
Savings accounts	11,025,047	9,084,727
Other deposits on demand	1,829	2,672
Term deposits		
Fixed-term and other deposits	9,569,781	9,396,767
	37,281,514	**34,541,099**
Geographical area:		
Spain and Portugal	500,578	434,238
Germany	23,630,497	23,162,940
Italy	1,283,045	1,150,467
France	2,838,859	2,462,680
Scandinavia	6,638,851	5,492,944
Austria	1,722,752	1,489,305
Other	666,932	348,525
	37,281,514	**34,541,099**
Currency:		
Euro	30,634,143	29,038,744
Foreign currency	6,647,371	5,502,355
	37,281,514	**34,541,099**

The amount recognised under “Fixed term and other deposits” on 31 December 2019 and 2018 in the table above relates basically to single mortgage-backed bonds (“cédulas hipotecarias”) issued by the Bank on 17 July 2007 for a principal amount of EUR 150,000 thousand, which mature on 20 July 2022 and are secured by mortgages registered in the Bank’s favour (see Notes 10 and 19). These bonds were subscribed by Santander Investment Bolsa, Sociedad de Valores, S.A., which in turn transferred them to the securitisation special-purpose vehicle, Programa Independiente de Titulización de Cédulas Hipotecarias. The annual interest rate on these bonds is 5.135% and they mature on 20 July 2022. There are no early redemption options on these bonds for the Bank or for the holder, except in the legally stipulated circumstances.

Note 44 contains details of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2019 and 2018 and of the related average annual interest rates in the years then ended.

19. Debt securities in issue

The detail, by type, of "Debt securities in issue" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

.	EUR Thousands	
	2019	2018
Bonds and debentures outstanding (*)	29,728,809	24,839,202
Mortgage-backed bonds	450,084	500,264
Notes and other securities	8,098,102	6,935,221
	38,276,995	**32,274,687**

(*) As of 31 December 2019, this balance includes 500,000 bonds (Plfandfrief paper) issued by Santander Consumer Bank, AG (Germany).

Bonds and debentures outstanding

The balance of "Bonds and Debentures Outstanding" in the foregoing table includes, inter alia, the outstanding balance of the bonds and debentures issued by Group subsidiaries – PSA Banque France, S.A. (France), Santander Consumer Bank S.p.A. (Italy), Santander Consumer Bank AG (Germany) and Santander Consumer Bank AS (Norway) – amounting to EUR 7,422 million as of 31 December 2019 (EUR 6,912 million in 2018), and the balance, at that date, of the financing obtained by the Group in the securitisation transactions carried out by the Group's subsidiaries, amounting to 7,796 million euros (7,248 million euros at December 31, 2018).

The shareholders at the Annual General Meeting of the Bank on 27 April 2015 resolved to empower the Bank's Board of Directors to issue fixed-income securities up to an amount of EUR 30,000 million. In turn, at the Board meeting held on 2 June 2015, the Directors delegated these powers to the Bank's Executive Committee. At its meeting held on 11 June 2015, the Board of Directors resolved to launch a Euro Medium Term Notes programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The programme was listed on the Irish Stock Exchange on 12 June 2015. At the meeting held subsequently on 26 May 2016, the Board of Directors adopted a resolution to issue "Euro Medium Term Notes" to replace the aforementioned vehicle for a maximum nominal amount of EUR 15,000 million. That programme was listed on the Ireland Stock Exchange on 16 June 2016.

At the meeting held on 24 April 2018, the Board of Directors adopted a resolution to issue "Euro Medium Term Notes" to replace the aforementioned vehicle for a maximum nominal amount of EUR 15,000 million. These bonds will have their maturity date determined in the terms of the issue. This programme was listed on the Ireland Stock Exchange on 18 June 2018.

At the meeting held on 25 April 2019, the Board of Directors agreed on another "Euro Medium Term Notes" issue to replace the previous one, for a maximum nominal amount not larger than EUR 15,000 million. These bonds will have their maturity date determined in the terms of the issue. This programme was listed on the Ireland Stock Exchange on 20 June 2019.

As of 31 December 2019, the outstanding balance of these notes amounts to EUR 14,002,969 thousand (EUR 10,616,348 thousand in 2018), and their maturity date is between 6 January 2020 and 14 November 2026. The annual interest rate on these securities stands at -0.4% and 1.5% (0.12% and 2.4% in 2018).

Mortgage-backed bonds

On 31 December 2019, the balance of "Mortgage-Backed Bonds" in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 6 May 2019. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank's favour (see Note 9), have a principal amount of EUR 450,000 thousand and mature on 6 May 2022. The annual interest rate on these liabilities is 0.00% and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

On 31 December 2018, the balance of "Mortgage-Backed Bonds" in the foregoing table includes the amount of the mortgage-backed bonds issued by the Bank on 29 April 2016. These bonds, which are listed on the Spanish AIAF fixed-income market, are secured by mortgages registered in the Bank's favour (see Note 10), have a principal amount of EUR 500,000 thousand and mature on 3 May 2019. The annual interest rate on these liabilities is 0.125% and there are no early redemption options on these bonds for the Bank or for the holders, except in the legally stipulated circumstances.

Notes and other securities

"Notes and Other Securities" in the foregoing table relates to issues launched by the Bank, admitted to trading, which bore average annual interest of 0.09% in 2019 (0.20% in 2018), the detail being as follows:

- At the meeting held on 5 September 2019, the Bank's Executive Committee resolved to issue a Notes Programme replacing described above, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme is registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 5 December 2019.

- At the meeting held on 19 July 2018, the Bank's Executive Committee resolved to issue a Notes Programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 5,000 million. These notes, whose unit nominal value is EUR 100,000, have maturities ranging from a minimum of 3 business days to a maximum of 731 calendar days (2 years and 1 day). This programme was registered in the Official Registers of the Spanish National Securities Market Commission (CNMV) on 18 October 2018.

On 31 December 2019, the outstanding balance of these notes quoted on the AIAF market amounted to EUR 1,812,435 thousand (EUR 2,301,339 thousand in 2018).

- At the meeting held on 30 May 2019, the Bank's Executive Committee resolved to launch a Euro Commercial Paper programme with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 21 June 2019.

- At the meeting held on 13 June 2018, the Bank's Executive Committee resolved to launch a Euro Commercial Paper programme, replacing the programme described above, with a maximum principal amount outstanding that may not exceed EUR 10,000 million. The maturities of this commercial paper range from a minimum of 1 day to a maximum of 364 days. The programme was listed on the Irish Stock Exchange on 18 June 2018.

The outstanding balance of this commercial paper recognised in these consolidated financial statements amounted to EUR 4,158,828 thousand on 31 December 2019 (31 December 2018: EUR 4,158,568 thousand).

Additionally, on 31 December 2019 Santander Consumer Bank AG maintained issues in promissory notes and marketable securities amounting to EUR 858,000 thousand and PSA Banque France EUR 914,492 thousand.

Other information

On 31 December 2019 and 2018, none of these issues are convertible into Bank shares or granted privileges or rights which, in certain circumstances, make them convertible into shares.

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities at amortised cost on 31 December 2019 and 2018 and of the related average annual interest rates in the years then ended.

Information on issues, repurchases and redemption of debt securities

Following is a detail, by trading market, if any, of the outstanding balance of the debt instruments issued by the Bank or by any other Group entity on 31 December 2019 and 2018, and of the changes in this balance in 2019 and 2018:

Santander Consumer Finance	EUR Thousands				
	2019				
	Outstanding Balance at 01/01/19	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/19
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	30,098,959	19,231,496	(12,771,291)	(155,469)	36,403,695
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	1,186,590	126,261	(155,883)	-	1,156,968
Other debt instruments issued outside EU Member States	989,138	310,917	(583,723)	-	716,332
Total	32,274,687	19,668,674	(13,510,897)	(155,469)	**38,276,995**

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Santander Consumer Finance	EUR Thousands				
	2018				
	Outstanding Balance at 01/01/18	Issues	Repurchases or Redemptions	Exchange Rate and Other Adjustments (*)	Outstanding Balance on 31/12/18
Debt instruments issued in an EU Member State for which it was necessary to file a prospectus	26,938,252	18,652,087	(15,510,964)	19,584	30,098,959
Debt instruments issued in an EU Member State for which it was not necessary to file a prospectus	341,176	707,534	137,880	-	1,186,590
Other debt instruments issued outside EU Member States	1,025,824	232,974	(269,660)	-	989,138
Total	28,305,252	19,592,595	(15,642,744)	19,584	32,274,687

(*) Includes, inter alia, the additions to and exclusions from the Group's scope of consolidation.

Other issues guaranteed by the Group

On 31 December 2019 and 2018, the Group guaranteed certain debt securities issued by Group companies.

Spanish mortgage-market issues

The members of the Bank's Board of Directors state that the relevant Group companies have specific policies and procedures in place that cover all mortgage market issue activities and guarantee strict compliance with the mortgage market regulations applicable thereto, as stipulated in Royal Decree 716/2009, of 24 April, implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies adapted to each mortgage product are also in place, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer to be analysed using set indicators that must be met (the debt-to-income ratio in loan approval). 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 (debt-to-income ratio) of each customer considers mainly the relationship between the potential debt and the income generated, taking into account, on the one hand, the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and other duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency.

The Group entities' procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations detail the internally approved companies, the approval requirements and procedures, and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Santander Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation.

Essentially, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the geographical area in which they operate, 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 with the legislation in full, any appraisal provided by the customer is reviewed, irrespective of the issuing appraisal company, to verify whether the appraiser formally meets the requirements, procedures and methods established in current legislation and whether the values reported are customary in the market.

Summarised below is the information required by Bank of Spain Circulars 7/2010 and 5/2011, pursuant to the aforementioned Royal Decree 716/2009, of 24 April:

	EUR millions	
	2019	2018
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised loans and credits) (*)	1,697	1,855
Of which:		
Loans eligible to cover issues of mortgage-backed securities	*1,108*	*1,137*
Non-eligible mortgage loans and credits	*589*	*718*

(*) On 31 December 2019 and 2018, the only issues of this type related to the mortgage-backed bond issues launched by the Bank.

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the Property Register, without prejudice to the issuer's unlimited liability.

The mortgage-backed bonds include the holder’s financial claim on the issuer, secured as indicated in the preceding paragraph, and may be enforced to claim payment from the issuer after maturity. The holders of these securities have the status of special preferential creditors vis-à-vis all other creditors (established in Article 1923.3 of the Spanish Civil Code) in relation to all the mortgage loans and credits registered in the issuer's favour and, where appropriate, in relation to the cash flows generated by the derivative financial instruments associated with the issues.

In the event of insolvency, the holders of mortgage-backed bonds will enjoy the special privilege established in Article 90, 1,1 of Insolvency Law 22/2003, of 9 July. Without prejudice to the foregoing, in accordance with Article 84, 2,7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds.

The Group has mortgage-backed bonds outstanding amounted to EUR 450 million and EUR 600 million, respectively, at 31 December 2019 and 500 million euros at 31 December 2018.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Appendix VI contains the additional disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law, implemented by Bank of Spain Circular 5/2011.

20. Other financial liabilities

The detail of "Other Financial Liabilities" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Declared dividends payable	633,407	-
Trade payables	147,614	158,675
Tax collection accounts	20,229	20,762
Other financial liabilities (*)	1,198,989	612,678
	2,000,239	**792,115**

(*) At 31 December 2018, the balance included EUR 42,525 thousand relating to balances payable on consolidation for tax purposes to Banco Santander, S.A., of which EUR 40,283 thousand were recognised in this connection at 31 December 2018.

Note 44 contains a detail of the terms to maturity and estimated fair value of these financial liabilities on 31 December 2019 and 2018.

Disclosures on the average period of payment to suppliers. Additional Provision Three "Disclosure obligation" provided for in Law 15/2010, of 5 July

Additional Provision Three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, on combating late payment in commercial transactions, amended by Final Provision Two of Law 31/2014, of 3 December, establishes the obligation for companies to expressly disclose their average periods of payment to suppliers in the notes to their financial statements, and stipulates that the Spanish Accounting and Audit Institute ("ICAC") shall indicate, by way of a resolution, such adaptations as may be required, in accordance with the provisions of this Law, in order for companies not covered by Article 2,1 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability to correctly apply the methodology for calculating the average period of payment to suppliers established by the Ministry of Finance and Public Administration. This disclosure obligation is also applicable to the consolidated financial statements of such companies as prepare them, although solely in respect of the fully consolidated companies located in Spain.

The aforementioned ICAC Resolution (*Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements on the average period of payment to suppliers in commercial transactions*), which was published in the Spanish Official State Gazette on 4 February 2016, implements, inter alia, the methodology that must be applied to calculate the average period of payment to suppliers. Therefore, this methodology was applied by the Bank for the purpose of preparing the disclosures included in this connection in these consolidated financial statements.

In order to ensure a proper understanding of the disclosures contained in this Note, as provided for in the aforementioned applicable legislation, it should be noted that "suppliers" are considered to be only those suppliers of goods and services to the Group's Spanish companies for which the related expense is recognised, mainly, under "Administrative Expenses – Other Administrative Expenses" in the consolidated income statement; this Note does not include, therefore, any information on payments in financial transactions constituting the Group's object and core activity or on payments to any non-current asset suppliers, which in any case were made in accordance with the periods established in the corresponding agreements and in current legislation.

Also, it should be noted that, in accordance with the provisions of the aforementioned ICAC Resolution, only transactions for goods or services received for which payment has accrued since the entry into force of Law 31/2014 were taken into consideration and that, given the nature of the services that the Group's consolidated Spanish entities receive, for the purpose of preparing this information "period of payment (days)" was deemed to be the period between the date of receipt of the invoices and the payment date.

The information for 2019 and 2018 required under the aforementioned legislation, in the format required by the ICAC Resolution mentioned above for the Spanish consolidated Group companies in these consolidated financial statements, is as follows:

	2019	2018
	Days	Days
Average period of payment to suppliers	3.73	3.17
Ratio of transactions settled	3.87	3.16
Ratio of transactions not yet settled	2.77	3.86
	EUR Thousands	EUR Thousands
Total payments made	252,542	214,662
Total payments outstanding	9,500	4,145

It should be noted that although under Law 3/2014, of 29 December, the maximum period for payment to suppliers is 60 days, Law 11/2013, of 26 July, established a maximum payment period of 30 days, extendable by agreement between the parties to a maximum of 60 days.

The average period and the ratios of transactions settled and transactions not yet settled shown in the table above were calculated on the basis of the definitions and methodology established in the aforementioned ICAC Resolution of 29 January 2016.

21. Provisions

The detail of "Provisions" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Provision for pensions and other employment defined benefit	603,472	510,230
Provisions for other long-term employee benefits	48,882	56,013
Provisions for taxes and other legal contingencies (Note 10)	80,932	66,102
Provisions for commitments and guarantees given	38,928	40,565
Other provisions	133,384	171,289
	905,598	**844,199**

The changes in 2019 and 2018 in the balances of these items in the accompanying consolidated balance sheets were as follows:

	2019					
	Pensions and similar Obligations	Other long term employee benefits	Taxes and other legal contingencies	Contingent Liabilities and Commitments	Other Provisions (****)	Total
Balances at beginning of period	**510,230**	**56,013**	**66,102**	**40,565**	**171,289**	**844,199**
Net inclusion (exclusion) of entities in (from) the Group						
Additions/(Reversals) charged (credited) to income:	*23,716*	*5,167*	*16,470*	*(4,055)*	*59,045*	*100,343*
Interest expense (Note 31)	*10,957*	*542*	-	-	-	*11,499*
Other Interest			-	-	-	
Staff costs (Note 39)	*11,672*	*2,154*	-	-	-	*13,826*
Net additions to provisions (amounts used) (*) (***)	*1,087*	*2,471*	*16,470*	*(4,055)*	*59,045*	*75,018*
	533,946	***61,180***	***82,572***	***36,510***	***230,334***	***944,542***
Changes in value recognised in equity	*88,075*	-	-	-	-	*88,075*
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	*(13,573)*	*(12,226)*	-	-	-	*(25,799)*
Insurance premiums paid, return premiums received and payments to external funds	*(661)*	-	-	-	-	*(661)*
Payments to retired employees by insurance companies	*(2,184)*	-	-	-	-	*(2,184)*
Amounts used		-	*(3,210)*	-	*(95,637)*	*(98,847)*
Transfers, exchange differences and other changes	*(2,131)*	*(72)*	*1,570*	*2,418*	*(1,313)*	*472*
	69,526	**(12,298)**	***(1,640)***	***2,418***	***(96,950)***	***(38,944)***
Balances at end of year	***603,472***	***48,882***	***80,932***	***38,928***	***133,384***	***905,598***

	2018					
	Pensions and similar Obligations	Other long term employee benefits	Taxes and other legal contingencies	Contingent Liabilities and Commitments	Other Provisions (****)	Total
Balances at beginning of year	**491,729**	**66,330**	**53,511**	**25,071**	**208,611**	**845,252**
Net inclusion (exclusion) of entities in (from) the Group	47,784	2,231	-	-	-	50,015
Additions/(Reversals) charged (credited) to income:	13,103	576	14,718	11,442	62,307	102,146
Interest expense (Note 31)	8,503	594	-	-	-	9,097
Other Interest (Note 30)	-	-	-	-	-	-
Staff costs (Note 39)	14,150	1,389	-	-	-	15,539
Net additions to provisions (amounts used) (*) (***)	(9,550)	(1,407)	14,718	11,442	62,307	77,510
	552,616	**69,137**	**68,229**	**36,513**	**270,918**	**997,413**
Changes in value recognised in equity	(26,467)	-	-	-	-	(26,467)
Payments to retired employees and pre-retirees with a charge to internal provisions (**)	(12,635)	(12,602)	-	-	-	(25,237)
Insurance premiums paid, return premiums received and payments to external funds	(1,925)	-	-	-	-	(1,925)
Payments to retired employees by insurance companies	(3,008)	-	-	-	-	(3,008)
Amounts used	-	-	(5,904)	(2,340)	(90,175)	(98,419)
Transfers, exchange differences and other changes	1,649	(522)	3,777	6,392	(9,454)	1,842
	(42,386)	**(13,124)**	**(2,127)**	**4,052**	**(99,629)**	**(153,214)**
Balances at end of year	**510,230**	**56,013**	**66,102**	**40,565**	**171,289**	**844,199**

(*) The detail of "Net Additions to Provisions (Amounts Used)" with respect to pensions and similar obligations in 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
	Expenses/(Income)	
Post-employment benefits - Spanish entities:		
Past service cost	-	-
Pre-retirements	-	7
Curtailments/settlements	-	-
Return premiums received on defined contribution pension plans	-	-
	-	7
Other long-term benefits - Spanish entities:		
Recognised actuarial losses/(gains) (obligations and assets)	377	(211)
Pre-retirements		
Past service cost	1,558	-
Curtailments/settlements	500	577
Other long-term benefits - Spanish entities:	(117)	(5)
	2,318	361
Foreign entities:		
Recognised actuarial losses/(gains) (obligations and assets)	328	-
Past service cost	1,174	-
Pre-retirements	-	-
Curtailments/settlements	(262)	(11,325)
	1,240	(11,325)
	3,558	**(10,957)**

(**)The detail of "Payments to Retired Employees and Pre-retirees with a Charge to Internal Provisions" is as follows:

	EUR Thousands	
	2019	2018
Post-employment benefits - Spanish entities	2,209	2,273
Other long-term benefits - Spanish entities	11,138	11,697
Foreign entities	12,565	11,267
	25,799	**25,237**

(***) This amount is recognised with a charge to "Provisions or reversal of provisions" in the consolidated income statement.

(****) Includes provisions allocated by the various group companies as a result of their normal operations.

a) *Provisions for pensions and similar obligations*

i. Post-employment benefits: defined contribution plans – Spanish entities

The Group guarantees the following defined contribution post-employment commitments:

Santander Consumer Finance, S.A.

Obligations guaranteed from the date of effective retirement to employees who took pre-retirement after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). Currently, pre-retired collective is already collecting the retirement compensation.

No premiums were paid to the insurance company in 2019 and 2018 (see Note 2-r).

Santander Consumer, E.F.C., S.A.

Obligations guaranteed to employees who retired after May 1996, which were externalised through an insurance policy taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). Currently, pre-retired collective is already collecting the retirement compensation (meaning: they have actually retired).

No premiums were paid to the insurance company in 2019 and 2018 (see Note 2-r).

Spanish entities

The Collective Agreement of the Group's Spanish entities entered into on 2 February 2012 established a supplementary employee welfare system for current employees meeting certain conditions, which was instrumented through a defined contribution pension plan. This pension plan covers the following contingencies: retirement, death and permanent disability (total, absolute or severe disability). The Group's Spanish entities assumed the obligation of making an annual contribution of EUR 800 for each employee participating in the plan. In 2019 the contributions made in this connection amounted to EUR 474 thousand (EUR 465 thousand in 2018) and were recognised with a charge to “Administrative Expenses - Staff Costs” in the accompanying consolidated income statement (see Note 39).

ii. Post-employment benefits: Defined benefit plans - Spanish entities

The Group guarantees the following obligations of the Spanish entities as defined benefit plans:

Santander Consumer Finance, S.A.

- Pension obligations under the Banking Collective Agreement to current employees, employees who took pre-retirement (including future insurance premiums) and retired employees, in addition to other commitments acquired with early-retired personnel and liabilities prior to May 1996, which are covered in full by an internal provision.

- Life insurance guaranteed to retired employees from Banco de Fomento, S.A., covered by an insurance policy (that does not meet the requirements for externalisation) taken out with a non-related entity (AXA España, S.A.). The present value of future premiums is covered by an internal provision.

- Company store and coal and gas benefits guaranteed to retired employees by virtue of the Internal Regulations of Banking Company Stores, which are covered by an internal provision.

Santander Consumer, E.F.C., S.A.

Pension obligations under the Banking Collective Agreement to pre-retirees (including future insurance premiums) and employees who retired prior to May 1996, which are covered in full by an internal provision.

The present value of the obligations assumed by the Spanish consolidated entities in relation to post-employment benefits on 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations:		
To current employees	-	-
Vested obligations to retired employees and pre-retirees	25,601	26,149
Other obligations to retired employees	113	120
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**25,714**	**26,269**

The present value of the obligations was determined by independent actuaries using the following actuarial techniques:

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.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2019	2018
Annual discount rate	0.55%	1.00%
Mortality tables	PERM/F-2000P	PERM/F-2000P
Cumulative annual CPI growth	1%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements in relation to these pension obligations in 2019 and 2018 were as follows:

	EUR Thousand	
	2019	2018
	Expenses/(Income)	
Current service cost (Notes 2-r and 39)	63	57
Net interest cost (Note 31)	224	227
Extraordinary charges		
Past service cost	-	7
Amount recognised in the year	**287**	**291**

In addition, in 2019 a net charge of EUR 957 thousand with respect to defined benefit obligations was recognised under “Other comprehensive income - Actuarial gains or (-) losses on defined benefit pension plans” (EUR 310 thousand in 2018).

The changes in 2019 and 2018 in the present value of the accrued defined benefit obligations of the Spanish entities in the Group were as follows:

	EUR Thousand	
	2019	2018
Present value of the obligations at beginning of year	26,269	27,808
Current service cost (Notes 39 and 2-r)	63	57
Interest cost (Note 31)	224	227
Pre-retirements		7
Effect of curtailments/settlements		-
Benefits paid	(2,209)	(2,273)
Past service cost		-
Actuarial (gains)/losses (Note 2-r) (*)	1,367	443
Other	-	
Present value of the obligations at end of year	**25,714**	**26,269**

(*) In 2019 this includes demographic actuarial losses of EUR 332 thousand and actuarial losses from financial hypotheses of EUR 1,035 thousand (demographic losses of EUR 772 thousand and financial of EUR 329 thousand actuarial gains in 2018.

iii. Other long-term benefits – Spanish entities

The long-term benefit obligations (other than post-employment benefit obligations) guaranteed by the Spanish subsidiaries of the Group and classified as defined benefit plans are as follows:

Santander Consumer Finance, S.A.

-Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

-Life insurance guaranteed to pre-retirees, by virtue of the Group’s Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is covered by an internal provision.

Santander Consumer, E.F.C., S.A.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of individual pre-retirement agreements and/or the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

- Long-service bonus guaranteed to current employees, by virtue of the Group's Collective Agreement, which is covered by an internal provision.

Santander Consumer Renting, S.L.

- Obligations to pre-retirees until the effective date of retirement, which are covered by an internal provision.

- Life insurance guaranteed to pre-retirees, by virtue of the Group's Collective Agreement, taken out with a non-related entity (Generali España, Sociedad Anónima de Seguros y Reaseguros). The present value of future premiums is covered by an internal provision.

- Health insurance guaranteed to pre-retirees by virtue of the Group's Collective Agreement. The present value of future premiums is covered by an internal provision.

The present value of the aforementioned obligations on 31 December 2019 and 2018 was as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations:		
To pre-retirees	33,766	42,253
Long-service bonuses	141	138
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**33,907**	**42,391**

The present value of the obligations was determined by qualified independent actuaries using the following actuarial techniques:

Valuation method: projected unit credit method.

Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2019	2018
Annual discount rate	0.55%	1.00%
Mortality tables	PERM/F-2000P	PERM/F-2000P
Cumulative annual CPI growth	1%	1%
Annual salary increase rate	N/A	N/A
Annual social security pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The estimated retirement age of each employee is the earliest at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the consolidated income statements for 2019 and 2018 in relation to these long-term obligations were as follows:

	EUR Thousands	
	2019	2018
	Expenses/(Income)	
Current service cost (Note 39)	8	8
Net interest cost (Note 31)	330	401
Expected return on insurance contracts linked to pensions	-	-
Extraordinary charges	-	-
Actuarial (gains)/losses recognised in the year	377	(174)
Past service cost	500	550
Pre-retirement cost	1,558	-
Curtailments/settlements	(117)	-
Amount recognised in the year	**2,656**	**785**

The changes in 2019 and 2018 in the present value of the accrued obligations for other long-term benefits at the Spanish entities in the Group were as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations at beginning of year	42,391	53,065
Current service cost (Note 39)	8	8
Interest cost (Note 31)	330	401
Pre-retirement cost	1,558	-
Effect of curtailments/settlements	(117)	-
Benefits paid	(11,138)	(11,697)
Past service cost	500	550
Actuarial (gains)/losses recognised in the year	377	(174)
Other	-	238
Present value of the obligations at end of year	**33,909**	**42,391**

The table that follows shows the estimated benefits payable at 31 December 2019 for the next ten years:

	EUR Thousands
2020	13,404
2021	12,068
2022	10,264
2023	8,264
2024	6,041
2025 a 2029	11,898

iv. Post-employment benefits – Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired obligations to their employees similar to post-employment benefits and other long-term benefits. The technical assumptions applied by these companies (discount rates, mortality tables, cumulative annual CPI growth, etc.) in their actuarial estimates of these obligations are consistent with the economic and social conditions prevailing in the countries in which they are located.

The detail of the present value of these obligations on 31 December 2019 and 2018, net of the assets that meet the requirements established in the applicable legislation in order to qualify as plan assets, is as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations:	687,925	576,617
Of which:		
Germany	575,315	*476,075*
Nordics (Scandinavia)	44,983	*39,187*
Less-		
Plan assets	(95,192)	(79,034)
Provisions - Provisions for pensions and similar obligations (Note 2-r)	**592,733**	**497,583**

The detail of assets classes in the plan as a percentage of the total amount of plan assets of foreign subsidiaries is as follows:

	2019	2018
Equity instruments	14%	11%
Debt instruments	37%	29%
Investment property	9%	7%
Other	40%	53%

The most significant actuarial assumptions used by the Group companies located in Germany and Nordics (Scandinavia) in estimating the value of their obligations were as follows:

	2019		2018	
	Germany	Nordics (Scandinavia)	Germany	Nordics (Scandinavia)
Annual discount rate	1.46%	1.60%	2.27%	2.50%
Mortality tables	Heubeck RT 2018	DUS2014	R2005G	DUS2014
Cumulative annual CPI growth	1.90%	1.75%	1.90%	-
Annual salary increase rate	2.75%	3.25%	2.75%	3.25%
Annual social security pension increase	1.90%	1.75%	1.90%	1.75%
Estimated retirement age	60/63(M/F)	65 - 67	60/63(M/F)	65 - 67

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

The amounts recognised in the consolidated income statements for 2019 and 2018 in relation to these defined benefit pension obligations of the Germany's foreign entities were as follows:

	EUR Thousands	
	2019	2018
	Expenses/(Income)	
Current service cost (Note 39)	8,960	11,751
Net interest cost (Note 31)	10,731	8,084
Extraordinary charges		-
Actuarial gains or losses recognised		(112)
Past service cost		-
Early retirements		-
Effect of curtailments/settlements	(1)	(11,221)
Expected return on plan assets (Note 31)	(570)	(375)
Other interests		-
Amount recognised in the year	**19,120**	**8,127**

The changes in 2019 and 2018 in the present value of the accrued defined benefit obligations of the Germany's foreign companies, were as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations at beginning of year	476,075	459,844
Net inclusion/(exclusion) of entities in/(from) the Group		49,853
Current service cost (Note 39)	8,960	11,751
Interest cost	10,731	8,084
Effect of curtailments/settlements	(1)	(11,221)
Benefits paid	(12,347)	(11,992)
Actuarial (gains)/losses (*)	89,946	(32,501)
Exchange differences, transfers and other items	1,951	2,257
Present value of the obligations at end of year	**575,315**	**476,075**

(*) Including in 2019 demographic actuarial losses of EUR 6,355 thousand (demographic actuarial losses of EUR 5,026 thousand in 2018) and financial actuarial losses of EUR 83,591 thousand (financial actuarial gains of EUR 37,526 thousand in 2018).

The changes in 2019 and 2018 in the fair value of the plan assets associated with these defined benefit obligations of the Germany's foreign subsidiaries were as follows:

	EUR Thousands	
	2019	2018
Fair value of plan assets at beginning of year	19,415	18,301
Expected return on plan assets	570	375
Actuarial gains/(losses) arising in the year	9,563	239
Contributions	441	1,898
Benefits paid	(790)	(1,398)
Fair value of plan assets at end of year	**29,199**	**19,415**

The table below shows the estimated benefits payable at 31 December 2019 for the next ten years:

Year	EUR Thousands
2020	13,124
2021	12,579
2022	12,877
2023	13,559
2024	14,206
2025 a 2029	84,506

The amounts recognised in the consolidated income statements for 2019 and 2018 in relation to these defined benefit pension obligations of the Group's foreign entities (without Germany) were as follows:

	EUR Thousands	
	2019	2018
	Expenses/(Income)	
Current service cost (Note 39)	4,795	3,723
Net interest cost (*)	2,060	2,231
Extraordinary charges	328	
Past service cost	1,174	(129)
Effect of curtailments/settlements	(262)	-
Expected return on plan assets (*)	(1,276)	(1,470)
Other interests	(97)	
Amount recognised in the year	**6,722**	**4,355**

(*) These items are recognised by their net amounts (EUR 10,161 thousand in 2019 and EUR 7,709 thousand in 2018) under "Interest expenses" in the accompanying consolidated income statements (see Note 31).

The changes in the present value of the accrued obligation from defined benefit pension plans in 2018 and 2019 of all foreign entities, excluding Germany, as well as in the plan assets is as follows:

	EUR Thousands	
	2019	2018
Present value of the obligations at beginning of year	100,542	96,307
Net inclusion/(exclusion) of entities in/(from) the Group		161
Current service cost (Note 39)	4,795	3,723
Interest cost	2,060	2,231
Pre-retirements		-
Effect of curtailments/settlements	(262)	-
Benefits paid	(4,125)	(3,506)
Benefits paid in case of liquidation		-
Past service cost	1,174	(129)
Actuarial (gains)/losses (*)	12,489	3,849
Exchange differences, transfers and other items	(4,063)	(2,094)
Present value of the obligations at end of year	**112,610**	**100,542**

(*) In 2019 this includes demographic actuarial gains of EUR 2,863 thousand (losses of EUR 109 thousand in 2018) and financial actuarial losses of EUR 15,352 thousand (EUR 3,740 thousand in 2018).

The changes in 2019 and 2018 in the fair value of the plan assets associated with these defined benefit obligations of the Group's foreign subsidiaries (without Germany) were as follows:

	EUR Thousands	
	2019	2018
Fair value of plan assets at beginning of year	59,619	60,664
Expected return on plan assets	1,276	1,470
Actuarial gains/(losses) arising in the year	6,164	(2,155)
Contributions	2,737	3,201
Benefits paid	(3,230)	(2,833)
Exchange differences and other items	(573)	(728)
Fair value of plan assets at end of year	**65,993**	**59,619**

The table below shows the estimated benefits payable at 31 December 2019 for the next ten years:

Year	EUR Thousands
2020	2,979
2021	3,224
2022	3,921
2023	3,640
2024	4,601
2025 a 2029	23,401

In addition, in 2019 the heading “Other comprehensive income - Items that will not be reclassified to profit or loss - actuarial losses on defined benefit pension plans” recognized a net payment totalling EUR 60,079 thousand for defined benefit commitments relating to the Group's foreign companies (net payment of EUR 14,220 thousand in 2018).

Also, certain foreign entities have defined contribution plans (mainly Santander Consumer Bank, S.p.A., Santander Consumer Bank AS, Santander Consumer Bank, AG, Santander Consumer Finance Benelux, B.V. and Santander Consumer France, S.A.). The contributions made to these plans in 2019 amounted to EUR 38,050 thousand (EUR 40,138 thousand in 2018), which were recognised under “Administrative Expenses - Staff Costs” in the consolidated income statement (see Note 39).

v. Sensitivity analysis

Changes in the main assumptions used in the valuation can affect the calculation of the obligations. On 31 December 2019, if the discount rate used had been decreased or increased by 50 bps, there would have been an increase or decrease in the present value of the post-employment obligations of +/-9.3%.

vi. Funded state of pension plans in current and four preceding fiscal years

The situation of the defined benefit obligations at the end of 2019 and the four preceding years was as follows:

Spanish entities-

	EUR Thousands									
	Post-employment benefits					Other long-term employee benefits				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Present value of the obligation:										
To current employees	-	-	191	189	179	-	-	-	-	-
Vested obligations to retired employees	25,601	26,149	27,483	30,653	32,223	-	-	-	-	-
To pre-retirees	-	-	-	-	-	33,766	42,253	52,911	56,177	61,290
Long-service bonuses and other obligations	-	-	-	-	-	141	138	154	175	193
Other	113	120	134	170	186	-	-	-	-	-
Provisions for pensions	**25,714**	**26,269**	**27,808**	**31,012**	**32,588**	**33,907**	**42,391**	**53,065**	**56,352**	**61,483**
Of which: *Insurance contracts linked to pensions*	-	-	-	-	-	-	-	-	-	-

Foreign entities-

	EUR Thousands				
	2019	2018	2017	2016	2015
Present value of the obligation	687,925	576,177	556,151	596,290	520,541
Less- Fair value of plan assets	(95,192)	(79,034)	(78,965)	(104,419)	(56,484)
Provisions for pensions	**592,733**	**497,143**	**477,186**	**491,871**	**464,057**

b) Other provisions

The balance of "Provisions for taxes and other legal contingencies" and "Other provisions" under the Provisions heading includes provisions for restructuring and tax and other law suits. It is estimated using prudent calculation procedures consistent with the uncertainty inherent to the obligations they cover, with the timing of the outflow of resources embodying economic benefits for the Group being determined for each of the obligations, in some cases with no fixed expiry period, and, in other cases, depending on the progress of law suits that are under way.

The balance of this item by geographic area is as follows:

	EUR Thousands	
	2019	2018
Recognised in Spanish companies	38,210	47,382
Recognised in other European Union companies	176,106	190,009
	214,316	**237,391**

A breakdown of the balance of the headings Provisions for taxes and other legal contingencies and Other provisions is shown below for each type of provision on 31 December 2019 and 2018. The types of provisions have been determined by grouping items of a similar nature:

	EUR Thousands	
	2019	2018
Provisions for taxes	39,319	38,179
Provisions for other proceedings of a legal nature	56,634	50,715
Provisions for operational risks	11,141	7,393
Provisions for restructuring	67,553	85,190
Other	39,669	55,914
	214,316	**237,391**

Information is provided below for each of the type of provisions shown in the table:

- Provisions for taxes include provisions for tax proceedings.

- The provisions for other proceedings of a legal nature include provisions for court, arbitration and administrative proceedings (other than those included in other categories or types of provisions stated separately) initiated against companies in the Santander Consumer Finance Group. The most significant of these as of 31 December 2019 relate to Santander Consumer Bank AG and Santander Consumer Bank S.p.A., for a total of EUR 37,298 thousand, and 14,692 thousand, (Santander Consumer Bank, A.G., Santander Consumer Bank, S.p.A. and PSA Finance Suisse, S.A. amounting to EUR 19,867 thousand, EUR 16,412 thousand and EUR 12,049 thousand at 31 December 2018), in relation to proceedings in those countries.

- At 31 December 2019, the other legal proceedings affecting the Group were as follows:

  Swiss franc (CHF) mortgage portfolio in Poland: On October 3, 2019, the European Court of Justice ("ECJ") ruled on a Preliminary Question in connection with legal proceedings brought against an unrelated bank regarding unfair contractual terms in customer contracts. In particular, the decision focuses on the consequences of the declaration of unfairness of terms in loan contracts indexed to CHF.

  The ECJ has left it up to the Polish courts to decide whether the contract can survive without the unfair term, which in turn must decide whether the effects of the cancellation of the contract are detrimental to the customer. If the contract is to survive, the court may only integrate the contract with supplementary provisions of national law and decide, in accordance with them, on the applicable rate. As at 31 December 2019, Santander Consumer Bank, S.A. (Poland) had a portfolio of mortgages denominated in or indexed to CHF amounting to approximately 2.38 billion Polish zlotys (EUR 470 million).

  In 2019, this associate made a provision of PLN 24 million (EUR 5,7 million) to cover the mortgage portfolio in CHF. This provision corresponds to the best estimate to date, taking into account that the financial impact is difficult to predict at this stage as it is up to the national courts to decide the relevant issues.

  Furthermore, on 11 September 2019, the Court of Justice of the European Union decided on a preliminary ruling from a Polish court on the interpretation of Article 16(1) of Directive 2008/48/EC ('the Directive') on credit agreements for customers. The decision of the Court of Justice of the European Union concerns the reduction of the total cost of customer credit due to the early repayment of such credit and in particular the fees charged to customers, but does not conclude on certain aspects such as the method of calculating the reduction in costs. The Group assessed the impact of the ruling of the European Court of Justice in the various geographical areas in which it operates, mainly in the Italian and Polish units, and, accordingly, at 2019 year-end the amount recognised in this regard was EUR 49,400 thousand, of which EUR 22,300 thousand related to the associate Santander Consumer Bank, S.A. (Poland). This provision relates to the best estimate at this date based on the information available.

The Group includes its investment in Santander Consumer Bank, S.A. (Poland) using the equity method, and at 31 December 2019 it held 40% of this company.

The provisions for operational risks mainly relate to provisions for risks deriving from the business activities of Group companies.

Provisions for restructuring only include expenses deriving from restructuring processes carried out by Group entities. The Group has carried out restructuring processes in some companies to adapt to current market conditions in their countries. In these cases, the Group companies offer their employees the option of early retirement or redundancy incentives. In 2019, the provision registered for this purpose corresponds mainly to those registered by Santander Consumer Bank AG (Germany) and Santander Consumer Bank AS (Nordics). With regards to Santander Consumer Bank AG, the existing provision of EUR 53,051 thousand (EUR 59,279 thousand in 2018) corresponds to the restructuring plan started at the end of 2017 currently undergoing its execution phase, which is expected to be completed during FY20, for which a provision of EUR 33,098 thousand has been registered at the end of 2019. With regards to Santander Consumer Bank AS, in 2018 a transformation and restructuring plan has been devised for the company and its Danish and Swedish branches, which is set to be implemented during the next three years. As of 31 December 2019, the registered provision corresponds to the commitments and other expenses derived from the plan, of which EUR 9,038 thousand are estimated to be paid in 2019 (EUR 17,513 thousand in 2018)

The Group's general policy is to recognise provisions for fiscal and legal processes when it considers that the risk of a loss is likely. No provisions are recognised when the risk of loss is possible or remote. Provisions are calculated using the best estimate of the amount needed to settle the corresponding obligation, based on individualised analysis of the events, supplemented by legal opinions from internal and external advisers, and considering average historical losses in similar cases. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each of the obligations. In some cases, there are no fixed settlement dates, while in others this depends on the progress of law suits.

22. Tax matters

a) *Current tax receivables and payables*

The balance of “Tax Assets – Current Tax Assets” in the consolidated balance sheets as of 31 December 2019 and 2018 includes basically income tax prepayments made by the consolidated entities to the public authorities of the countries in which they reside. The balance of “Tax Liabilities – Current Tax Liabilities” in the consolidated balance sheet includes the liability for the various taxes applicable to the Group.

b) Reconciliation of the accounting profit to the income tax expense recognised in the consolidated income statement.

The reconciliation of the consolidated accounting profit to the income tax expense in the consolidated income statements for 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
	Continuing Operations	Continuing Operations
Consolidated profit (loss) before tax	1,985,312	2,025,108
Accounting profit multiplied by income tax rate (*)	*595,594*	*607,532*
Permanent differences and adjustments (**)	(20,349)	(41,590)
Consolidated income tax expense	575,245	565,942
Effective tax rate	**28.98%**	**27.95%**

(*) Computed using nominal tax rate applicable to the Bank (30%)

(**) These include the net tax effect of permanent differences at the consolidated entities, differences resulting from the existence of different tax rates in the countries in which the Group operates, the effects of consolidation, prior years' tax adjustments, and the effect of considering the exemptions, tax credits and tax relief based on the jurisdictions in which the Group companies carry on their business.

c) Years open for review by the Tax Authorities

The Bank forms part of the Tax Group headed by Banco Santander, S.A. Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute-of-limitations period has expired.

In 2018, the assessments arising from the outcome of the tax audit of the Consolidated Tax Group for the years 2009-2011 were formalised. Those that had been signed on an uncontested basis had no significant impact in the results and with regards to the issues discussed, Banco Santander, S.A. considers, as the parent company of the Consolidated Tax Group and in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the consolidated financial statements of the Group as there are sound defence arguments in relation to the appeals filed against them. As a result, no provision has been recognised in this connection. With the conclusion of this inspection of the years 2009- 2011, the following fiscal years are subject to inspection up to 2018, included. At the time of issuance of these financial statements, the Group has been notified of proceedings started regarding VAT for the periods subject to inspection up to 2016, included.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

The notes to the separate financial statements of the Group's consolidated entities include other salient information in relation to the tax matters affecting those entities.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years open for review may give rise to contingent tax liabilities. However, the Group's tax advisers and the Bank's directors consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

Except for the above mentioned, in 2019 there were no developments with a significant impact in connection with the tax disputes at various instances which were pending resolution on 31 December 2018.

d) Deferred taxes

The detail of the deferred taxes on 31 December 2019 and 2018 is as follows:

	EUR Thousands					
	2019			2018		
	Monetisable	Other	Total	Monetisable	Other	Total
Tax assets	**335,718**	**306,270**	**641,988**	**335,718**	**284,490**	**620,208**
Tax losses and tax credits	-	56,533	56,533	-	67,323	67,323
Temporary differences	335,718	249,737	585,455	335,718	217,167	552,885
Of which:			-			
Non-deductible provisions	-	*43,396*	*43,396*	-	*54,361*	*54,361*
Valuation of financial instruments	-	*18,774*	*18,774*	-	*18,839*	*18,839*
Tax credit for reinvestment and double taxation of gains on disposal of investments	-	-	-	-	-	-
Credit losses	*289,046*	*39,234*	*328,280*	*289,046*	*29,971*	*319,017*
Pensions	*34,655*	*110,569*	*145,224*	*34,655*	*86,334*	*120,989*
Valuation of tangible and intangible assets	*12,017*	*1,174*	*13,191*	*12,017*	*9,338*	*21,355*
Tax liabilities	**-**	**765,388**	**765,388**	**-**	**644,176**	**644,176**
Temporary differences	-	*765,388*	*765,388*	-	*644,176*	*644,176*
Of which:		-	-			
Valuation of financial instruments	-	*91,314*	*91,314*	-	*95,284*	*95,284*
Valuation of tangible and intangible assets	-	*388,589*	*388,589*	-	*327,962*	*327,962*
Gains on disposal of investments	-	-	-	-	-	-
Valuation of Group investments	-	*104,630*	*104,630*	-	*104,695*	*104,695*

(*) As at 31 December 2019 and 2018, EUR 154 million of monetisable tax assets correspond to Spain and EUR 182 million correspond to Italy.

The movement in the balance of deferred tax assets and liabilities over the last two years is shown below:

	Balance as of 31-12-2018	First application of IFRS9	(debit)/ credit to the income statement	Conversion differences on foreign currency balances and other items (*)	(debit) / credit to asset and liability valuation reserve	Acquisitions (net) for the year	Balance as of 31-12-2019
Deferred tax assets	620,208	-	6,588	(5,468)	20,546	114	641,988
BIN's and Deductions	67,323	-	(10,349)	(555)	-	114	56,533
Temporary differences	552,885	-	16,937	(4,913)	20,546		585,455
Of which monetisable	*335,718*	-	-	-	-	-	*335,718*
Deferred tax liabilities	(644,176)	-	(116,089)	(1,701)	(379)	(3,043)	(765,388)
Temporary differences	(644,176)	-	(116,089)	(1,701)	(379)	(3,043)	(765,388)
Total	**(23,968)**	**-**	**(109,501)**	**(7,169)**	**20,167**	**(2,929)**	**(123,400)**

	Balance as of 31-12-2017	First application of IFRS9	(debit)/ credit to the income statement	Conversion differences on foreign currency balances and other items (*)	(debit) / credit to asset and liability valuation reserve	Acquisitions (net) for the year	Balance as of 31-12-2018
Deferred tax assets	627,755	3,130	(19,339)	879	4,878	2,905	620,208
BIN's and Deductions	63,260	-	3,069	-		994	67,323
Temporary differences	564,495	3,130	(22,408)	879	4,878	1,911	552,885
Of which monetisable	*335,718*	-	-	-	-	-	*335,718*
Deferred tax liabilities	(644,139)	1,628	(1,158)	(1,201)	745	(51)	(644,176)
Temporary differences	(644,139)	1,628	(1,158)	(1,201)	745	(51)	(644,176)
Total	**(16,384)**	**4,758**	**(20,497)**	**(322)**	**5,623**	**2,854**	**(23,968)**

The balance of "Tax Assets - Deferred" in the consolidated balance sheets as of 31 December 2019 and 2087 includes the balances receivable from the tax authorities in respect of deferred income tax assets. The balance of "Tax Liabilities - Deferred" in the consolidated balance sheets includes the liability for the various deferred taxes on 31 December 2019 and 2018.

On 26 June 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every Member State as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetisable tax assets").

Italy had similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011.

In addition, in Spain, through Royal Decree-Law 14/2013, of 29 November confirmed by Law 27/2014, of 27 November tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetisable tax assets with the introduction of a financial contribution which will involve the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetisable assets generated prior to 2016.

In a similar manner, Italy, by decree of 3 May 2016 has introduced a fee of 1.5% annually to maintain the monetisable of part of the deferred tax assets.

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carry forwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

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

These analyses take into account, inter alia: (i) the results generated by the various entities in prior years, (ii) each entity or tax group's projected earnings, (iii) the estimated reversal of the various temporary differences, based on their nature, and (iv) the period and limits established by the legislation of each country for the recovery of the various deferred tax assets, thereby concluding on each entity or tax group's ability to recover its recognised deferred tax assets.

The projected earnings used in these analyses are based on the financial budgets approved by the Group's directors for the various entities (see Note 14) applying constant growth rates not exceeding the average long-term growth rate for the market in which the consolidated entities operate, in order to estimate the earnings for subsequent years considered in the analyses.

The earnings projections used in this analysis are based on the financial budgets approved by the local management of the relevant units and by the Group's directors. The Group's budget estimation process is common to all units. Group management prepares its financial budgets based on the following key assumptions:

a) Microeconomic variables of the entities comprising the tax group at each location: consideration is given to the existing balance sheet structure, the mix of products offered, and the commercial strategy defined by the local management units at any given time based on the competitive, regulatory and market environment.

b) Macroeconomic variables: the estimated growths are based on the evolution of the economic environment considering the expected evolution of the Gross Domestic Product of each location and the forecasts of the behaviour of interest rates, inflation and exchange rates. Said data are provided by the Group's Research Department, which are based on external information sources. Taxes charged to equity

In addition, the Group performs backtesting on the variables projected in the past. The differential behaviour of these variables with respect to the actual market data is considered in the projections estimated in each year. Thus, in relation to Spain, the deviations identified by management in recent years are due to non-recurring events unrelated to the operation of the business, such as the impact of the first application of new applicable regulations, the costs assumed for the acceleration of the restructuring plans and the changing effect of the current macroeconomic environment.

Lastly, given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis of the most significant assumptions considered in the analysis of the recoverability of deferred tax assets, considering reasonable changes in the key assumptions on which the projected results of each entity or tax group are based and the estimated reversal of the various temporary differences. In relation to Spain, the sensitivity analysis consisted of adjusting growth (gross domestic product) by 50 basis points and adjusting inflation by 50 basis points. Following the sensitivity analysis performed, the Group does not estimate significant changes in future taxable profit in relation to its deferred tax assets.

In addition to the income taxes recognised in the consolidated income statements, in 2019 and 2018 the Group recognised the following amounts in consolidated equity

	EUR Thousands	
	Credits (Charges) to Consolidated Equity	
	2019	2018
Actuarial gains and losses on pension plans	26,505	(6,993)
Cash flow hedges	1,372	840
Debt instruments at fair value through other comprehensive income	(2,097)	3,761
Other	(5)	(40)
Total	**25,775**	**(2,432)**

23. Registered share capital and equity instruments other than capital

a) Registered share capital

On 31 December 2019 and 2018, the Bank's share capital, the only share capital included in the accompanying consolidated balance sheet as of that date as a result of the consolidation process, consisted of 1,879,546,172 fully subscribed and paid registered shares of EUR 3 par value each, all with the same voting and dividend rights. At that date, the Bank’s shareholders were as follows:

On 20 December 2019, Holneth, B.V. sold its registered shares in the Bank, of which 469,886,523 registered shares were acquired by Banco Santander, S.A. and 20 by Cántabro Catalana de Inversiones, S.A. At 31 December 2019, Banco Santander, S.A. held 1,879,546,152 shares and Cántabro Catalana de Inversiones, S.A. 20 shares.

At December 31, 2018, Banco Santander, S.A. held 1,409,659,629 shares and Holneth, B.V. 469,886,543 shares.

Equity instruments other than capital

On 14 December 2018, the Annual General Meeting of the Bank approved an issuance of contingently convertible preferred shares in ordinary shares of the newly issued Bank (the "PPCC") for a nominal amount of EUR 200,000 thousand. The remuneration of the PPCCs, whose payment is subject to compliance with certain conditions for their distribution linked mainly to the availability of the necessary funds, as well as the decision by the Bank, was fixed at an annual 8.25% for the first five years, being revised thereafter applying a margin of 5.22% per year plus the Mid-Swap rate to five years (5 year Mid-Swap Rate).

On 6 February 2019, the European Central Bank has approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European regulations on own resources of the European Regulation 575/2013. The PPCCs are perpetual, although they can be amortized early if the Bank or its consolidated group presents a ratio of less than 5.125% of ordinary capital (common equity Tier 1 ratio) calculated according to the applicable regulations. In this case and subject to compliance with certain requirements, the shares would be converted into ordinary shares of new issue of Santander Consumer Finance, S.A. in accordance with the value established in the brochure of issuance of the shares. In addition, these shares may be redeemed by the Bank's decision only when there is a change in the rules for calculating regulatory capital or the tax framework applicable to preferred shares, and with the prior approval of the European Central Bank.

On 14 December 2017, the Annual General Meeting of the Bank approved an issuance of contingently convertible preferred shares in ordinary shares of the newly issued Bank (the "PPCC") for a nominal amount of EUR 850,000 thousand. The remuneration of the PPCCs, whose payment is subject to compliance with certain conditions for their distribution linked mainly to the availability of the necessary funds, as well as the decision by the Bank, was fixed at an annual 5.75% for the first five years, being revised thereafter applying a margin of 5,545% per year plus the Mid-Swap rate to five years (5 year Mid-Swap Rate).

On 7 February 2018, the European Central Bank has approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European regulations on own resources of the European Regulation 575/2013. The PPCCs are perpetual, although they can be amortized early if the Bank or its consolidated group presents a ratio of less than 5.125% of ordinary capital (common equity Tier 1 ratio) calculated according to the applicable regulations. In this case and subject to compliance with certain requirements, the shares would be converted into ordinary shares of new issue of Santander Consumer Finance, S.A. in accordance with the value established in the brochure of issuance of the shares. In addition, these shares may be redeemed by the Bank's decision only when there is a change in the rules for calculating regulatory capital or the tax framework applicable to preferred shares, and with the prior approval of the European Central Bank. PPCCs are traded on the Frankfurt Stock Exchange. All of the preferred shares have been fully subscribed by Banco Santander, S.A. as of 31 December 2019 and 2018.

The accrued income on the shares issued at 31 December 2019 and 31 December 2018 amounted to EUR 114,250 thousand and EUR 48,873 thousand, respectively, and was recognised under "Retained Earnings" (see Note 25).

In the years ended 31 December 2019 and 2018, the income earned on the shares issued amounted to EUR 65,375 thousand and EUR 48,873 thousand, respectively.

24. Share premium

The balance of “Share Premium” in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value. The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

25. Retained earnings and other reserves

The balance of “Shareholders’ Equity - Reserves - Retained Earnings” in the accompanying consolidated balance sheets includes the net amount of the accumulated profit or loss attributable to the Group recognised in previous years through the consolidated income statement that, in the distribution of profit, was appropriated to consolidated equity, as well as any own equity instrument issuance expenses and the differences between the selling price of treasury shares and the cost of acquisition thereof, should the Bank perform such transactions, and the distribution of profits to the Bank's shareholders recognised with a charge to reserves.

The balance of “Shareholders' Equity – Other Reserves – Reserves or Accumulated Losses in Investments in Joint Ventures and Associates” in the accompanying consolidated balance sheets includes the net amount corresponding to the Group of the undistributed accumulated profit or loss generated in previous years by entities accounted for using the equity method, recognised through the consolidated income statement.

The detail of “Shareholders’ Equity – Other Reserves - Retained Earnings” and “Shareholders' Equity - Reserves - Reserves or Accumulated Losses in Investments in Joint Ventures and Associates” in the consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Retained earnings:		
Legal reserve of the Bank	681,892	625,938
Unrestricted, voluntary and other reserves	1,545,554	1,897,274
Consolidation reserves attributable to the Bank	298,790	220,466
Reserves of subsidiaries	721,443	110,879
	3,247,679	**2,854,557**
Other reserves		
Other	(203,233)	(143,651)
Reserves or accumulated losses from investments in:		
Joint ventures and associates	*328,069*	*287,509*
	124,836	**143,858**

Legal reserve

Under the Consolidated Spanish Capital Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Reserves of subsidiaries

The detail, by company, of “Reserves of Subsidiaries”, based on the subsidiaries' contribution to the Group (considering the effect of consolidation adjustments), is as follows:

	EUR Thousands	
	2019	2018
Santander Consumer Holding GmbH (Germany)	(1,806,892)	(2,002,966)
Santander Consumer Bank S.p.A. (Italy)	(51,755)	(132,006)
Santander Consumer, E.F.C., S.A. (Spain)	31,042	133,833
Banco Santander Consumer Portugal S.A. (Portugal)	81,984	72,126
Santander Consumer Bank Gmbh (Germany)	117,988	85,176
Compagnie Generale De Credit Aux Particuliers - Credipar S.A. (France)	52,681	(11,203)
Santander Consumer Finance Benelux B.V. (Netherlands)	98,776	88,156
Santander Consumer Finance OY (Finland)	181,311	125,943
Andaluza de Inversiones, S.A. (Spain)	64,201	64,210
Santander Consumer Bank A.S. (Norway)	993,429	762,769
Santander Consumer Bank AG (Germany)	439,287	483,186
PSA Banque France (France)	139,855	127,872
Financiera El Corte Ingles, EFC, S.A. (Spain)	65,922	63,254
Other	313,614	250,529
	721,443	**110,879**

26. Other comprehensive income

The balances of Other comprehensive income include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

Respect to items that may be reclassified to profit or loss, the consolidated statement of recognised income and expense includes changes in other comprehensive income as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognised gross, including the amount of the Other comprehensive income relating to non-controlling interests, and the corresponding tax effect is presented under a separate item, except in the case of entities accounted for using the equity method, the amounts for which are presented net of the tax effect.

a) Breakdown of Other comprehensive income - Items that will not be reclassified in results and Items that can be classified in results

	EUR Thousands	
	31-12-2019	31-12-2018
Other comprehensive income	**(529,200)**	**(462,909)**
Items that will not be reclassified to profit or loss	**(167,170)**	**(112,753)**
Actuarial gains or losses on defined benefit pension plans	(173,463)	(114,000)
Assets included in disposal groups classified as held for sale	-	-
Other recognised income and expense in investments in joint ventures and associates	(12)	110
Changes in the fair value of equity instruments at fair value through other comprehensive income	6,305	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	**(362,030)**	**(350,156)**
Hedges of net investments in foreign operations (effective portion)	(9,284)	13,684
Currency translation differences	(336,140)	(350,732)
Derivatives – hedge accounting. Cash flow hedges (effective portion)	(5,907)	(3,716)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	1,804	3,819
Hedging instruments (items not designated)	-	-
Assets included in disposal groups classified as held for sale	-	-
Share in other recognised income and expenses in investments in joint ventures and associates	(12,503)	(13,211)

b) Other comprehensive income- Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans

The balance of “Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans” includes 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 liability (asset) relating to the defined benefit post-employment obligations of the consolidated companies.

Changes in “Items not reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans” are recognised in the consolidated statement of recognised income and expense. The most significant changes in 2019 relate mainly to the variations in the main actuarial assumptions of the German subsidiary – actuarial gains by experience and decrease of interest rates from 2.27% to 1.46% -, as well as actuarial losses, mainly financial, in Nordics (Scandinavia) – decreases in interest rates from 2.50% to 1.60% in Sweden (in 2018 changes related mainly to the variations in the main actuarial assumptions of the German subsidiary – increase in interest rates from 1.87% to 2.27%, and mainly financial actuarial losses in Nordics due to the decrease in interest rates from 2.75% to 2.5% in Sweden).

c) Items that may be reclassified to profit or loss

c.1) Hedges of net investments in foreign operations (hedging derivatives)

The balance of “Other comprehensive income – Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations (Effective portion)” in consolidated equity includes the net amount of the changes in the derivatives arranged by the Group and designated as hedging instruments considered to be effective in hedges of this type. The changes therein in 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	13,684	13,048
Valuation gains/(losses)	(22,968)	636
Transferred to the income statement	-	-
Balance at end of period	**9,284**	**13,684**

c.2) Currency translation differences

The balance of “Currency translation differences” includes the net amount of exchange differences arising from non-monetary items whose fair value is adjusted against equity and the differences arising from the translation to euros of the balances of the consolidated entities whose functional currency is not the euro (see Note 2-a).

c.3) Derivatives – hedge accounting. Cash flow hedges (effective portion)

The balance of “Hedging derivatives. Cash flow hedges (Effective portion)” includes the net amount of the changes in value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be effective hedges.

The changes in 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	(3,716)	(196)
Valuation gains/(losses)	(19,724)	(15,223)
Amounts transferred to the income statement	16,161	10,862
Taxation	1,372	841
Balance at end of period (Note 29)	**(5,907)**	**(3,716)**

c.4) Changes in the fair value of debt instruments at fair value through other comprehensive income

The balance includes the net amount of unrealised changes in the fair value of financial assets classified as items that may be reclassified to profit or loss – changes in the fair value of debt instruments at fair value through profit or loss.

The changes, regardless of valuation adjustments attributable to non-controlling interests, in 2019 and 2018 were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period (*)	3,819	2.869
Valuation gains/(losses)	152	(2,623)
Transferred to the income statement	(70)	(188)
Taxation	(2,097)	3,761
Balance at end of period	1,804	3,819

27. Non-controlling interests

"Non-Controlling Interests" in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 includes the net amount of the equity of subsidiaries attributable to equity instruments that are not held, directly or indirectly, by the Group, including the portion attributed to them of the consolidated profit for the year.

The detail, by Group Company, of “Non-Controlling Interests” in the accompanying consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Suzuki Servicios Financieros, S.L.	2,737	2,465
PSA Banque France S.A	591,496	540,597
Financiera El Corte Inglés, E.F.C., S.A.	112,464	109,048
PSA Financial Services, Spain, E.F.C., S.A.	223,839	216,919
PSA Finance Belux S.A.	54,352	49,908
PSA Financial Services Nederland B.V.	36,370	29,938
PSA Bank Deutschland GmbH	254,584	229,104
Banca PSA Italia S.P.A.	193,378	148,716
Transolver Finance E.F.C., S.A.	27,204	23,684
Hyundai Capital Bank Europe GmbH	110,081	-
Other	(125)	(600)
	1,606,380	1,349,779
Profit attributable to non-controlling interests:		
Suzuki Servicios Financieros, S.L.	*620*	*273*
PSA Banque France S.A.	*127,174*	*109,134*
Financiera El Corte Inglés, E.F.C., S.A.	*39,154*	*35,669*
PSA Financial Services, Spain, E.F.C., S.A.	*40,474*	*30,857*
PSA Finance Belux S.A.	*8,694*	*8,356*
PSA Financial Services Nederland B.V.	*7,356*	*6,444*
PSA Bank Deutschland GmbH	*26,342*	*27,124*
Banca PSA Italia S.P.A.	*26,865*	*18,381*
Transolver Finance E.F.C., S.A.	*3,293*	*3,520*
PSA Renting Italia S.P.A.	*1,339*	*468*
Hyundai Capital Bank Europe GmbH	*(4,618)*	-
Other	*7*	*9*
	276,700	240,235
	1,883,080	**1,590,014**

The changes in 2019 and 2018 in “Non-Controlling Interests” in the consolidated balance sheets were as follows:

	EUR Thousands	
	2019	2018
Balance at beginning of period	1,590,014	1,448,740
Dividends	(133,440)	(108,250)
Currency translation differences and other (*)	149,806	9,289
Profit/(loss) attributable to NCIs	276,700	240,235
Balance at end of period	**1,883,080**	**1,590,014**

(*) Amounts mainly derived from the business combination with Hyundai Capital Bank Europe GmbH.

28. Memorandum items

The detail of the balances recognised under “Memorandum Items” in the consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	31/12/2019	31/12/2018
Loan commitments granted	**23,523,284**	**23,434,253**
Memorandum item: of which, doubtful	*36,766*	*13,446*
Financial guarantees granted	**614,943**	**540,264**
Memorandum item: of which, doubtful	-	-
Financial guarantees	607,243	540,264
Credit derivatives sold	7,700	-
Other commitments granted	**419,346**	**469,662**
Memorandum item: of which, doubtful	*6,619*	*2,792*
Technical guarantees	315,252	358,355
Other commitments	104,094	111,307

The breakdown as at 31 December 2019 of the exposures and the provision fund (see Note 21) out of balance sheet by impairment stage under IFRS 9 is EUR 24,350,163 thousand and EUR 30,498 thousand in stage 1, EUR 164,025 thousand and EUR 2,121 thousand in stage 2 and EUR 43,385 thousand and EUR 6,309 thousand in stage 3, respectively. (EUR 24,244,708 thousand and EUR 33,516 thousand in stage 1, EUR 183,233 thousand and EUR 2,253 thousand in stage 2 and EUR 16,238 thousand and EUR 4,796 thousand in stage 3, respectively at 31 December 2018).

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include stand-by credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees include, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

29. Derivatives – Hedge accounting

The Group, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This cover the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).

- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.

- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

The following table contains details of the hedging instruments used in the Group's hedging strategies as of 31 December 2019 and 2018:

	EUR Thousands				
	2019				
	Nominal value	Market value		Changes in fair value used to calculate hedge ineffectiveness	Balance sheet line items
		Assets	Liabilities		
Fair value hedges:	**10,751,267**	**18,923**	**54,652**	**23,508**	
Interest rate risk	**9,393,532**	**9,238**	**41,566**	**17,176**	
Interest Rate Swap	9,393,532	9,238	41,566	17,176	Derivatives – hedge accounting
Exchange rate risk	**609,909**	**134**	**10,145**	**-**	
Fx Forward	609,909	134	10,145	-	Derivatives – hedge accounting
Interest rate and Exchange rate risk	**747,826**	**9,551**	**2,941**	**6,332**	
Currency Swap	747,826	9,551	2,941	6,332	Derivatives – hedge accounting
Cash Flow Hedges	**4,246,888**	**39,225**	**27,076**	**(3,709)**	
Interest rate risk	**1,146,982**	**1,124**	**1,438**	**986**	
Interest Rate Swap	1,146,982	1,124	1,438	986	Derivatives – hedge accounting
Exchange rate risk	**1,318,228**	**18,494**	**15,792**	**(3,996)**	
Currency swap	1,318,228	18,494	15,792	(3,996)	Derivatives – hedge accounting
Interest rate and Exchange rate risk	**1,781,678**	**19,607**	**9,846**	**(699)**	
Currency swap	1,781,678	19,607	9,846	(699)	Derivatives – hedge accounting
Hedges of net investments in foreign operations	**1,092,201**	**1,643**	**15,682**	**(88)**	
Exchange rate risk	**1,092,201**	**1,643**	**15,682**	**(88)**	
Fx Forward	1,092,201	1,643	15,682	(88)	Derivatives – hedge accounting
	16,090,356	**59,791**	**97,410**	**19,711**	

	EUR Thousands				
	2018				
	Nominal value	Market value		Changes in fair value used to calculate hedge ineffectiveness	Balance sheet line items
		Assets	Liabilities		
Fair value hedges:	**12,809,703**	**33,472**	**(56,746)**	**30,414**	
Interest rate risk	**11,359,763**	**7,845**	**(56,394)**	**21,845**	
Interest Rate Swap	11,359,763	7,845	(56,394)	21,845	Derivatives – hedge accounting
Exchange rate risk	**423,355**	**10,572**	**(352)**	**-**	
Fx Forward	423,355	10,572	(352)	-	Derivatives – hedge accounting
Interest rate and exchange rate risk	**1,026,585**	**15,055**	**-**	**8,569**	
Currency Swap	1,026,585	15,055	-	8,569	Derivatives – hedge accounting
Cash flow hedges	**5,244,887**	**72,123**	**(34,957)**	**(3,068)**	
Interest rate risk	**919,762**	**118**	**(1,576)**	**2,288**	
Interest Rate Swap	919,762	118	(1,576)	(1,138)	Derivatives – hedge accounting
Currency swap	-	-	-	3,426	
Exchange rate risk	**4,325,125**	**72,005**	**(33,381)**	**(1,984)**	
Currency swap	4,010,715	72,005	(33,381)	(1,984)	Derivatives – hedge accounting
Floor	314,410	-	-	-	
Interest rate and exchange rate risk	**-**	**-**	**-**	**(3,372)**	
Currency swap	-	-	-	(3,372)	Derivatives – hedge accounting
Hedges of net investments in foreign operations	**942,869**	**28,548**	**(928)**	**-**	
Exchange rate risk	**942,869**	**28,548**	**(928)**	**-**	
Fx Forward	942,869	28,548	(928)	-	Derivatives – hedge accounting
	18,997,459	**134,143**	**(92,631)**	**27,346**	

The Group's entities are exposed to changes in fair value caused by fluctuations in market interest rates, derived from their long-term fixed interest rate loan portfolios. They manage this risk by entering into interest rate swap contracts, in which they pay the fixed rate and receive the floating rate. This, however, only hedges interest rate risk and thus other types of risk, such as credit risk, are managed but not hedged by the entities. The interest rate risk component is determined as the change in the fair value of the loans that arise only from changes in a benchmark interest rate. This strategy is designated as a fair value hedge and its effectiveness is evaluated comparing changes in the fair value in the loans that are attributable to changes in benchmark interest rates and changes in the fair value of interest rate swaps.

Additionally, certain Group entities issue fixed rate debt instruments both in their functional currency and foreign currencies, to access foreign capital markets and obtain further sources of financing. Therefore, these entities are exposed to both interest rate risk and exchange rate risk, which they hedge by entering different derivatives contracts such as interest rate swaps, FX forwards and cross currency swaps in which they pay the floating rate and receive the fixed rate, and which they cover with a fair value hedge.

Cash flow hedges for entities in the Santander Consumer Finance Group mitigate exchange rate risk for loans and financing. These hedges involve mainly interest rate swaps and cross currency swaps.

In any case, in the event of ineffectiveness in fair value or cash flow hedges, the entity mainly considers the following causes:

- Possible economic events affecting the entity (e.g.: default),

- For movements and possible market-related differences in the collateralized and non-collateralized curves used in the valuation of derivatives and hedged items, respectively.
- Possible differences between the nominal value, settlement/price dates and credit risk of the hedged item and the hedging element.

Regarding net foreign investment hedges, the Group uses these to mitigate the foreign exchange risk of the equity investments in NOK and CNY currencies.

In the case of this type of hedge, the ineffectiveness scenarios are considered to be of low probability, given that the hedging instrument is designated considering the determined position and the spot rate at which it is found.

The following table sets out the maturity profile of the hedging instruments used in the Group's non-dynamic hedging strategies:

	EUR Thousands					
	2019					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges	**276,013**	**1,830,716**	**2,459,063**	**6,167,186**	**18,289**	**10,751,267**
Interest rate risk	**157,830**	**1,394,687**	**2,154,504**	**5,668,222**	**18,289**	**9,393,532**
Interest rate swap	157,830	1,394,687	2,154,504	5,668,222	18,289	9,393,532
Exchange rate risk	**118,183**	**187,167**	**304,559**	**-**	**-**	**609,909**
Fx forward	118,183	187,167	304,559	-	-	609,909
Interest rate and exchange rate risk	**-**	**248,862**	**-**	**498,964**	**-**	**747,826**
Currency swap	-	248,862	-	498,964	-	747,826
Cash flow hedges	**197,515**	**351,525**	**1,657,856**	**1,968,200**	**71,792**	**4,246,888**
Interest rate risk	**53,860**	**151,734**	**379,162**	**562,226**	**-**	**1,146,982**
Interest rate swap	53,860	151,734	379,162	562,226	-	1,146,982
Exchange rate risk	**13,701**	**24,661**	**254,341**	**953,733**	**71,792**	**1,318,228**
Currency swap	13,701	24,661	254,341	953,733	71,792	1,318,228
Interest rate and Exchange rate risk	**129,954**	**175,130**	**1,024,353**	**452,241**	**-**	**1,781,678**
Currency swap	129,954	175,130	1,024,353	452,241	-	1,781,678
Hedges of net investments in foreign operations	**142,800**	**352,199**	**597,202**	**-**	**-**	**1,092,201**
Exchange rate risk	**142,800**	**352,199**	**597,202**	**-**	**-**	**1,092,201**
Fx forward	142,800	352,199	597,202	-	-	1,092,201
	616,328	**2,534,440**	**4,714,121**	**8,135,386**	**90,081**	**16,090,356**

	EUR Thousands					
	2018					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges	**270,214**	**942,407**	**4,202,286**	**7,331,377**	**63,419**	**12,809,703**
Interest rate risk	**252,809**	**672,286**	**3,488,358**	**6,882,891**	**63,419**	**11,359,763**
Interest rate swap	252,809	672,286	3,488,358	6,882,891	63,419	11,359,763
Exchange rate risk	**17,405**	**30,208**	**375,742**	**-**	**-**	**423,355**
Fx forward	17,405	30,208	375,742	-	-	423,355
Interest rate and exchange rate risk	**-**	**239,913**	**338,186**	**448,486**	**-**	**1,026,585**
Currency swap	-	239,913	338,186	448,486	-	1,026,585
Cash flow hedges	**424,627**	**655,720**	**2,681,125**	**1,483,415**	**-**	**5,244,887**
Interest rate risk	**85,161**	**99,050**	**312,705**	**422,846**	**-**	**919,762**
Interest rate swap	85,161	99,050	312,705	422,846	-	919,762
Exchange rate risk	**339,466**	**556,670**	**2,368,420**	**1,060,569**	**-**	**4,325,125**
Currency swap	339,466	556,670	2,054,010	1,060,569	-	4,010,715
Floor	-	-	314,410	-	-	314,410
Hedges of net investments in foreign operations	**181,628**	**281,504**	**479,737**	**-**	**-**	**942,869**
Exchange rate risk	**181,628**	**281,504**	**479,737**	**-**	**-**	**942,869**
Fx forward	181,628	281,504	479,737	-	-	942,869
	876,469	**1,879,631**	**7,363,148**	**8,814,792**	**63,419**	**18,997,459**

Additionally, for the most significant Group entities, the maturity profile as well as the average interest rate and the average changes in hedging instruments by term of maturity are set out in the table below.

	31 December 2019					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	157,830	1,394,68	2,154,504	5,668,222	18,289	9,393,532
Average fixed interest rate (%) EUR	(0.164)	(0.027)	(0.119)	(0.110)	(0.123)	-
Average fixed interest rate (%) CHF	(0.700)	(0.700)	(0.630)	(0.560)	-	-
Exchange rate risk						
Exchange rate instruments						
Nominal	118,183	187,167	304,559	-	-	609,909
Average exchange rate DKK/EUR	7.458	7.465	7.458	-	-	-
Average exchange rate PLN/EUR	4.382	4.302	4.347	-	-	-
Average exchange rate CHF/EUR	1.093	1.096	-	-	-	-
Average exchange rate SEK/EUR	-	10.687	-	-	-	-
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	-	248,862	-	498,964	-	747,826
Average fixed interest rate (%) DKK	-	7.462	-	7.443	-	-
Average exchange rate DKK/EUR	-	0.004	-	0.006	-	-
Cash Flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	53,860	151,734	379,162	562,226	-	1,146,982
Average fixed interest rate (%) EUR	0.212	0.212	0.212	0.212	-	-
Exchange rate risk						
Exchange rate instruments						
Nominal	13,701	24,661	254,341	953,733	71,792	1,318,228
Average exchange rate SEK/EUR	-	-	10,461	10,529	10,426	-
Average exchange rate CHF/EUR	-	-	1,094	1,121	-	-
Average exchange rate CAD/EUR	1,539	1,500	1,528	1,491	-	-
Average exchange rate DKK/EUR	-	-	7,474	-	-	-
Average exchange rate JPY/EUR	-	-	131,960	123,116	-	-
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	129,954	175,130	1,024,353	452,241	-	1,781,678
Average exchange rate SEK/EUR	10,415	10,362	10,488	10,318	-	-
Average exchange rate NOK/EUR	-	9,241	9,082	9,281	-	-
Average exchange rate CHF/EUR	-	1,085	1,090	1,089	-	-
Average exchange rate CAD/EUR	-	-	-	-	-	-
Average exchange rate DKK/EUR	7,468	7,466	7,460	7,457	-	-
Average exchange rate PLN/EUR	-	-	-	4,287	-	-
Average fixed interest rate (%) EUR	-	-	-	0,410	-	-
Average fixed interest rate (%) CHF	-	-	-	0,330	-	-
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	142,800	352,199	597,202	-	-	1,092,201
Average exchange rate NOK/EUR	9,920	9,878	10,186	-	-	-
Average exchange rate CNY/EUR	-	7,968	-	-	-	-

	31 December 2018					
	EUR Thousands					
	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	252,809	672,286	3,488,358	6,882,891	63,419	11,359,763
Average fixed interest rate (%) EUR	(0.197)	(0.125)	(0.036)	(0.065)	(0.113)	
Average fixed interest rate (%) CHF	(0.659)	(0.696)	(0.679)	(0.561)	-	
Exchange rate risk						
Exchange rate instruments						
Nominal	17,405	30,208	375,742	-	-	423,355
Average exchange rate DKK/EUR	0.134	-	0.134	-	-	
Average exchange rate NOK/EUR	-	-	0.103	-	-	
Average exchange rate CHF/EUR	-	0.879	0.887	-	-	
Interest and exchange rate risk						
Interest and exchange rate instruments						
Nominal	-	239,913	338,186	448,486	-	1,026,585
Average exchange rate SEK/EUR	-	-	0.104	-	-	
Average exchange rate DKK/EUR	-	0.134	0.134	0.134	-	
Average fixed interest rate (%) SEK	-	-	0.008	-	-	
Average fixed interest rate (%) DKK	-	0.002	0.003	0.004	-	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	85,161	99,050	312,705	422,846	-	919,762
Average fixed interest rate (%) EUR	0.183	0.183	0.183	0.183		
Exchange rate risk						
Exchange rate instruments						
Nominal	339,466	556,670	2,368,420	1,060,569	-	4,325,125
Average exchange rate SEK/EUR	0.101	0.098	0.099	0.099	-	
Average exchange rate NOK/EUR	0.108	0.108	0.108	0.108	-	
Average exchange rate CHF/EUR	0.896	0.859	0.870	0.900	-	
Average exchange rate CAD/EUR	0.654	0.658	0.652	0.656	-	
Average exchange rate DKK/EUR	0.134	0.134	0.134	-	-	
Average exchange rate PLN/EUR	-	-	0.234	0.233	-	
Average exchange rate USD/EUR	-	-	0.897	-	-	
Average exchange rate JPY/EUR	-	-	0.008	0.008	-	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	181,628	281,504	479,737	-	-	942,869
Average exchange rate NOK/EUR	0.104	0.104	0.103	-	-	
Average exchange rate CNY/EUR	-	-	0.122	-	-	

The following table contains details of the hedged exposures covered by the Group's hedging strategies of 31 December 2019:

	EUR Thousands							
	2019							
	Carrying amount of hedged items		Accumulated fair value adjustments to the hedged items		Balance sheet line item	Changes in the fair value of hedged item for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges	**9,224,513**	**3,930,632**	**16,672**	**(14,272)**	**Fair value hedges**	**(21,979)**	**-**	**-**
Interest rate risk	**8,611,809**	**3,182,801**	**16,672**	**(11,998)**	**Interest rate risk**	**(20,498)**	**-**	**-**
Deposits	1,374,324	-	8,653	-	Deposits	3,857	-	-
Bonds	-	498,909	-	1,091	Bonds	1,090	-	-
Fixed income securities loans	6,802,821	-	7,353	-	Fixed income securities loans	(20,942)	-	-
Liquidity facilities	434,664	-	666	-	Liquidity facilities	(23)	-	-
Issuance assurance	-	2,683,892	-	(13,089)	Issuance assurance	(4,480)	-	-
Exchange rate risk	**612,704**	**-**	**-**	**-**	**Exchange rate risk**	**-**	**-**	**-**
Deposits	612,704	-	-	-	Senior Securitizations	-	-	-
Interest rate and exchange rate risk	**-**	**747,831**	**-**	**(2,274)**	**Interest rate and exchange rate risk**	**(1,481)**	**-**	**-**
Bonds	-	747,831	-	(2,274)	Bonds	(1,481)	-	-
Cash flow hedges					**Cash flow hedges**	**(16,855)**	**(8,510)**	**20**
Interest rate risk					**Interest rate risk**	**(433)**	**433**	**20**
Asset-backed securities					Asset-backed securities	(433)	433	20
Exchange rate risk					**Exchange rate risk**	**(3,761)**	**(6,447)**	
Deposits					Deposits	(6,880)	(3,534)	-
Asset-backed securities					Asset-backed securities	3,119	(2,913)	
Interest rate and exchange rate risk					**Interest rate and exchange rate risk**	**(12,661)**	**(2,497)**	-
Bonds					Bonds	(2,900)	(1,993)	-
Deposits					Deposits	(9,761)	(504)	
Hedges of net investments in foreign operations	**1,069,399**	**-**	**-**	**-**	**Hedges of net investments in foreign operations**			
Exchange rate risk	**1,069,399**	**-**	**-**	**-**	**Exchange rate risk**	-	-	-
Equity instrument	1,069,399	-	-	-	Equity instrument	-	-	-
	10,293,913	**3,930,632**	**16,672**	**(14,272)**		**(38,834)**	**(8,510)**	**20**

	EUR Thousands							
	2018							
	Carrying amount of hedged items		Accumulated fair value adjustments to the hedged items		Balance sheet line item	Changes in the fair value of hedged item for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Fair value hedges	**11,273,205**	**3,032,899**	**33,426**	**(15,450)**	**Fair value hedges**	**(13,658)**	**-**	**-**
Interest rate risk	**7,638,858**	**2,001,353**	**33,426**	**(12,073)**	**Interest rate risk**	**(10,794)**	**-**	**-**
Deposits	1,437,688	-	4,433	-	Deposits	3,147	-	-
Bonds	-	-	-	-	Bonds	106	-	-
Fixed income securities loans	5,582,912	-	28,304	-	Fixed income securities loans	(19,118)	-	-
Liquidity facilities	618,258	-	689	-	Liquidity facilities	1,813	-	-
Issuance assurance	-	2,001,353	-	(12,073)	Issuance assurance	3,258	-	-
Exchange rate risk	**3,634,347**	**-**	**-**	**-**	**Exchange rate risk**	**-**	**-**	**-**
Deposits	3,634,347	-	-	-	Senior Securitizations	-	-	-
Interest rate and exchange rate risk	**-**	**1,031,546**	**-**	**(3,377)**	**Interest rate and exchange rate risk**	**(2,864)**	**-**	**-**
Bonds	-	1,031,546	-	(3,377)	Bonds	(2,864)	-	-
Cash flow hedges					**Cash flow hedges**	**(46,751)**	**(5,006)**	**80**
Interest rate risk					**Interest rate risk**	**(751)**	**(564)**	**80**
Asset-backed securities					Asset-backed securities	(751)	(564)	80
Exchange rate risk					**Exchange rate risk**	**(30,945)**	**(2,451)**	
Deposits					Deposits	(34,800)	(2,376)	-
Asset-backed securities					Asset-backed securities	3,855	(75)	
Interest rate and exchange rate risk					**Interest rate and exchange rate risk**	**(15,055)**	**(1,991)**	-
Bonds					Bonds	(15,055)	(1,991)	-
Hedges of net investments in foreign operations	**782,631**	**-**	**-**	**-**	**Hedges of net investments in foreign operations**			
Exchange rate risk	**782,631**	**-**	**-**	**-**	**Exchange rate risk**	-	-	-
Firm commitment	13,168	-	-	-	Firm commitment	-	-	-
Equity instruments	769,463	-	-	-	Equity instruments	-	-	-
	12,055,836	**3,032,899**	**33,426**	**(15,450)**		**(60,409)**	**(5,006)**	**80**

The cumulative amount of adjustments to fair value hedging instruments remaining on the balance sheet for hedged items no longer adjusted for hedging gains and losses at December 31, 2019 is EUR (12) million.

The net impact of the hedges is as follows:

	2018				
	EUR Thousands				
				Amount reclassified to profit or loss due to:	
	Gains/(losses) recognised in other comprehensive income	**Ineffective coverage recognised in the income statement**	**Income statement line item that includes the ineffectiveness of cash flows**	**Covered transaction affecting the income statement**	**Income statement line item including the reclassified items:**
Fair value hedges	**-**	**1,441**			
Interest rate risk	**-**	**(3,249)**	**Gains/(losses) financial assets and liab.**		
Deposits	-	(245)	Gains/(losses) financial assets and liab.	-	
Fixed income securities loans	-	(2,520)	Gains/(losses) financial assets and liab.	-	
Liquidity facilities	-	(876)	Gains/(losses) financial assets and liab.	-	
Issuance assurance	-	392	Gains/(losses) financial assets and liab.	-	
Interest rate and exchange risk	**-**	**4,690**	**Gains/(losses) financial assets and liab.**	**-**	
Asset Back Security	-	4,690	Gains/(losses) financial assets and liab.	-	
				-	
Cash flow hedges	**(3,563)**	**(146)**		**(16,161)**	
Interest rate risk	**938**	**48**	**Gains/(losses) financial assets and liab.**	**(1,336)**	
Asset backed securities	938	48	Gains/(losses) financial assets and liab.	(1,336)	Net interest income/Gains/(losses) financial inst.
Exchange rate risk	**(3,996)**	**-**	**Gains/(losses) financial assets and liab.**	**(5,764)**	
Deposits	(1,158)	-	Gains/(losses) financial assets and liab.	(5,740)	Net interest income/Gains/(losses) financial inst.
Financial assurance	(2,838)	-	Gains/(losses) financial assets and liab.	(24)	Net interest income/Gains/(losses) financial inst.
Interest rate and exchange rate risk	**(505)**	**(194)**	**Gains/(losses) financial assets and liab.**	**(9,061)**	
Deposits	(504)	-	Gains/(losses) financial assets and liab.	(8,570)	Net interest income/Gains/(losses) financial inst.
Bonds	(1)	(194)	Gains/(losses) financial assets and liab.	(491)	Net interest income/Gains/(losses) financial inst.
	(3,563)	**1,295**		**(16,161)**	

	2018				
	EUR Thousands				
				Amount reclassified to profit or loss due to:	
	Gains/(losses) recognised in other comprehensive income	**Ineffective coverage recognised in the income statement**	**Income statement line item that includes the ineffectiveness of cash flows**	**Covered transaction affecting the income statement**	**Income statement line item including the reclassified items:**
Fair value hedges	**-**	**16,755**			
Interest rate risk	**-**	**11,050**	**Gains/(losses) financial assets and liab.**		
Deposits	-	(1,314)	Gains/(losses) financial assets and liab.	-	
Bonds	-	(20)	Gains/(losses) financial assets and liab.	-	
Fixed income securities loans	-	10,588	Gains/(losses) financial assets and liab.	-	
Liquidity facilities	-	1,812	Gains/(losses) financial assets and liab.	-	
Issuance assurance	-	(16)	Gains/(losses) financial assets and liab.	-	
Interest rate and exchange risk	**-**	**5,705**	**Gains/(losses) financial assets and liab.**	**-**	
Bonds	-	5,705	Gains/(losses) financial assets and liab.	-	
				-	
Cash flow hedges	**(4,360)**	**1,292**		**(10,862)**	
Interest rate risk	**2,381**	**(93)**	**Gains/(losses) financial assets and liab.**	**(846)**	
Deposits	3,426	-	Gains/(losses) financial assets and liab.	-	Net interest income/Gains/(losses) financial inst.
Asset backed securities	(1,045)	(93)	Gains/(losses) financial assets and liab.	(846)	Net interest income/Gains/(losses) financial inst.
Exchange rate risk	**(2,098)**	**114**	**Gains/(losses) financial assets and liab.**	**(10,001)**	
Deposits	(2,376)	-	Gains/(losses) financial assets and liab.	(8,237)	Net interest income/Gains/(losses) financial inst.
Bonds	-	-	Gains/(losses) financial assets and liab.	134	Net interest income/Gains/(losses) financial inst.
Asset backed securities	278	114	Gains/(losses) financial assets and liab.	(1,898)	Net interest income/Gains/(losses) financial inst.
Interest rate and exchange rate risk	**(4,643)**	**1,271**	**Gains/(losses) financial assets and liab.**	**(15)**	
Deposits	67	-	Gains/(losses) financial assets and liab.	(15)	Net interest income/Gains/(losses) financial inst.
Bonds	(4,710)	1,271			
	(4,360)	**18,047**		**(10,862)**	

The impact in shareholder's equity is as follows:

	EUR Thousands
Balance at beginning of period 2018	**(196)**
Cash flow hedges	**(4,360)**
Interest rate risk	**2,381**
Transferred to the income statement	846
Other reclassifications	1,535
Exchange rate risk	**(2,098)**
Transferred to the income statement	10,001
Other reclassifications	**(12,099)**
Interest rate and exchange rate risk	**4,643**
Transferred to the income statement	15
Other reclassifications	(4,658)
Taxation	840
Balance at beginning of period 2019	**(3,716)**
Cash flow hedges	**(3,563)**
Interest rate risk	**938**
Transferred to the income statement	*1,336*
Other reclassifications	*(398)*
Exchange rate risk	**(3,996)**
Transferred to the income statement	*5,764*
Other reclassifications	*(9,760)*
Interest rate and exchange rate risk	**(505)**
Transferred to the income statement	*9,061*
Other reclassifications	*(9,566)*
Taxation	1,372
Balance at end of period 2019	**(5,907)**

30. Interest income

"Interest Income" in the consolidated income statements for 2019 and 2018 includes the interest accruing in the year on all financial assets whose implicit or explicit return is calculated by applying the effective interest method, irrespective of measurement at fair value, with the exception of trading derivatives; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest income earned by the Group in 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Loans and advances - Central banks	77	39
Loans and advances - Credit institutions	17,845	25,182
Debt instruments	9,015	5,170
Loans and advances - Customers	3,935,870	3,766,957
Non-performing assets	5,263	5,902
Rectification of income as a result of hedging transactions and other interest	(23,550)	(36,078)
	3,944,520	**3,767,172**

Most of the interest income was generated by the Group's financial assets that are measured at amortised cost.

31. Interest expenses

“Interest Expense” in the consolidated income statements for 2019 and 2018 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, with the exception of trading derivatives; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions for pensions..

The detail of the main items of interest expense and similar charges incurred by the Group in 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Deposits from the Bank of Spain and other	11,901	9,338
Deposits from credit institutions	51,587	40,410
Customer deposits	196,881	193,714
Marketable debt securities	209,410	165,251
Subordinated liabilities	33,027	29,227
Provisions for pensions (Notes 2-r, 2-s y 21)	11,499	9,097
Rectification of expenses as a result of hedging transactions	(13,617)	(16,354)
Other interest	15,803	23,928
	516,491	**454,611**

(*) Includes the interest on post-employment and other long-term benefits of Spanish entities, amounting to EUR 224 thousand and EUR 330 thousand, respectively in 2019 (EUR 227 thousand and EUR 401 thousand in 2018) and of foreign entities, amounting to EUR 10,945 thousand in 2019 (EUR 8,469 thousand in 2018) - see Note 21-.

Most of the interest expense were generated by the Group's financial liabilities that are measured at amortised cost.

32. Income from entities accounted for using the equity method

“Income from entities accounted for using the equity method” in the consolidated income statements for 2019 and 2018 includes the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities.

The detail of this item on 31 December 2019 and 2018 is as follows (see Note 12):

	EUR Thousands	
	2019	2018
Santander Consumer Bank S.A. (Poland)	47,904	52,343
Fortune Auto Finance Co., Ltd.	20,708	24,476
PSA Insurance Europe, Ltd	7,748	6,003
PSA Life Insurance Europe Ltd	5,654	4,038
Santander Consumer Multirent, S.A.	426	664
PSA Finance Polska SP. Z O.O.	868	794
Other	183	217
	83,491	**88,535**

33. Commission income

The balance of “Commission Income” in the consolidated income statements for 2019 and 2018 comprises the amount of the fees and commissions earned in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Income” in the accompanying consolidated income statements.

The detail of “Commission Income” in the consolidated income statements for 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Collection and payment services:		
Bills	1,323	1,250
Demand accounts	23,689	13,694
Cards	70,194	72,972
Checks and orders	30,316	26,512
	125,522	114,428
Marketing of non-banking financial products:	820,098	785,541
	820,098	785,541
Securities services:		
Securities trading	36,139	14,008
Administration and custody	2,102	2,639
Equity management	4,549	-
	42,790	16,647
Other:		
Financial guarantees	5,686	6,074
Commitment fees	2,370	2,456
Other fees and commissions	122,269	157,087
	130,325	165,617
	1,118,735	**1,082,233**

34. Commission expenses

The balance of “Commission Expense” in the consolidated income statements for 2019 and 2018 comprises the amount of fees and commissions paid or payable by the Group accruing in the year, except those that form an integral part of the effective interest rate on financial instruments, which are recognised under “Interest Expense” in the accompanying consolidated income statements.

The detail of “Commission expenses” in the consolidated income statements for the years ended 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Brokerage fees on lending and deposit transactions	352	20,274
Fees and commissions assigned in respect of off-balance-sheet risks	9,483	1,642
Fees and commissions assigned for collection and return of bills	7,896	6,746
Fees and commissions assigned in other concepts	11,550	11,345
Fees and commissions assigned for cards	17,928	27,414
Fees and commissions assigned for securities	19,876	16,216
Fees and commissions assigned to intermediaries	60,730	60,423
Other fees and commissions for placement of insurance	153,114	130,554
Other fees and commissions	50,464	43,329
	331,393	**317,943**

35. Gains or losses on financial assets and liabilities

The detail of this item of the consolidated income statements for 2019 and 2018, by nature of the instrument that originates the change, is as follows:

	EUR Thousands	
	2019	2018
	Income/(expenses)	
Gains/(losses) on financial instruments not at fair value through profit or loss, net	(215)	(93)
Financial assets at amortised cost	*-*	*(341)*
Other	*(215)*	*248*
Gains/(losses) on financial instruments held for trading, net	(1,956)	(5,454)
Gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss, net	(14)	183
Gains/(losses) from hedge accounting, net (Note 29)	1,295	18,046
	(890)	**12,682**

36. Currency translation differences (net)

"Currency translation differences (net)" in the consolidated income statements for 2019 and 2018 includes basically the gains or losses on currency trading, the differences that arise on translating monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

37. Other operating income

The detail of "Other Operating Income" in the consolidated income statements for 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Sales and income from non-financial services (*)	59,011	55,606
Other	90,460	48,410
	149,471	**104,016**

(*) Corresponds fundamentally to income from operating leases on vehicles from Santander Consumer Renting S.L. in Spain on 31 December 2019 and 2018

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38. Other operating expenses

The detail of "Other Operating Expenses" in the consolidated income statements for 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Contributions to deposit guarantee funds and other national resolution funds (Note 1-g)	56,664	57,470
Changes in inventories (*)	36,743	41,881
Other	76,917	41,399
	170,324	**140,750**

(*) Relates mainly to the expenses associated with the vehicle operating lease business in Spain.

39. Staff costs

"Staff Costs" in the consolidated income statements for 2019 and 2018 includes the remuneration accruing in the year in any respect to permanent or temporary employees on the payroll, regardless of their functions or duties.

The detail of "Staff Costs" on 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Wages and salaries	572,372	551,662
Social security costs	88,529	77,507
Additions to pension provisions (Note 21) (*)	13,826	15,539
Contributions to defined contribution pension funds (Note 21)	38,524	40,138
Contributions to plans - Spanish entities	*474*	-
Contributions to plans - foreign entities	*38,050*	*40,138*
Share-based payment costs	135	174
Other staff costs	72,633	69,331
Termination benefits	2,353	2,607
	788,372	**756,958**

(*) Of which:

- In 2019, EUR 63 thousand relate to "current service cost of defined benefit post-employment obligations Spanish entities" (EUR 57 thousand in 2018) (see Notes 2-r and 21).
- In 2019 EUR 8,960 thousand relate to "current service cost of defined benefit post-employment obligations - Germany" (2018: EUR 11,751 thousand in 2018) (see Notes 2-r and 21).
- In 2019, EUR 4,795 thousand relate to "current service cost of defined benefit post-employment obligations – foreign entities without Germany" (EUR 3,723 thousand in 2018) (see Notes 2-r and 21).
- In 2019, EUR 8 thousand relate to "current service cost of other long-term defined benefit obligations - Spanish entities" (EUR 8 thousand in 2018) (see Notes 2-s and 21).

The average number of employees at the Group in 2019 and 2018, by professional category, was as follows:

	Avg no. of employees	
	2019	2018
The Bank:		
Senior executives	-	-
Middle management	-	-
Clerical staff	3	3
	3	3
Other companies (*)	9,508	9,691
	9,511	**9,694**

The functional breakdown, by gender, of the number of employees at the Group on 31 December 2019 and 2018 is as follows:

	2019			2018		
	Total	Men	Women	Total	Men	Women
Senior executives	81	73	8	81	76	5
Middle management	911	579	332	848	548	300
Clerical staff and other	8,470	4,017	4,453	8,669	4,081	4,588
	9,462	**4,669**	**4,793**	**9,598**	**4,705**	**4,893**

On 31 December 2019, the Board of Directors of the Bank had twelve members (twelve in 2018), of whom three were women (two in 2018).

The work relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

As of 31 December 2019 and 2018, certain employees of the Group's subsidiaries are beneficiaries of the retribution plans set forth in Note 5.

40. Other administrative expenses

The detail of “Other Administrative Expenses” in the consolidated income statements for 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Property, fixtures and supplies	51,693	94,006
Other administrative expenses	27,474	17,858
Communications	47,939	47,973
Taxes other than income tax	51,122	30,585
Technology and systems	264,926	250,099
Public relations, advertising and publicity	89,844	81,946
Per diems and travel expenses	18,897	19,793
External services	205,571	235,961
Technical reports	83,059	65,477
Insurance premiums	4,674	4,308
Other	3,507	4,485
	848,706	**852,491**

“Technical reports” in the foregoing table includes the fees paid for the services provided by the auditor of the Bank and of certain Group companies, the detail being as follows:

	EUR Millions	
	2019	2018
Audit fees	11.2	10.5
Other verification services	1.4	1.1
Tax counselling services	0.1	-
Other services	1.5	1.4
Total	**14.2**	**13.0**

The heading "Audit fees" includes the fees corresponding to the audit of the individual and consolidated annual accounts of Santander Consumer Finance, SA, as the case may be, of the companies that are part of the Group, the internal control audit (SOx) for the entities of the Group that require so, the audit of the financial statements on June 30 and the mandatory regulatory reports required of the auditor, corresponding to the different locations of the Group. Whenever subsequent adjustments are appropriate, which in all cases are not very significant, in order to ease comparison, they are presented in this note in the corresponding year for the audit work. All other services are presented according to the approval date by the Audit Committee.

The main concepts included in "Other verification services" correspond to aspects such as the issuance of letters of conformity or other actions required by the regulations in relation to aspects such as, title of example, Securitization.

The services commissioned from the auditor of the Bank and of the consolidated financial statements meet the independence requirements stipulated in the Spanish Audit Law (Law 22/2015 of 20 July) and in the related implementing regulations, and in the Sarbanes-Oxley Act of 2002, and they did not involve the performance of any work that is incompatible with the audit function.

41. Impairment charges or reversal of non-financial assets

The detail of “Impairment charges or reversal of non-financial assets” for the years 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
Tangible assets (*)	3,436	4,345
Intangible assets (Note 15)	18,305	2,383
Other	9,259	66
	31,000	**6,794**

(*) As of 31 December 2019 and 2018, no impairment charges have been registered in relation with own-use tangible assets – see Note 13.

The amounts registered under “impairment charges or reversal of non-financial assets – intangible assets” for the years ended 31 December 2019 and 2018 corresponds mainly to impairment charges derived from the obsolescence of intangible assets – see note 15.

42. Gains or losses on non-financial assets and investments, net

The detail of “gains or losses on non-financial assets and investments, net” for the years ended 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
	Income/(Expenses)	
Gains:		
Property, plant and equipment and intangible assets (Note 13)	9,622	489
Investments	-	-
	9,622	489
Losses:		
Property, plant and equipment and intangible assets (Note 13)	(1,165)	(1,471)
Investments (Note 3-b)	-	(526)
	(1,165)	(1,997)
	8,457	**(1,508)**

43. Gains or losses on non-current assets not classified as held for sale from discontinued operations

The detail of this line item in the consolidated income statements for the years ended 31 December 2019 and 2018 is as follows:

	EUR Thousands	
	2019	2018
	Income/(Expenses)	
Net gains/(losses) on disposals (Note 11):	(1,279)	(761)
Tangible assets	*(627)*	*(662)*
Other	*(652)*	*(99)*
Impairment losses (net) (Note 11)	(1,789)	(769)
	(3,068)	**(1,530)**

44. Other information

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheets as of 31 December 2019 and 2018 is as follows:

	2019							
	EUR Thousands							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total	Average interest rate
Assets:								
Cash and balances at central banks	7,828,983	-	-	-	-	-	7,828,983	0.36%
Financial assets at fair value through other comprehensive income	-	200,891	251,238	478,547	-	1,000	931,676	
Debt instruments (Note 7)	-	200,891	251,238	478,547	-	1,000	931,676	0.00%
Financial assets at amortised cost	2,443,710	6,299,000	7,804,698	20,636,116	53,285,007	9,715,919	100,184,450	
Debt instruments (Note 7)	-	73,310	616,302	803,397	118,112	7,715	1,618,836	1.32%
Loans and advances	2,443,710	6,225,690	7,188,396	19,832,719	53,166,895	9,708,204	98,565,614	
Central banks	-	2,765	-	-	-	-	2,765	0.00%
Credit institutions (Note 6)	218,680	7,818	2,006	3,318	32,415	-	264,237	0.82%
Customers (Note 10)	2,225,030	6,215,107	7,186,390	19,829,401	53,134,480	9,708,204	98,298,612	4.35%
	10,272,693	6,499,891	8,055,936	21,114,663	53,285,007	9,716,919	108,945,109	
Liabilities:								
Financial assets at amortised cost-								
Deposits	25,430,654	4,518,082	2,988,457	10,190,403	12,820,110	1,412,041	57,359,747	
Central banks (Note 17)	-	-	-	4,234,041	3,625,595	-	7,859,636	0.44%
Credit institutions (Note 17)	271,819	367,091	542,061	4,541,830	5,774,124	721,672	12,218,597	0.30%
Customers (Note 18)	25,158,835	4,150,991	2,446,396	1,414,532	3,420,391	690,369	37,281,514	0.53%
Debt instruments in issue (Note 19)	-	1,636,510	3,470,101	9,633,301	18,988,528	4,548,555	38,276,995	0.54%
Other (Note 20)	264,334	1,522,922	4,615	23,811	89,939	94,618	2,000,239	
	25,694,988	7,677,514	6,463,173	19,847,515	31,898,577	6,055,214	97,636,981	
Difference (assets – liabilities)	(15,422,295)	(1,177,623)	1,592,763	1,267,148	21,386,430	3,661,705	11,308,128	

	2018							
	EUR Thousands							
	On demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5+ years	Total	Average interest rate
Assets:								
Cash and balances at central banks	5,871,676	-	-	-	-	-	5,871,676	0.38%
Financial assets at fair value through other comprehensive income	-	50,563	220,583	983,474	-	1,000	1,255,620	
Debt instruments (Note 7)	-	50,563	220,583	983,474	-	1,000	1,255,620	0.00%
Financial assets at amortised cost	1,975,318	6,801,317	6,113,568	18,325,953	46,732,648	13,520,547	93,469,351	
Debt instruments (Note 7)	-	135,861	233,310	871,786	185,639	-	1,426,596	1.32%
Loans and advances	1,975,318	6,665,456	5,880,258	17,454,167	46,547,009	13,520,547	92,042,755	
Central banks	-	887	-	3,530	-	-	4,417	0.00%
Credit institutions (Note 6)	33,628	82,259	2,370	7,716	30,450	1,556	157,979	0.79%
Customers (Note 10)	1,941,690	6,582,310	5,877,888	17,442,921	46,516,559	13,518,991	91,880,359	4.10%
	7,846,994	6,851,880	6,334,151	19,309,427	46,732,648	13,521,547	100,596,647	
Liabilities:								
Financial assets at amortised cost-	19,161,648	7,260,693	6,295,922	15,700,936	35,650,287	5,108,091	89,177,577	
Deposits	19,020,872	4,279,104	3,951,252	8,668,654	19,581,867	609,026	56,110,775	
Central banks (Note 17)	-	-	-	-	7,039,711	-	7,039,711	0.40%
Credit institutions (Note 17)	340,297	558,012	1,597,594	4,832,257	6,878,626	323,179	14,529,965	1.07%
Customers (Note 18)	18,680,575	3,721,092	2,353,658	3,836,397	5,663,530	285,847	34,541,099	0.52%
Debt instruments in issue (Note 19)	-	2,375,881	2,336,236	7,030,063	16,057,511	4,474,996	32,274,687	0.78%
Other (Note 20)	140,776	605,708	8,434	2,219	10,909	24,069	792,115	
	19,161,648	7,260,693	6,295,922	15,700,936	35,650,287	5,108,091	89,177,577	
Difference (assets – liabilities)	(11,314,654)	(408,813)	38,229	3,608,491	11,082,361	8,413,456	11,419,070	

For a proper understanding of the information included in the tables above, it should be noted that the these were prepared taking into consideration the contractual maturities of the financial instruments detailed therein and, therefore, they do not take into account the stability of certain liabilities, such as the current accounts of customers, and the potential for renewal which has historically been a feature of the Group's financial liabilities. Since the tables include only financial instruments at year-end, they do not show the Group's investments or the cash flows generated therefrom, or the cash flows relating to the Bank's results.

b) Equivalent euro value of assets and liabilities

The detail of the equivalent euro value of the main foreign currency balances in the accompanying consolidated balance sheets as of 31 December 2019 and 2018, based on the nature of the related items, is as follows:

	Equivalent value in EUR millions			
	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Cash and balances at central banks	177	-	203	-
Financial instruments held for trading	1	-	5	7
Financial assets at fair value through other comprehensive income	3	-	2	-
Derivatives - hedge accounting	10	3	19	-
Assets included in disposal groups classified	1	-	1	-
Investments in joint ventures and associates	574	-	548	-
Tangible assets	76	-	26	-
Intangible assets	484	-	487	-
Tax assets and liabilities	63	127	26	83
Financial instruments at amortised cost	14,188	11,135	15,093	11,054
Liabilities included in disposal groups	-	-	-	-
Provisions	-	51	-	72
Other	100	153	119	173
	15,677	**11,469**	**16,529**	**11,389**

(*) Impairment value adjustments in foreign currencies not included

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are carried at fair value in the accompanying consolidated balance sheets, except for items included under cash, cash balances at central banks and others deposits on demand, loans and receivables, equity instruments whose market value, if any, cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof, if any.

Similarly, the Group’s financial liabilities -except for financial liabilities held for trading and derivatives-are carried at amortised cost in the accompanying consolidated balance sheets.

i. Financial assets at other than fair value

Following is a comparison of the carrying amounts on 31 December 2019 and 2019 of the Group's financial assets measured at other than fair value and their respective fair values at the end of 2019 and 2018:

	EUR Thousands									
	2019					2018				
Assets	Carrying amount	Fair Value	Level 1	Level 2	Level 3	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Loans and receivables										
Loans and advances	98,565,614	99,915,624	-	183,234	99,732,390	92,042,755	92,760,198	-	4,273,878	88,486,320
Debt instruments	1,618,836	1,618,777	1,611,077	7,700	-	1,426,596	1,426,857	1,396,489	18	30,350
	100,184,450	**101,534,401**	**1,611,077**	**190,934**	**99,732,390**	**93,469,351**	**94,187,055**	**1,396,489**	**4,273,896**	**88,516,670**

ii. Financial liabilities at other than fair value

Following is a comparison of the carrying amounts on 31 December 2019 and 2019 of the Group's financial liabilities measured at other than fair value and their respective fair values at the end of 2019 and 2018:

	EUR Thousands									
	2019					2018				
Liabilities	Carrying amount	Fair Value	Level 1	Level 2	Level 3	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Financial liabilities at amortized cost:										
Deposits	57,359,747	57,526,644	-	26,801,595	30,725,049	56,110,775	56,109,395	-	26,807,783	29,301,612
Debt securities in issue and other financial liabilities (*)	38,276,995	38,674,940	6,318,939	28,858,284	3,497,717	32,274,687	32,625,986	5,331,751	23,419,015	3,875,220
	95,636,742	**96,201,584**	**6,318,939**	**55,659,879**	**34,222,766**	**88,385,462**	**88,735,381**	**5,331,751**	**50,226,798**	**33,176,832**

(*) Additionally, other financial liabilities are registered amounting to EUR 2,000,239 Thousand at 31 December 2019 (EUR 792,115 thousand in 2018) *iii. Valuation methods and inputs used*

The main valuation methods and inputs used in the estimates as of 31 December 2019 and 2018 of the fair values of the financial assets and liabilities in the foregoing tables were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.

- Financial liabilities at amortised cost:

i) The fair value of deposits from central banks was taken to be their carrying amount since they are mainly short-term balances.

ii) Deposits from credit institutions: the fair value was obtained by the present value method using market interest rates and spreads.

iii) Customer deposits: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the transactions and the Group’s current cost of funding in similar transactions.

iv) Debt securities in issue: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads.

45. Geographical and business segment reporting

a) Geographical segments

This primary level of segmentation, which is based on the Group's management structure, comprises six segments relating to six operating areas. The operating areas, which include all the business activities carried on therein by the Group, are Spain, Italy, Germany, Scandinavia, France and Other.

The financial statements of each operating segment are prepared by aggregating the figures for the Group’s various business units. The basic information used for segment reporting comprises the accounting data of the legal units composing each segment and the data available from the management information systems. All segment financial statements have been prepared on a basis consistent with the accounting policies used by the Group. Consequently, the sum of the figures in the income statements of the various segments is equal to those in the consolidated income statements. With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the “Intra-Group Eliminations” column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

Additionally, for segment presentation purposes, the shareholders' equity shown for each geographical unit is that reflected in the related separate financial statements and is offset as a capital endowment made by the Spain area, which acts as the holding unit for the other businesses; thus, the Group's total shareholders' equity is reflected.

The condensed balance sheets and income statements of the various geographical segments are as follows:

Consolidated balance sheet (Condensed)	EUR Thousands															
	2019								2018							
	Spain	Italy	Germany	Nordics	France	Other	Intra-group eliminations (*)	**Total**	Spain	Italy	Germany	Nordics	France	Other	Intra-group eliminations (*)	**Total**
Financial assets at amortised cost – Customers	15,241,248	9,186,320	35,504,430	16,362,029	13,967,505	7,499,645	537,435	98,298,612	14,217,019	8,517,931	33,435,690	16,011,411	12,098,050	7,162,146	438,112	91,880,359
Financial assets held-for-trading	(228,050)	2,165	3,145	2,342	1,924	-	238,615	20,141	-	2,698	1,634	6,475	2,202	-	4,280	17,289
Debt instruments	4	441,589	7,819	1,169,528	1	-	931,571	2,550,512	-	384,924	230	1,041,760	-	-	1,255,302	2,682,216
Financial assets at amortised cost – Central banks and credit institutions	3,689,340	388,798	108,499	1,500,050	138,632	8,512	(5,566,829)	267,002	2,292,558	314,480	84,270	981,900	15,879	884	(3,527,575)	162,396
Tangible and intangible assets	104,277	40,816	648,990	154,460	23,459	43,737	1,981,971	2,997,710	114,179	16,933	338,729	99,864	12,459	32,042	1,948,008	2,562,214
Cash and other	1,141,410	647,359	4,738,875	507,148	1,547,167	576,467	1,290,800	10,449,226	517,612	468,309	3,692,357	474,538	1,254,099	477,442	1,423,445	8,307,802
Total assets	**19,948,229**	**10,707,047**	**41,011,758**	**19,695,557**	**15,678,688**	**8,128,361**	**(586,437)**	**114,583,203**	**17,141,368**	**9,705,275**	**37,552,910**	**18,615,948**	**13,382,689**	**7,672,514**	**1,541,572**	**105,612,276**
Customer deposits	445,135	1,256,437	23,630,495	6,638,852	2,838,859	1,792,525	679,212	37,281,515	378,962	1,122,679	23,162,938	5,492,945	2,462,680	1,559,990	360,905	34,541,099
Debt securities in issue	3,751,339	587,974	4,034,550	5,380,028	5,972,918	-	18,550,186	38,276,995	3,335,175	151,059	3,108,973	5,309,260	4,576,500	34,033	15,759,687	32,274,687
Deposits from central banks and credit institutions	14,081,802	7,124,200	7,816,579	4,871,143	4,058,807	4,978,350	(22,852,648)	20,078,233	10,308,338	6,890,065	6,463,994	5,345,993	4,015,489	4,782,686	(16,236,889)	21,569,676
Other	1,120,436	773,948	1,930,223	450,750	2,066,457	409,325	306,262	7,057,401	1,892,192	677,884	1,237,946	333,278	1,640,172	388,473	(989,106)	5,180,839
Shareholders' equity	549,517	964,488	3,599,911	2,354,784	741,647	948,161	2,730,551	11,889,059	1,226,701	863,588	3,579,059	2,134,472	687,848	907,332	2,646,975	12,045,975
Total funds under management	**19,948,229**	**10,707,047**	**41,011,758**	**19,695,557**	**15,678,688**	**8,128,361**	**(586,437)**	**114,583,203**	**17,141,368**	**9,705,275**	**37,552,910**	**18,615,948**	**13,382,689**	**7,672,514**	**1,541,572**	**105,612,276**

Consolidated income statement (Condensed)	2019							2018						
	Spain	Italy	Germany	Nordics	France	Other (*)	Total	Spain	Italy	Germany	Nordics	France	Other (*)	Total
NET INTEREST INCOME	**658,380**	**319,787**	**970,759**	**727,369**	**439,913**	**311,821**	**3,428,029**	**599,945**	**314,535**	**979,885**	**722,250**	**392,187**	**303,759**	**3,312,561**
Income from entities accounted for using the equity method	15,057	2,239	22,685	879	4,872	37,759	83,491	12,653	2,103	19,327	3,372	3,504	47,576	88,535
Net commissions	79,806	77,578	414,073	37,721	112,643	65,521	787,342	94,103	59,077	388,856	43,577	103,955	74,722	764,290
Profit/(loss) from financial operations	(2,646)	(1,029)	1,321	307	(2,200)	(5,836)	(10,083)	12,149	1,923	32,969	6,377	1,388	(49,115)	5,691
Other operating income/(expense)	4,412	(8,405)	(14,539)	5,471	(1,787)	(5,869)	(20,717)	6,707	(5,356)	(29,717)	920	(2,478)	(6,689)	(36,613)
OPERATING INCOME	**755,009**	**390,170**	**1,394,299**	**771,747**	**553,441**	**403,396**	**4,268,062**	**725,557**	**372,282**	**1,391,320**	**776,496**	**498,556**	**370,253**	**4,134,464**
Administrative and general expenses	(227,696)	(136,273)	(660,053)	(280,725)	(183,633)	(148,698)	(1,637,078)	(222,045)	(132,303)	(657,742)	(286,136)	(176,715)	(134,508)	(1,609,449)
Staff costs	(90,432)	(63,096)	(353,054)	(135,206)	(81,130)	(65,454)	(788,372)	(89,446)	(60,407)	(306,520)	(149,030)	(76,738)	(74,817)	(756,958)
Other	(137,264)	(73,177)	(306,999)	(145,519)	(102,503)	(83,244)	(848,706)	(132,599)	(71,896)	(351,222)	(137,106)	(99,977)	(59,690)	(852,491)
Amortisation	(10,711)	(12,225)	(86,994)	(31,239)	(7,802)	(15,138)	(164,109)	(8,478)	(6,074)	(84,797)	(31,468)	(5,703)	(17,113)	(153,633)
Provisions or reversal from provisions, net	18,804	(32,225)	(3,224)	(1,979)	(682)	(55,712)	(75,018)	(2,329)	(8,691)	(18,534)	(33,468)	(3,233)	(11,255)	(77,510)
Impairment loss charges (net)	(123,142)	(23,067)	(64,145)	(79,518)	(47,128)	(43,934)	(380,934)	(84,955)	(50,092)	(85,090)	7,491	(16,684)	(29,602)	(258,932)
NET OPERATING INCOME	**412,264**	**186,380**	**579,883**	**378,286**	**314,196**	**139,914**	**2,010,923**	**407,750**	**175,122**	**545,157**	**432,915**	**296,221**	**177,775**	**2,034,940**
Other	(287)	(1,495)	(15,623)	(1,118)	(8,153)	1,065	(25,611)	(288)	(1,227)	(6,530)	(35)	265	(2,017)	(9,832)
PROFIT OR LOSS BEFORE TAX	**411,977**	**184,885**	**564,260**	**377,168**	**306,043**	**140,979**	**1,985,312**	**407,462**	**173,895**	**538,627**	**432,880**	**296,486**	**175,758**	**2,025,108**
Taxation	(109,629)	(59,464)	(181,987)	(86,437)	(92,805)	(44,923)	(575,245)	(98,029)	(59,164)	(162,201)	(101,714)	(96,949)	(47,885)	(565,942)
PROFIT OR LOSS IN RESPECT OF CONTINUING OPERATIONS	**302,348**	**125,421**	**382,273**	**290,731**	**213,238**	**96,056**	**1,410,067**	**309,433**	**114,731**	**376,426**	**331,166**	**199,537**	**127,873**	**1,459,166**
Profit or loss in respect of discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CONSOLIDATED PROFIT OR LOSS	**302,348**	**125,421**	**382,273**	**290,731**	**213,238**	**96,056**	**1,410,067**	**309,433**	**114,731**	**376,426**	**331,166**	**199,537**	**127,873**	**1,459,166**
Attributable to the parent	**227,367**	**106,438**	**360,548**	**290,731**	**86,065**	**62,218**	**1,133,367**	**242,793**	**101,152**	**349,301**	**331,168**	**90,402**	**104,115**	**1,218,931**

(*) Includes reconciliation between segment information and the consolidated income statements, as well as corporate activities.

Additionally, and in agreement with regulatory requirements applicable to the Bank, below is a detail:

1. By the geographical areas indicated in the aforementioned legislation, of the balance of "Interest and Similar Income" recognised in the consolidated income statements for 2019 and 2018:

	EUR Thousands	
	2019	2018
Spain	780,199	718,485
Abroad:		
European Union	2,419,289	2,335,426
OECD countries	745,032	713,261
Other countries	-	-
	3,164,321	3,048,687
Total	**3,944,520**	**3,767,172**

2. Of revenue (interest income, dividend income, commission income, gains/(losses) on financial instruments not at fair value through profit or loss, gains/(losses) on financial assets held for trading, gains/(losses) from hedge accounting, and other operating income) by geographical segment as presented to the Group:

	Revenue (EUR Thousands)					
	From external customers		Inter-segment revenue		Total revenue	
	2019	2018	2019	2018	2019	2018
Spain and Portugal	1,009,677	975,181	258,664	230,871	1,268,341	1,206,052
Italy	517,685	500,043	1,860	1,535	519,545	501,578
Germany	1,683,006	1,602,055	429,410	310,888	2,112,416	1,912,943
Scandinavia	884,714	852,396	69,494	73,699	954,208	926,095
France	639,664	571,641	438,333	402,551	1,077,997	974,192
Other	477,225	464,908	74,097	80,596	551,322	545,504
Inter-segment revenue adjustments and eliminations	-	-	*(1,271,858)*	*(1,100,140)*	*(1,271,858)*	*(1,100,140)*
Total	**5,211,971**	**4,966,224**	**-**	**-**	**5,211,971**	**4,966,224**

b) Business segments

At the secondary level of segment reporting, the Group is structured into three businesses, one for each of the main products marketed.

The "Automotive" business segment comprises all the businesses related to the financing of new and used vehicles, including operating and finance lease transactions.

The "Consumer Finance and Cards" business segment reflects the income from the consumer finance business not included in the Direct Finance segment, as well as the card financing, issue and management business.

The “Direct Finance” business segment includes the results from the consumer finance business conducted through own channels, with no dealer intermediation.

“Other Business” includes operations that are not included in any of the aforementioned categories, mainly mortgages and the contribution to consolidated results of all the activities performed by the Group related to secured lending, as well as the inventory credit (“crédito stock”) business, which includes the contribution to the Group of all the transactions related to the “crédito stock” product.

The condensed consolidated income statements for 2019 and 2018, by business, are as follows

Consolidated income statement (Condensed)	EUR Thousands			
	2019			
	Vehicles	Consumer Financing	Other (*)	Total
NET INTEREST INCOME	**2,054,800**	**1,158,900**	**214,329**	**3,428,029**
Income from entities accounted for using the equity method	74,200	10,500	(1,209)	83,491
Net commissions	448,500	270,900	67,942	787,342
Profit/(loss) from financial operations	(2,500)	-	(7,583)	(10,083)
Other operating income	23,300	2,600	(46,617)	(20,717)
OPERATING INCOME	**2,598,300**	**1,442,900**	**226,862**	**4,268,062**
Administrative and general expenses	(1,065,038)	(687,165)	115,125	(1,637,078)
Staff costs	(486,438)	(293,795)	(8,139)	(788,372)
Other	(578,600)	(393,370)	123,264	(848,706)
Amortisation	(52,976)	(81,287)	(29,846)	(164,109)
Provisions	(213,100)	(160,000)	298,082	(75,018)
Impairment losses on financial assets (net)	503,652	271,817	(1,156,403)	(380,934)
NET OPERATING INCOME	**1,770,838**	**786,265**	**(546,180)**	**2,010,923**
Other	(225,340)	(95,265)	294,994	(25,611)
PROFIT/(LOSS) BEFORE TAX	**1,545,498**	**691,000**	**(251,186)**	**1,985,312**
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	**1,094,700**	**495,300**	**(179,933)**	**1,410,067**
Profit(/loss) in respect of discontinued operations	-	-	-	
CONSOLIDATED PROFIT/(LOSS)	**1,094,700**	**495,300**	**(179,933)**	**1,410,067**

Consolidated income statement (Condensed)	EUR Thousands			
	2018			
	Vehicles	Consumer Financing	Others (*)	Total
NET INTEREST INCOME	**1,906,900**	**1,138,400**	**267,261**	**3,312,561**
Income from entities accounted for using the equity method	67,700	9,300	11,535	88,535
Net commissions	425,400	272,600	66,290	764,290
Profit/(loss) from financial operations	31,900	14,000	(40,209)	5,691
Other operating income	1,200	6,000	(43,813)	(36,613)
OPERATING INCOME	**2,433,100**	**1,440,300**	**261,064**	**4,134,464**
Administrative and general expenses	(1,022,392)	(712,101)	125,045	(1,609,448)
Staff costs	(520,677)	(344,481)	108,200	(756,958)
Other	(501,715)	(367,620)	16,845	(852,490)
Amortisation	(55,580)	(63,041)	(35,012)	(153,633)
Provisions	(146,400)	(95,100)	163,990	(77,510)
Impairment losses on financial assets (net)	472,767	340,243	(1,071,942)	(258,932)
NET OPERATING INCOME	**1,681,494**	**910,301**	**(556,855)**	**2,034,940**
Other	(208,593)	(138,601)	337,362	(9,832)
PROFIT/(LOSS) BEFORE TAX	**1,472,901**	**771,700**	**(219,493)**	**2,025,108**
PROFIT/(LOSS) IN RESPECT OF CONTINUING OPERATIONS	**1,040,000**	**559,400**	**(140,234)**	**1,459,166**
Profit(/loss) in respect of discontinued operations	-	-	-	-
CONSOLIDATED PROFIT/(LOSS)	**1,040,000**	**559,400**	**(140,234)**	**1,459,166**

(*) Includes mainly the results from the deposit and managed asset businesses, which are not individually material for the Group as a whole, and those arising from the Group’s financial management activity.

46. Related parties

Following is a detail of the transactions performed by the Group with its related parties on 31 December 2019 and 2018, distinguishing between associates, Santander Group entities, members of the Bank's Board of Directors and the Bank’s senior managers, and of the income and expenses arising from the transactions with these related parties in 2019 and 2018. Related party transactions were made on terms equivalent to those prevailing in arm's-length transactions.

	EUR thousand							
	2018				2019			
	Associates	Santander Group entities (*)	Board Members (*)	Senior management (**)	Associates	Santander Group Entities	Board Members (**)	Senior Management (**)
Assets:								
Cash, cash balances at central banks and other deposits on demand	-	644,263	-	-	-	440,972	-	-
Debt instruments	-	-	-	-	-	-	-	-
Loans and advances:	243,203	300,337	-	5	157,298	413,582	-	6
Customers	219,696	232,322	-	5	133,951	296,851	-	6
Credit institutions	23,507	68,015	-	-	23,347	116,731	-	-
Trading Derivatives (Note 9)	-	10,761	-	-	-	4,103	-	-
Hedging derivatives	-	17,477	-	-	-	90,668	-	-
Other assets	6,589	1,856	-	-	4,346	19,054	-	-
Liabilities:							-	
Financial liabilities at amortized cost	94,238	8,692,183	-	542	81,749	11,501,520	-	717
Deposits from credit institutions (Note 17)	-	8,639,648	-	-	-	11,449,760	-	-
Customer deposits	94,238	52,535	-	542	81,749	51,760		717
Marketable debt securities	-	2,422,367	-	-	-	1,974,351	-	-
Other financial liabilities	22,121	678,125	-	-	17,305	55,999	-	-
Trading Derivatives (Note 9)	-	10,997	-	-	-	10,119	-	-
Hedging Derivatives	-	62,652	-	-	-	66,579	-	-
Other liabilities	596	25,706	-	-	194	17,941	-	-
Income statement								
Interest income	5,044	16,149	-	-	2,500	23,070	-	-
Interest expense	-	(59,383)	-	-	-	(36,081)	-	-
Commission income	117,076	55,720	-	-	636	2,098	-	-
Commission expense	-	(3,433)	-	-	-	(3,235)	-	-
Gains or losses on financial assets and liabilities no measured at fair value through profit or loss, net	-	(249)	-	-	5	-	-	-
Gains or losses of financial assets and liabilities held for trading, net	-	1,593	-	-	-	(2,365)	-	-
Gains or losses from hedge accounting, net	-	18,666	-	-	-	27,638	-	-
Exchange differences	-	(21,622)	-	-	-	46,515	-	-
Other operating expenses	494	6,051	-	-	736	4,097	-	-
Administrative expenses	(2,944)	(142,441)	-	-	(2,860)	(193,697)	-	-
Other gains/losses	-	-	-	-	(184)	(47)	-	-
Memorandum items					-	-	-	-
Contingent commitments	398,539	28,855	-	-	447,877	22,882	-	-
Contingent liabilities	-	465,050	-	-	249,570	516,681	-	-
Other commitments	-	280,287	-	-	-	228,857	-	-
							-	-

(*) Excluding those entities belonging to the Santander Group that were classified as associates in these notes to the consolidated financial statements.

(**) See Notes 5-b and 5-c.

47. Risk management

I. Risk management

Corporate principles

Santander Group, which is part Santander Consumer Finance Group, has set itself the strategic objective of achieving excellence in risk management. This has been a focal point of the Santander Group's activities throughout its history spanning more than 150 years.

The pace of change in risk management increased in 2018 in order to anticipate and meet the main challenges presented by a constantly changing economic, social and regulatory environment.

Consequently, the risk function is of greater significance than ever if the Santander Group is to continue to be a solid, safe and sustainable bank, an example for all the financial sector and a reference point for all who aspire to convert leadership in risks into a competitive advantage.

Santander Group aims to build a future based on advance management of all risks and protect its present through a robust control environment. Accordingly, the Group has determined that the risk function should be based on the following cornerstones, which are in line with the Santander Group's strategy and business model and take into account the recommendations of the supervisory and regulatory bodies and the best market practices:

1. The business strategy is defined by the risk appetite. The Santander Group's board determines the amount and type of risk that it considers reasonable to assume in implementing and developing its business strategy, in the form of objective verifiable limits that are consistent with the risk appetite for each significant activity.

2. All risks must be managed by the units that generate them using advanced models and tools that are integrated in the various businesses. The Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from different perspectives.

3. A forward-looking vision of all types of risks should be included in the risk identification, assessment and management processes.

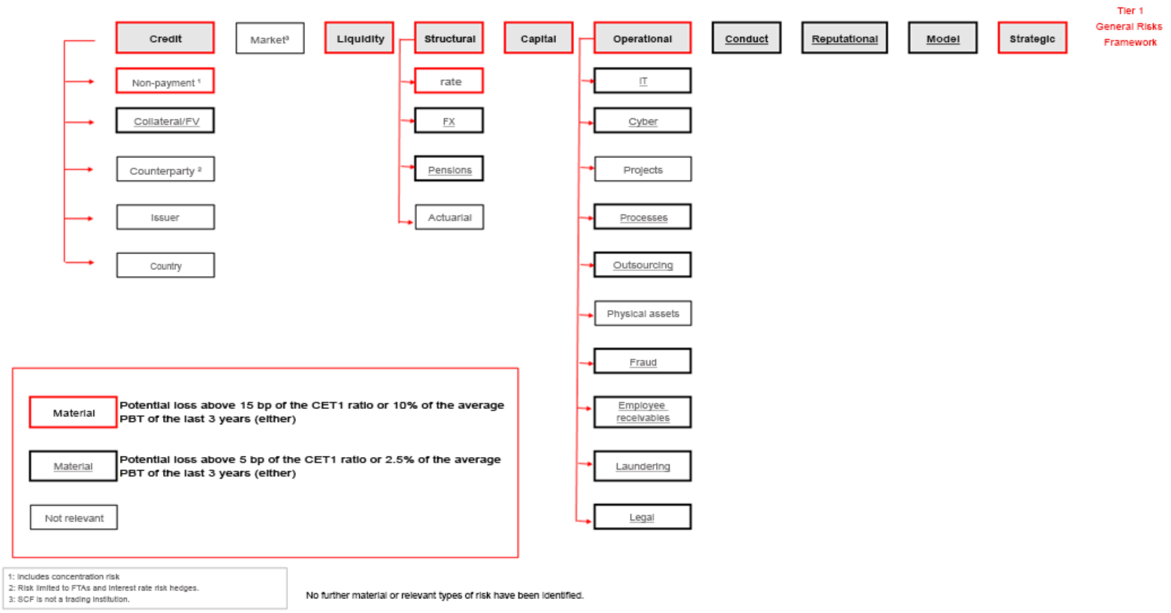
4. The independence of the risk function encompasses all risks and establishes an appropriate separation of the risk generating units from those responsible for risk control. Implies having sufficient authority and direct access to management and governing bodies responsible for setting and supervising risk strategy and policies.

5. The best processes and infrastructure must be used for risk management. The Santander Group aims to be a reference model in the development of infrastructures and processes supporting risk management.

6. A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. The Santander Group understands that advanced risk management cannot be achieved without a strong and stable risk culture being present in each of its activities.

Risk map

Santander Consumer Finance has in place a recurring process for identifying the material risks to which it is or could be exposed, as reflected in the risk map. Material risks must be covered by the risk profile assessment exercise, risk appetite, risk strategy and ICAAP/ILAAP. Below is the latest update of Santander Consumer Finance's risk map.



The first level includes the following risks (General Risks Framework):

- Credit risk is the risk of financial loss arising from a contractual breach or impairment of the credit quality of a customer or other third party that the Santander Group has financed or in respect of whom a contractual obligation has been assumed.

- Market risk is the risk incurred as a result of changes in market factors that affect the value of positions in trading portfolios.

- Liquidity risk is the risk that Santander Group does not have the liquid financial assets required to meet its obligations when due, or can only obtain them at a high cost.

- Structural risk is the risk arising from the management of balance sheet items, in the banking portfolio and in relation to insurance and pension activities.

- Capital risk is the risk that Santander Group does not have sufficient capital, in quantity or quality, to meet its internal business objectives, regulatory requirements or market expectations.

- Operational risk is defined as the risk of loss due to inadequacy or failure of internal processes, staff and systems or due to external events. This definition includes legal risk.

- Conduct risk: Conduct risk is the risk that arises from practices, processes or behaviours that are inappropriate or fail to comply with internal regulations, legality or supervisory requirements.

- Reputational risk: Reputational risk is defined as the risk of a current or potential adverse economic impact due to a less favourable perception of the bank by employees, customers, shareholders/investors and society in general.

- Model risk is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

- Strategic risk is the risk of loss or detriment arising from strategic decisions, or poor implementation of such decisions, affecting the long-term interests of our main stakeholders; or from an inability to adapt to the changing environment.

The material risks at Santander Consumer Finance are: credit, default (including concentration), liquidity, structural, structural interest rate, capital, operational and strategic.

The significant risks at Santander Consumer Finance are: collateral/residual value, structural exchange rate, pensions, IT, cyber, processes, outsourcing, fraud, personnel, money laundering, legal, conduct, reputational and model.

Residual Value Risk is defined as the risk of loss that an entity may have if at any time during the life of an automobile contract (loan, lease, etc.) the customer has the option or obligation to return the vehicle as full and final settlement, due to uncertainty about the sale price of the vehicle at that time

Corporate Risk Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite defined by the senior management of the Group and its units.

The following principles have been established for this purpose:

- Segregation between risk decisions and control.

- Enhancing the responsibility of risk generating functions in the decision-making process.

- Ensuring that all risk decisions have a formal approval process.

- Ensuring an aggregate overview of all risk types.

- Bolstering risk control committees.

- Maintaining a responsive and efficient committee structure, ensuring:

  - Participation and involvement of the governance bodies and senior management in all risk decisions, and supervision and control.

  - Coordination between the lines of defence in risk-management and control functions.

  - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.

  - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.

- Composition, with members of sufficient rank and representation of business and support areas.

- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and the Group, together with alignment of management models and risk control.

The governance bodies of the Group's units are set up in accordance with local legal and regulatory requirements, considering the complexity of each unit.

Roles and responsibilities

The risk function is built around three lines of defence. The roles and responsibilities of these lines form an integral part of the management and control of market, structural and liquidity risk, as explained below.

- First line of defence

This comprises the departments, business lines and activities that generate risk exposure. In the scope of this framework, this involves those responsible for management of the trading and balance sheet management portfolios.

This line of defence must ensure at all times:

- That all risks that might have a material impact are identified.
- Recurrent assessment of existing risks.
- The information needed to assess risks is available.
- The limits established for their activities are observed and respected.
- Second line of defence

This involves the specialist teams involved in risk control and monitoring. In the scope of this framework, this involves those responsible for monitoring activities involving the entity's portfolios and the performance and management of the risks assumed.

The second line of defence is an independent function within the risk function that complements the management and control functions of the first line of defence, ensuring at all times that:

- Limits are established and approved by the entity's governance bodies or their delegated bodies.
- The first line of defence understands and complies with these limits.
- The policies, procedures and limits established for trading activities and balance sheet management are respected.
- Systematic reviews are carried out of exposure to market, structural and liquidity risks.

- Robust, reliable and adequate mechanisms are in place for these activities.

The second line of defence must provide a consolidated overview of market, structural and liquidity risks.

- Third line of defence

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

Structure of Risk Committees

The board of directors is ultimately responsible for risk control and management, delegating these powers to commissions and committees. In Santander Consumer Finance, the Board is supported by the Risk, Regulation and Compliance Supervision Commission, which is an independent risk control and monitoring committee. These bylaw-mandated bodies form the highest level of risk governance:

Independent control bodies

- Risk, Regulation and Compliance Supervision Commission

  This Committee's role is to assist the Board of Directors in the monitoring and control or risks, defining and assessing risk policies, and determining the risk propensity and strategy.

  It is made up of external non-executive directors (mostly independent) and is chaired by an independent Board member.

The main duties of the Risk, Regulation and Compliance Supervision Commission are:

- To support and advise the Board of Directors in defining and assessing the Group's risk policies and determining its risk propensity and risk strategy.

- To ensure that the pricing policy for assets and liabilities offered to customers fully respects the business model and risk strategy.

- To understand and assess the management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control.

- To determine with the Board of Directors the nature, amount, format and frequency of the risk information to be received by the Committee and the Board.

- To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the Remunerations Committee, the Risk Committee examines whether the incentives policy planned for the remuneration scheme considers risk, capital, liquidity and the likelihood and suitability of profits.

- *Executive Risk Control Committee (ERCC):*

  This collegial body is responsible for overall monitoring and control of the Bank's risks, pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance, S.A.

  Its objectives are:

  - To provide a tool for effective risk control, ensuring that risks are managed in accordance with the Bank's risk appetite, as approved by the Board of Directors of Santander Consumer Finance, S.A., providing an overview of all of the risks identified in the risk map in the general risk framework, including identification and monitoring of actual and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

- To ensure the best estimate of provisions and that they are recognized correctly.

This Committee is chaired by the Bank's Chief Risk Officer (CRO) and is made up of members of its senior management. In addition to the risk function, which chairs the Committee, the compliance, finance and management control functions are also represented. The CROs of local entities can take part on a regular basis to report on the risk profile of the entities and other tasks.

The Executive Risk Control Committee reports to the Risk, Regulation and Compliance Supervision Commission, which it assists in its function of supporting the Board.

Decision-making bodies

- *Executive Risk Committee (ERC):*

The Executive Risk Committee is the collegiate body responsible for overall risk management pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance S.A., monitoring all the risks identified in the Bank that fall within its remit.

Its objective is to provide a tool for decisions on accepting risks at the highest level, ensuring that risk decisions are within the limits set by the Santander Consumer Finance Group's risk appetite. It reports on its activity to the Board or its committees, as required.

This Committee is chaired by an executive vice president of the Board of Directors and comprises the Bank's Chief Executive Officer (as an invitee), executive directors and other senior managers. The risk, financial, management control and compliance function are also represented, among others. The Bank's CRO is entitled to veto the Committee's decisions.

- *Proposal Sub-committee (RPSc):*

The Santander Consumer Finance Risk Proposal Sub-committee is a collegiate body in charge of making decisions regarding business and country transactions, credit risk, market, liquidity and structural issues, guaranteeing that the decisions made comply with the limits established in the appetite risk framework of the Group, as well as informing of its activity to the Risk Executive Committee when it is required so.

This Committee y chaired by Santander Consumer Finance’s CRO, and it comprises SCF executive positions including but not limited to the risk, financial, management control and compliance functions.

- *Credit Committee:*

The Credit Committee is the collegiate decision-making body responsible for recommending and validating credit risk proposals, ensuring that this respect the limits set in the risk appetite, reporting to the Executive Risk Committee, as required.

This Committee is chaired by the Bank's CRO and its members are senior managers. The risk and business functions are also represented.

- *Provisions Committee:*

The Provisions Committee is the decision-making body responsible for overall management of provisions in accordance with the powers delegated by the Executive Risk Committee of Santander Consumer Finance S.A., and supervises, within its sphere of action and decision, all matters relating to provisions in the SCF Group. Its purpose is to be the instrument for decision-making, ensuring that decisions are consistent with the governance of provisions established at the Santander Consumer Finance Group, and reporting to the Board of Directors or its committees on its activities when required.

Structural organisation of the risk function

The *Group Chief Risk Officer* (GCRO) is responsible for the risk function and reports to an Executive Vice-Chairman of the Bank, who is a member of the Board and the Chairman of the Executive Risk Committee. The GCRO advises and challenges the executive line and also reports independently to the Risk, Regulatory and Compliance Committee and to the Board.

Advanced risk management is based on a holistic, forward-looking approach to risks, based on intensive use of models, to foster a robust control environment that meets the requirements of the regulator and the supervisor.

The Santander Consumer Finance Group's risk management and control model shares certain core principles via its corporate frameworks. These frameworks are established by the Group. The Santander Consumer Finance Group adheres to them through its management bodies. They shape the relationship between the subsidiaries and the Group, including the role played by the latter in validating important decisions.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommend that each subsidiary should have a bylaw-mandated risk committee and an executive risk committee chaired by the Chief Executive Officer (CEO). This is in line with best corporate governance practices and consistent with those already in place in the Group, as set out in the corporate framework, to which Santander Consumer Finance has signed up.

Under the Group's internal governance framework, the management bodies of Santander Consumer Finance have their own model of risk powers (both quantitative and qualitative), which must follow the principles set out in the benchmark models and frameworks developed at the corporate level.

Given its capacity for comprehensive and aggregated oversight of all risks, the corporation exercises a validation and questioning role with regard to the operations and management policies of the units, insofar as they affect the Group’s risk profile.

Identifying and evaluating risks is a cornerstone for controlling and managing risk. The main risk types to which the Group is exposed are credit risk, market risk, operational risk and compliance and conduct risk.

II. Credit Risk

Credit risk stems from the possibility of losses arising from the failure of clients or counterparties to meet their financial obligations with the Group, in full or in part.

The risk function in the Group is organised by customer type, distinguishing between individualised and standard customers throughout the risk-management process:

- Individualised customers are those assigned to a risk analyst, mainly because of the risk they entail. This category includes Wholesale Banking companies and some Retail Banking companies. Risk management involves expert analysis, complemented by decision-making support tools based on internal risk-assessment models.

- Standard risks are those customers to whom no risk analyst is expressly assigned. They generally include risk with individuals, individual businesspeople and non-individualised retail banking companies. Management of these risks is based on internal-assessment and automatic-decision models, complemented by teams of analysts specialising in specific risk types when the model does not cover the risk or is not sufficiently accurate.

Key figures and change over time

Santander Consumer Finance's credit risk portfolio is characterised by its diversified geographic distribution and predominance of retail banking activity.

a) Global credit risk map 2019

The following table details the global map of SCF's gross credit risk exposure by geographic area:

SCF Group - Gross credit risk exposure			
	2019 (€ million)	Change on December 2018	% portfolio
Spain and Portugal	17,624	6.71%	17.58%
Italy	9,206	7.36%	9.18%
France	14,160	15.45%	14.13%
Germany and Austria	38,565	6.06%	38.47%
Scandinavia	16,761	1.96%	16.72%
Other	3,921	7.93%	3.91%
Total	**100,237**	**6.88%**	**100.00%**

Gross credit risk exposure increased by 6.9% year-on-year (5.9% in 2018). This was mainly due to the growth generated at units subject to the PSA Group agreement (+13.5% year-on-year).

Germany accounted for the largest share of the portfolio, 38%, together with Austria and their respective JVs. On the other hand, the Spain and Portugal units and their respective JVs accounted for 17.6%, followed by a similar percentage for the Scandinavian countries including the Norway, Denmark, Sweden and Finland units (16.7%)

Information on the estimation of impairment losses

The Group estimates 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.

The detail of exposure and impairment losses associated to each stage as of 31 December 2019 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2019 *(EUR Millions)*				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	109,897	-	-	109,897
Speculation grade	9,340	3,545		12,885
Default	-	-	2,012	2,012
Total Risk (**)	119,237	3,545	2,012	124,794
Impairment losses	412	222	1,304	1,938

Exposure and impairment losses by stage 2018 *(EUR Millions)*				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	107,826	1,440	-	109,266
Speculation grade	3,133	3,114	-	6,247
Default	-	-	1,875	1,875
Total Risk (**)	110,959	4,554	1,875	117,388
Impairment losses	435	234	1,275	1,944

(*) Detail of credit quality rating calculated for Group management purposes.

(**) Amortised cost assets + Loans and advances + loan commitments granted

The remaining exposure considering all financial instruments not included above is 2,590 million at 31 December 2019 (EUR 2,717 million in 2018), all of which are classified within Stage 1 and correspond mainly to debt instruments, of which EUR 972 million (EUR 1,290 million in 2018) are carried at fair value and EUR 1,618 million (EUR 1,427 million in 2018) are carried at amortised cost.

As of 31 December 2019, the Group held no significant amounts in impaired assets purchased with impairment.

With regards to the evolution of the Group's provisions for credit risk, monitoring is conducted together with the main geographies, through sensitivity analyses considering changes in scenarios which impact the allocation of financial assets across the different stages and the calculation of credit risk provisions.

Additionally, and departing from similar macroeconomic scenarios, the Group conducts stress tests and sensitivity analyses in areas such as ICAAP, strategic plans, budgeting and recovery and resolution plans. These exercises give a forward-looking understanding of each portfolio's sensitivity to deviations from the baseline scenario, factoring in both the macroeconomic development materialized in different scenarios and the business development in the next three years. These types of analyses include rather adverse scenarios and those more plausible.

The classification of transactions into the different stages of IFRS9 is carried out in accordance with the provisions of the risk management policies of the different Group's units, which are consistent with the risk management policies prepared by Santander Group. In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgment of analysts, which is implemented in accordance with approved governance. The judgements and criteria used by the Group to establish the thresholds are based on a series of principles and a set of techniques. The principles are as follows:

- Universality: all financial instruments subject to a credit rating for the estimation of provisions must be subject to the assessment of significant increase in risk (SICR).

- Proportionality: The definition of the SICR must take into account the particularities of each portfolio (i.e. type of product, amount of exposure, etc.).

- Materiality: the implementation of the definition of the SICR must also be consistent with the relevance of each portfolio. Local Units must ensure that their approach is an appropriate estimate avoiding incurring undue cost or effort.

- Holistic view: the approach selected for the definition of the SICR should be a combination of several indicators (e.g. quantitative and qualitative) ensuring a complete review of the most relevant aspects of credit risk for each portfolio.

- Application of IFRS 9: the approach selected must consider the characteristics of IFRS 9. Given its relevance, it is important to focus on two main aspects: the assessment of the SICR must be based on a comparison with credit risk at initial recognition and must consider forward-looking information.

- Integration of risk management: The criteria selected should be consistent with those metrics considered in the day-to-day risk management of the portfolios evaluated, based on the definitions for management purposes (e.g. definition of restructuring, etc.).

- Documentation: appropriate documentation must be prepared.

Detail of the main geographical areas

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances.

- **Germany and Austria**

Credit risk with customers in Germany and Austria amounts to EUR 38,565 million at year end 2019 (EUR 36,361 million in 2018), which represents a 6% increase. This represents 38.47% of the Group’s total investment.

The NPL ratio has been reduced to 2.04% at year-end 2019 (+1 bps vs. year end 2018), due to the favourable macroeconomic environment and the implementation of sensible policies, within the risk appetite framework. Thus, the non-performing loans amount is down 1.7%, in line with the downward trend observed in recent years.

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated to each stage for Santander Consumer Bank AG and Santander Consumer Leasing GmbH as of 31 December 2019 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2019 *(EUR millions)*				
Credit quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	35,177	39	16	35,232
Speculation grade	-	854	-	854
Default	-	-	586	586
Total exposure (**)	35,177	893	602	36,672
Impairment losses	83	56	438	577

Exposure and impairment losses by stage 2018 *(EUR millions)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	34,631	65	-	34,696
Speculation grade	-	1,353	-	1,353
Default	-	-	580	580
Total exposure (**)	34,631	1,418	580	36,629
Impairment losses	90	57	433	580

(*) Detail of credit quality rating calculated for Group management purposes.

(**) Amortised cost assets + Loans and advances + loan commitments granted

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for the most significant units in Germany (SCB AG and SC Leasing GmbH) five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years. The projected evolution for the next five years of the main macroeconomic indicators used by SCB AG and SC Leasing GmbH for estimating expected losses is presented below:

Magnitudes	2020-2024				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.62%)	(0.37%)	(0.12%)	1.15%	1.66%
Unemployment rate	7.02%	5.60%	4.96%	4.60%	4.19%
GDP growth	(0.04%)	0.48%	1.22%	1.60%	1.85%
Housing market price surges	0.43%	3.21%	5.00%	5.63%	6.25%

Magnitudes	2019-2021				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	7.40%	6.90%	7.00%	7.70%	7.90%
Unemployment rate	4.80%	4.00%	3.20%	2.80%	2.60%
GDP growth	0.10%	1.30%	3.30%	4.10%	4.70%
Housing market price surges	(2.80)%	1.20%	4.00%	4.50%	5.70%

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, SCB AG and SC Leasing GmbH associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios:

Worst-case scenario	5%
Worse-case scenario	20%
Base-case scenario	50%
Better-case scenario	20%
Best-case scenario	5%

The estimated sensitivity of both the probability of default projected at twelve months and the expected losses if, instead of the base scenario, the unfavourable scenario were to occur for the most relevant portfolios of Santander Consumer Germany AG and Santander Consumer Leasing Gmbh is shown below:

	Change in the probability of default at 12 months (unfavourable)	Change in IFRS9 expected loss (unfavourable)
Auto, Direct and Durable Goods Loans - Santander Consumer Bank, A.G.	1.44%	0.21%
Automobiles - Santander Consumer Leasing GmbH	1.92%	0.72%

With regards to the determination of classification in stage 2, the quantitative criteria applied by SCB AG and SC Leasing GmbH are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than an absolute and relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions. As an example, in the case of Santander Consumer A.G. and Santander Consumer Leasing GmbH, for its main portfolio (Vehicles) it is considered that an operation is to be classified under stage 2 when the PD for the entire expected life of a transaction at a given moment is greater than the one that it had at the moment of initial recognition by 42.67% in absolute terms or 650% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The Entity, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Nordics**

Credit risk with customers in the Nordics division (Norway, Sweden, Denmark and Finland) amounts to EUR 16,761 million (EUR 16,439 million in 2018) up 1.96% from year end 2018. This represents 16.72% of the Group's total investment.

The NPL ratio has increased to 2.53% at year-end 2019 (+54 bps vs year end 2018), even with the implementation of sensible policies, within the risk appetite framework. Thus, even if the non-performing loans amount has increased in absolute terms due to the increase in gross exposure, it has reduced in relative terms in line with the downward trend observed in recent years.

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated to each stage for Santander Consumer Bank AS as of 31 December 2019 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2019 *(EUR millions)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	13,710	-	-	13,710
Speculation grade	1,333	561	-	1,893
Default	-	-	405	405
Total exposure (**)	15,043	561	405	16,009
Impairment losses	88	51	219	358

Exposure and impairment losses by stage 2018 *(EUR millions)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	13,934	717	-	14,651
Speculation grade	382	283	-	665
Default	-	-	315	315
Total exposure (**)	14,316	1,000	315	15,631
Impairment losses	90	45	177	312

(*) Detail of credit quality rating calculated for Group management purposes.

(**) Amortised cost assets + Loans and advances + loan commitments granted

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for Santander Consumer Bank AS five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years. The projected evolution for the next five years of the main macroeconomic indicators used by SCB AS for estimating expected losses is presented below:

Norway

Magnitudes	2020-2024				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.79%	0.89%	1.87%	2.23%	2.59%
Unemployment rate	5.08%	4.62%	3.37%	2.90%	2.74%
Housing market price surges	0.77%	1.42%	2.11%	2.49%	2.81%
GDP growth	0.96%	2.11%	2.69%	4.77%	7.11%

Magnitudes	2019-2023				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.46%	1.15%	1.20%	2.11%	2.77%
Unemployment rate	6.00%	4.90%	3.90%	3.50%	3.30%
Housing market price surges	(0.60)%	3.30%	7.60%	8.60%	9.60%
GDP growth	1.40%	2.10%	2.70%	3.20%	3.70%

Denmark

Magnitudes	2020-2024				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.06)%	(0.02)%	0.51%	1.17%	1.73%
Unemployment rate	7.20%	6.19%	5.07%	4.50%	3.97%
Housing market price surges	0.01%	0.69%	1.52%	1.94%	2.37%
GDP growth	(0.51)%	1.00%	2.66%	3.45%	4.26%

Magnitudes	2019-2023				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.00%	0.00%	0.21%	1.23%	2.35%
Unemployment rate	8.08%	6.90%	5.47%	4.77%	4.29%
Housing market price surges	(1.01)%	0.90%	3.18%	4.11%	4.88%
GDP growth	(0.36)%	0.53%	1.58%	2.21%	2.70%

Sweden

Magnitudes	2020-2024				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.28)%	(0.13)%	0.62%	1.38%	2.07%
Unemployment rate	7.63%	6.92%	6.13%	5.78%	5.38%
Housing market price surges	(0.09)%	0.65%	1.62%	2.10%	2.65%
GDP growth	(0.45)%	1.25%	2.54%	3.34%	4.10%

Magnitudes	2019-2023				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.50)%	(0.44)%	0.48%	1.81%	3.50%
Unemployment rate	9.82%	8.34%	6.30%	5.64%	4.87%
Housing market price surges	(0.24)%	1.55%	3.87%	4.67%	5.55%
GDP growth	(0.28)%	0.61%	1.77%	2.31%	2.76%

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, SCB AS associates the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios:

Worst-case scenario	5%
Worse-case scenario	20%
Base-case scenario	50%
Better-case scenario	20%
Best-case scenario	5%

With regards to the determination of classification in stage 2, the quantitative criteria applied by SCB AS are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than a relative threshold. This threshold is established for each portfolio and is different depending on the characteristics of the transactions, and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases with respect to the PD it had at the time of initial recognition by 10% in relative terms.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. SCB AS and SC Leasing GmbH, among other criteria, considers that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

- **Spain and Portugal**

Credit risk with customers in Spain and Portugal amounts to EUR 17,624 million at year end 2019 (EUR 16,540 million at year end 2018) up 6.55% from year end 2018. This represents 17.58% of the Group's total investment.

The NPL ratio has been increased to 2.25% at year-end 2019 (+6 bps vs year end 2018), due to political and economic uncertainties which have been mitigated by the implementation of sensible policies, within the risk appetite framework.

Information on the estimation of impairment losses

The detail of exposure and impairment losses associated to each stage for the most significant business units in Spain (Santander Consumer Finance SA and Santander Consumer EFC SA) as of 31 December 2019 is as follows. Additionally, in line with its current credit quality, the exposure is classified in three grades (investment, speculation and default):

Exposure and impairment losses by stage 2019 *(EUR millions)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	11,145	3	-	11,148
Speculation grade	2,032	266	-	2,298
Default	-	-	260	260
Total exposure (**)	13,177	269	260	13,706
Impairment losses	82	29	172	278

Exposure and impairment losses by stage 2018 *(EUR millions)*				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	10,484	178	22	10,684
Speculation grade	99	100	27	226
Default	-	-	209	209
Total exposure (**)	10,583	278	258	11,119
Impairment losses	65	35	192	292

(*) Detail of credit quality rating calculated for Group management purposes.

(**) Amortised cost assets + Loans and advances + loan commitments granted

For the estimation of the expected losses, the prospective information is taken into account. Specifically, for Santander Consumer Finance, S.A. and Santander Consumer, E.F.C., S.A. five prospective macroeconomic scenarios are considered, which are updated periodically, during a time horizon of 5 years. The projected evolution for the next five years of the main macroeconomic indicators used for estimating expected losses is presented below:

Magnitudes	2020-2024				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	(0.12)%	(0.12)%	(0.12)%	0.94%	1.32%
Unemployment rate	17.98%	14.05%	11.65%	9.23%	7.89%
Housing market price surges	(0.17)%	0.81%	1.61%	2.29%	3.10%
GDP growth	(1.75)%	(0.28)%	1.62%	2.98%	4.72%

Magnitudes	2019-2023				
	Worst-case scenario	Worse-case scenario	Base-case scenario	Better-case scenario	Best-case scenario
Interest rate	0.42%	0.42%	0.42%	0.59%	1.30%
Unemployment rate	19.27%	15.80%	13.41%	12.04%	10.46%
Housing market price surges	(1.99)%	0.14%	2.28%	3.76%	5.12%
GDP growth	(0.03)%	1.16%	2.29%	3.13%	3.83%

Each one of the macroeconomic scenarios is given a probability of occurrence. As for its allocation, SCF SA and SC EFC SA associate the base-case scenario with the highest probability of occurrence, while associating the lower probabilities to the most extreme scenarios:

Worst-case scenario	5%
Worse-case scenario	20%
Base-case scenario	50%
Better-case scenario	20%
Best-case scenario	5%

Following is the estimated sensitivity of both the probability of default projected at twelve months and the expected losses if, instead of the base scenario, the unfavourable scenario were to occur for the most significant portfolios of Santander Consumer Finance, S.A. and Santander Consumer, E.F.C, SA

	Variation of the probability of default at 12 months (unfavourable)	Change in IFRS9 expected loss (unfavourable)
New Automobile Loans	2.69%	0.23%
Used Automobile Loans	1.04%	0.85%

With regards to the determination of classification in stage 2, the quantitative criteria applied by the Entity for all their main portfolios are based on identifying whether any increase in the probability of default (PD) for the entire expected life of the operation is greater than the absolute and relative thresholds established. This threshold is established for each portfolio and is different depending on the characteristics and risk profile of the transactions included.

As an example, in the case of Santander Consumer Finance, S.A. y Santander Consumer, E.F.C. S.A for its main portfolios it is considered that a transaction should be classified under stage 2 when the PD for the entire expected life of the transaction at a given moment is greater than the PD that it had at the moment of initial recognition by 1.5-23% in absolute terms and by 0%-1800% in relative terms depending on the sub segment.

In addition, for each portfolio, a series of specific qualitative criteria are defined that indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. The Entity, among other criteria, consider that an operation presents a significant increase in risk when it presents positions past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

b) Changes in 2019

The performance of non-performing assets and the cost of credit reflects the impact of deterioration in the economic backdrop, offset by prudent risk management that has, in general, enabled us to keep these figures below those of our peers over recent years. This has resulted in the Group maintaining adequate coverage to handle the expected loss on its credit risk portfolios.

The portfolios performed adequately in 2018, since the risk profile was kept in check by continuous improvement in recovery procedures, both at early stages of irregularity and advanced stages of impairment, resulting in fewer than expected new non-performing loans. This resulted in a non-performing loans ratio of 2.01% in December 2019, an increase of 1 basis points compared to December 2018 (2.00%).

Following is a detail, by activity, of the loans and advances to customers at 31 December 2019(*):

	EUR Thousands								
		Secured credit							
		Net exposure		*Loan to Value (***)*					
	Unsecured Loans	Property Collateral	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%	Total
Public sector	139,892	-	-	-	-	-	-	-	139,892
Other financial institutions	227,174	20,702	41,691	19,666	982	1,225	39,821	699	289,567
Non-financial companies and individual traders	18,620,279	276,729	10,322,071	300,113	83,411	2,119,473	6,735,124	1,360,679	29,219,079
Of which:									
Construction and property development	*48,267*	-	*13,034*	*4,527*	*412*	*1,425*	*3,782*	*2,888*	*61,301*
Civil engineering construction	*7,327*	-	*18,708*	*18,708*	-	-	-	-	*26,035*
Large companies	*8,229,480*	*110,752*	*3,188,189*	*57,828*	*34,413*	*869,967*	*2,249,667*	*87,066*	*11,528,421*
SMEs and individual traders	*10,335,205*	*165,977*	*7,102,140*	*219,050*	*48,586*	*1,248,081*	*4,481,675*	*1,270,725*	*17,603,322*
Other households and non-profit institutions serving households	55,364,484	4,652,497	8,067,939	1,397,097	1,783,308	1,530,879	6,196,625	1,812,527	68,084,920
Of which:									
Residential	*497,248*	*4,179,969*	*3,438*	*1,255,977*	*1,383,056*	*810,975*	*324,807*	*408,592*	*4,680,655*
Consumer loans	*54,739,276*	*326,453*	*7,984,940*	*73,963*	*351,191*	*692,305*	*5,808,626*	*1,385,308*	*63,050,669*
Other purposes	*127,960*	*146,075*	*79,561*	*67,157*	*49,061*	*27,599*	*63,192*	*18,627*	*353,596*
Total (*)	74,351,829	4,949,928	18,431,701	1,716,876	1,867,701	3,651,577	12,971,570	3,173,905	97,733,458
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*254,391*	*32,393*	*1,302*	*3,773*	*3,958*	*7,130*	*6,032*	*12,802*	*288,086*

(*) The distribution of credit does not include 565,154 thousand euros corresponding to customer advances.
(**) Included net amount accumulated Impairment or accumulate losses at fair value due to credit risk.
(***) Ratio as a result of dividing the carrying value of the operations as of December 31, 2019 over the last valuation of the collateral.

Following is a detail, by activity, of the loans and advances to customers at 31 December 2018(*):

	EUR Thousands								
		Secured credit							
		Net exposure		*Loan to Value (***)*					
	Unsecured Loans	Property Collateral	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%	Total
Public sector	123,425	-	-	-	-	-	-	-	123,425
Other financial institutions	240,389	1,581	1,466	771	818	401	1,057	-	243,436
Non-financial companies and individual traders	23,209,185	343,699	2,697,224	674,564	81,395	65,903	2,172,272	46,789	26,250,108
Of which:									
Construction and property development	*51,673*	-	*3,338*	*1,610*	*103*	*369*	*1,256*	-	*55,011*
Civil engineering construction	*20,701*	-	*636*	*636*	-	-	-	-	*21,337*
Large companies	*10,102,188*	*122,132*	*1,003,272*	*359,765*	*29,479*	*17,927*	*716,415*	*1,818*	*11,227,592*
SMEs and individual traders	*13,034,623*	*221,567*	*1,689,978*	*312,553*	*51,813*	*47,607*	*1,454,601*	*44,971*	*14,946,168*
Other households and non-profit institutions serving households	57,566,321	4,818,664	2,294,134	1,249,229	2,049,616	1,154,140	2,084,862	574,951	64,679,119
Of which:									
Residential	*46,296*	*4,802,086*	-	*1,201,440*	*1,523,983*	*1,146,266*	*357,647*	*572,750*	*4,848,382*
Consumer loans	*57,072,495*	-	*2,278,460*	*42,428*	*520,824*	*1,829*	*1,712,026*	*1,353*	*59,350,955*
Other purposes	*447,530*	*16,578*	*15,674*	*5,361*	*4,809*	*6,045*	*15,189*	*848*	*479,782*
Total (*)	81,139,320	5,163,944	4,992,824	1,924,564	2,131,829	1,220,444	4,258,191	621,740	91,296,088
Memorandum item									
Refinancing, refinanced and restructured transactions (**)	*265,436*	*89,136*	*91*	*8,041*	*15,617*	*28,543*	*15,563*	*21,463*	*354,663*

(*) The distribution of credit does not include 447,940 thousand euros corresponding to customer advances.
(**) Included net amount accumulated Impairment or accumulate losses at fair value due to credit risk.
(***) Ratio as a result of dividing the carrying value of the operations as of December 31, 2018 over the last valuation of the collateral.

Forborne loan portfolio

The term “forborne loan portfolio” refers, for the purposes of the Group's risk management, to those transactions in which the customer has, or might foreseeably have, financial difficulty in meeting its payment obligations under the terms and conditions of the current agreement and, accordingly, the agreement has been modified or cancelled or even a new transaction has been entered into.

The Santander Group, which Santander Consumer Finance Group belongs to, has a detailed customer debt forbearance policy that serves as a reference for the various local adaptations made for all the financial institutions forming part of the Group. This policy shares the principles laid down in both Bank of Spain Circular 4/2017 of 27 November 2017, which it develops in greater detail based on the level of customer impairment.

This policy establishes strict prudential criteria for the assessment of these loans:

- The use of this practice is restricted, and any actions that might defer the recognition of impairment must be avoided.
- The main aim must be to recover the amounts owed, and any amounts deemed unrecoverable must be recognised as soon as possible.
- Forbearance must always envisage maintaining the existing guarantees and, if possible, enhance them. Not only can effective guarantees serve to mitigate losses given default, but they might also reduce the probability of default.
- This practice must not give rise to the granting of additional funding or be used to refinance debt of other entities or as a cross-selling instrument.
- All the alternatives to forbearance and their impacts must be assessed, making sure that the results of this practice will exceed those which would foreseeably be obtained if it were not performed.
- Forborne transactions are classified using more stringent criteria which prudentially ensure that the customer's ability to pay is restored from the date of forbearance and for an adequate period of time thereafter.
- In addition, in the case of customers that have been assigned a risk analyst, it is particularly important to conduct an individual analysis of each specific case, for both the proper identification of the transaction and its subsequent classification, monitoring and adequate provisioning.

The forbearance policy also sets out various criteria for determining the scope of transactions qualifying as forborne exposures by defining a detailed series of objective indicators that permit identification of situations of financial difficulty.

Accordingly, transactions not classified as non-performing at the date of forbearance are generally considered to be experiencing financial difficulty if at that date, they were more than one month past due. Where no payments have been missed or there are no payments more than one month past due, other indicators of financial difficulty are taken into account, including most notably the following:

- Transactions with customers who are already experiencing difficulties in other transactions.
- Situations where a transaction has to be modified prematurely, and the Group has not yet had a previous satisfactory experience with the customer.
- Cases in which the necessary modifications entail the grant of special conditions, such as the establishment of a grace period, or where these new conditions are deemed to be more favourable for the customer than those which would have been granted for an ordinary loan approval.

- Where a customer submits successive loan modification requests at unreasonable time intervals.

- In any case, if once the modification has been made any payment irregularity arises during a given probation period (as evidenced by back testing), even in the absence of any other symptoms, the transaction will be deemed to be within the scope of forborne exposures.

Once it has been determined that the reasons for the modification of the customer’s debt conditions are due to financial difficulties, regardless of whether or not the customer has outstanding payments and the number of days payment has been outstanding, and the customer will be considered to be under monitoring for all purposes and, as such, will be manages in accordance with this policy.

Once forbearance measures have been adopted, transactions that have to remain classified as non-performing because at the date of forbearance they do not meet the regulatory requirements to be reclassified to a different category must comply with a continuous prudential payment schedule in order to assure reasonable certainty as to the recovery of the ability to pay.

If there is any (non-technical) default in payments during that period, the aforementioned payment schedule starts again.

On successful completion of the period, the duration of which depends on the customer's situation and the transaction features (term and guarantees provided), the transaction is no longer considered to be non-performing, although it continues to be subject to a probation period during which it undergoes special monitoring.

This monitoring continues until a series of requirements have been met, including most notably: a minimum observation period of 24 months; repayment of a substantial percentage of the outstanding amounts; and settlement of the amounts that were past due at the time of forbearance.

When forbearance is applied to a transaction classified as non-performing, the original default dates continue to be considered for all purposes, irrespective of whether as a result of forbearance the transaction becomes current in its payments. Also, the forbearance of a transaction classified as non-performing does not give rise to any release of the related provisions.

Set forth below is the quantitative information required by Bank of Spain Circular 4/2017 on the restructured transactions in force at 31 December 2019 and 2018, taking into consideration the above criteria:

Current restructuring balances at 31 December 2019

	Total							Of which: Non-performing/Doubtful							TOTAL				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk								
					Maximum amount of the actual collateral that can be considered.							Maximum amount of the actual collateral that can be considered.										
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees		Number of transactions	Gross amount	Number of transactions	Gross amount Real estate guarantee	Real estate guarantee	Rest of real guarantees		Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount	Gross Amount	Total Guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount
REFINANCING AND RESTRUCTURING																						
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	5	4	-	64	-	45	(5)	2	10	-	-	-	-	(2)	68	45	(5)	63	10	-	(2)	8
Other financial institutions and: individual shareholder	63	603	-	-	-	-	(246)	38	349	-	-	-	-	(230)	603	-	(246)	357	349	-	(230)	119
Non-financial institutions and individual shareholder	5,900	68,896	78	7,216	2,582	669	(34,309)	3,902	40,825	59	4,891	1,099	136	(33,379)	76,112	3,251	(34,309)	41,803	45,716	1,235	(33,379)	12,337
Of which: Financing for constructions and property development	21	206	-	-	-	-	(123)	18	159	-	-	-	-	(114)	206	-	(123)	83	159	-	(114)	45
Other warehouses	75,319	373,200	635	53,013	29,353	170	(180,351)	42,021	195,821	422	29,988	8,771	52	(159,450)	426,213	29,523	(180,351)	245,862	225,809	8,823	(159,450)	66,359
Total	**81,287**	**442,703**	**713**	**60,293**	**31,935**	**885**	**(214,910)**	**45,963**	**237,005**	**481**	**34,879**	**9,870**	**188**	**(193,061)**	**502,996**	**32,820**	**(214,910)**	**288,086**	**271,884**	**10,058**	**(193,061)**	**78,823**
ADDITIONAL INFORMATION																						
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale																						
Off balance sheet: value of other guarantees received (not real)	-	1,447	-	-	-	-	-	-	997	-	-	-	-	-	1,447	-	-	1,447	997	-	-	997

Current restructuring balances at 31 December 2018

	Total							Of which: Non-performing/Doubtful							TOTAL Impairment of accumulated value or accumulated losses in fair value due to credit risk.				Of which: Non-performing/Doubtful			
	Without real guarantee (a)		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk. Gross amount	Without real guarantee		Without real guarantee (a)				With real guarantee Gross amount					Without real guarantee			
					Number of transactions							Number of transactions										
	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		Number of transactions	Gross amount	Number of transactions	Gross amount	Number of transactions	Gross amount	Impairment of accumulated value or accumulated losses in fair value due to credit risk	Net Amount
REFINANCING AND RESTRUCTURING																						
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	2	14	-	-	-	-	(4)	2	14	-	-	-	-	(4)	14	-	(4)	10	14	-	(4)	10
Other financial institutions and: individual shareholder	40	423	-	-	-	-	(103)	16	138	-	-	-	-	(87)	423	-	(103)	320	138	-	(87)	51
Non-financial institutions and individual shareholder	4,889	55,169	100	13,344	6,438	12	(28,345)	2,770	29,684	68	8,145	1,809	-	(26,065)	68,512	6,450	(28,345)	40,167	37,828	1,809	(26,065)	11,764
Of which: Financing for constructions and property development	21	150	-	-	-	-	(63)	14	85	-	-	-	-	(57)	150	-	(63)	87	85	-	(57)	28
Other warehouses	83,262	389,301	988	109,206	77,142	42	(184,342)	42,464	181,085	485	35,075	11,130	10	(155,222)	498,507	77,184	(184,342)	314,165	216,161	11,140	(155,222)	60,938
Total	**88,193**	**444,907**	**1,088**	**122,550**	**83,580**	**54**	**(212,794)**	**45,252**	**210,921**	**553**	**43,220**	**12,939**	**10**	**(181,378)**	**567,456**	**83,634**	**(212,794)**	**354,662**	**254,141**	**12,949**	**(181,378)**	**72,763**
ADDITIONAL INFORMATION																						
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale																						
Off balance sheet: value of other guarantees received (not real)		2,275	-	-	-	-	-	-	1,090	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the foregoing table were classified at 31 December by nature, as follows:

- Non-performing: There will be reclassified to the non-performing category the transactions with an inadequate payment plan, those which include conditions that imply a delay in the reimbursement of the transaction thorough regular payments or have any write-off amounts.

- Normal: they are classified within the category of normal risk, operations are not classified as doubtful or have been reclassified in the category of doubtful risk to meet the criteria that are recognized below:

  a) That a period of one year has elapsed from the date of refinancing or restructuring.

  b) That the holder has paid the accrued instalments of the principal interests, reducing the main renegotiation, from the date in which the restructuring or refinancing operation was formalized.

  c) The holder has no other operation with amounts due in more than 90 days on the date of reclassification to the normal risk category.

The table below shows the changes between 2019 and 2018 in the Spanish forborne loan portfolio:

	EUR Thousands	
	2019	**2018**
Balance at beginning of year	**354,663**	**473,583**
Refinancing and restructuring of the period	223,270	201,505
Debt repayment	(229,258)	(234,498)
Foreclosure	-	-
Derecognised from the consolidated balance sheet	(35,934)	(28,895)
Other variations	(24,655)	(57,032)
Balance at end of year	**288,086**	**354,663**

c) Measurement metrics and tools

Credit rating tools

In keeping with the Santander Group tradition, which has witnessed the use of proprietary rating models since 1993, at Santander Consumer Finance Group the credit quality of customers and transactions is also measured by internal scoring and rating systems. Each credit rating assigned by models relates to a certain probability of default or non-payment, based on the Group’s historical experience.

Since the Group focuses mainly on the retail business, assessments are based primarily on scoring models or tables which, combined with other credit policy rules, issue an automatic decision on the loan applications received. These tools have the dual advantage of allocating an objective appraisal of the level of risk and speeding up the response time that would be required for a purely manual analysis.

In addition to the scoring models used for the approval and management of portfolios (rating of the transactions composing the portfolios in order to assess their credit quality and estimate their potential losses), other tools are available to assess existing accounts and customers which are used in the defaulted loan recovery process. The intention is to cover the entire “loan cycle” (approval, monitoring and recovery) by means of statistical rating models based on the Bank’s internal historical data.

For individualised corporates and institutions, which at the Group include mainly dealers/retailers, the assessment of the level of credit risk is based on expert rating models that combine in the form of variables the most relevant factors to be taken into account in the assessment, in such a way that the rating process generates appraisals that are consistent and comparable among customers and summarise all the relevant information. In 2019 all the units conducted reviews of the aforementioned portfolios, involving the participation of all areas of the Group. The review meetings covered the largest exposures, companies under special surveillance and the main credit indicators of these portfolios.

Ratings assigned to customers are reviewed periodically to include any new financial information available and the experience in the banking relationship. The frequency of the reviews is increased in the case of customers that reach certain levels in the automatic warning systems and of customers classified as requiring special monitoring. The rating tools themselves are also reviewed in order to progressively fine-tune the ratings they provide.

To a lesser extent, certain exposures are also assessed using the global rating tools which cover the global wholesale banking segment. Management of this segment is centralised at the Risk Division of the Santander Group, for both rating calculation and risk monitoring purposes. These tools assign a rating to each customer, which is obtained from a quantitative or automatic module, based on balance sheet ratios or macroeconomic variables, supplemented by the analyst’s expert judgement.

The Group’s portfolio of individualised corporates is scarcely representative of the total risks managed, since it relates mainly to vehicle dealer stock financing.

d) Credit risk parameters

The assessment of customers or transactions using rating or scoring systems constitutes a judgement of their credit quality, which is quantified through the probability of default (PD).

In addition to customer assessment, the quantification of credit risk requires the estimation of other parameters, such as exposure at default (EAD) and the percentage of EAD that will not be recovered (loss given default or LGD). Therefore, other relevant aspects are taken into account in estimating the risk involved in transactions, such as the quantification of off-balance-sheet exposures, which depends on the type of product, or the analysis of expected recoveries, which is related to the guarantees provided and other characteristics of the transaction: type of product, term, etc.

These factors are the main credit risk parameters. Their combination facilitates calculation of the probable loss or expected loss (EL). This loss is considered to be an additional cost of the activity which is reflected in the risk premium and must be charged in the transaction price.

These risk parameters also make it possible to calculate regulatory capital in accordance with the regulations deriving from the new Basel Capital Accord (BIS III). Regulatory capital is determined as the difference between unexpected loss and expected loss.

Unexpected loss is the basis for the capital calculation and refers to a very high, albeit scantly probable, level of loss, which is not deemed to be recurring and must be catered for using capital.

Observed loss: measurement of cost of credit

To supplement the predictiveness provided by the advanced models described above, other habitual metrics are used to facilitate prudent and effective management of credit risk based on observed loss.

In terms of recognition of losses, the cost of credit risk in Santander Consumer Finance is measured using different approaches: Change in non-performing loans (new defaults – recovery of assets written off), net loan-loss provisions (gross provisions - recovery of assets written off), net losses (failures - recovery of losses) and expected loss. In order to obtain a monitoring ratio, the first two indicators (in 12 months) are divided by the average of 12 months of the total portfolio to obtain the risk premium and the cost of credit. These gives the manager ta full insight into the evolution and future prospects of the portfolio.

It should be noted that unlike default, change in non-performing loans (dubious end - initial doubtful + failed - recovery of failures) refers to the total of the impaired portfolio in a period, regardless of the situation in which it is found (doubtful and failed). This makes metrics a main driver when it comes to establishing measures for portfolio.

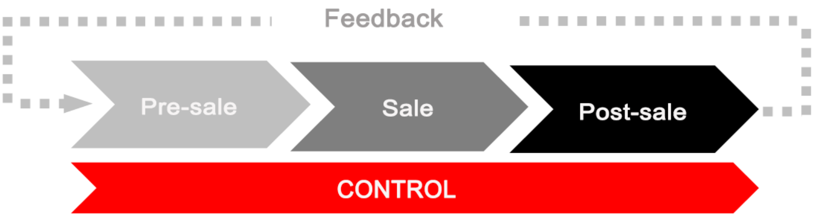
The two approaches measure the same reality and, consequently, converge in the long term although they represent successive moments in credit risk cost measurement: flows of non-performing loans (VMG), coverage of non-performing loans (net credit loss provisions), respectively. Although they converge in the long term within the same economic cycle, the three approaches show differences at certain times, which are particularly significant at the start of a change of cycle, as observed in this period. These differences are explained by the different moment of calculation of losses, which is basically determined by accounting regulations (for example, mortgage loans have a coverage calendar and becomes written off "slower" than consumer portfolios). In addition, the analysis can be clouded by changes in the policy of hedging and default, composition of the portfolio, doubtful of acquired entities, changes in accounting regulations (IFRS-9), sale of portfolios and adjustments on expected losses calculation parameters, etc.

e) Credit risk cycle

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As the Group is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase into the study of risk and pre-sale planning.



e.1) ***Pre-sale***

- **Study of risk and credit rating process**

  Generally speaking, risk study consists of analysing a customer’s capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer’s credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

  With this objective, the Group has used rating models for classifying customer solvency since 1993. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals.

  The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

  The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of the banking relationship. The regularity of the reviews increases in the case of customers who trigger certain levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating.

  While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

- **Planning and setting limits**

  The purpose of this phase is to limit the levels of risk assumed by the Group, efficiently and comprehensively. The credit risk planning process serves to set the budgets and limits at the portfolio level for subsidiaries. Planning is carried out through a dashboard that ensures that the business plan and lending policy are achieved, and that the resources needed to achieve these are available. This arose as a joint initiative between the Sales area and the Risk function, providing a management tool and a way of working as a team.

  Incorporating the volatility of macroeconomic variables that affect portfolio performance is a key aspect in planning. The Group simulates this performance under a range of adverse and stressed scenarios (stress testing), enabling assessment of the Group's solvency in specific situations.

  Scenario analysis enables senior management to understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions in stress scenarios.

  Limits are planned and established using documents agreed between the Business and Risk areas and approved by the Group, setting out the expected business results in terms of risk and return, the limits to which this activity is subject and management of the associated risks, by group or customer.

e.2) Sales

- **Decisions on operations**

  The sales phase consists of the decision-making process, analysing and deciding on operations. Approval by the risk area is a prior requirement before the contracting of any risk. This process must take into account the policies defined for approving operations, the risk appetite and the elements of the operation that are relevant to the search for the right balance between risk and profitability.

  In the sphere of standardised customers (individuals and businesses and SMEs with low turnover), large volumes of credit operations can be managed more easily by using automatic decision models for classifying the customer/transaction pair. The ratings these models give to transactions enable lending to be classified consistently into homogeneous risk groups, based on information on the characteristics of the transaction and its owner.

e.3) After-sales

- **Monitoring**

  The Monitoring function is based on a continuous process of ongoing observation, enabling early detection of changes that could affect the credit quality of customers, in order to take measures to correct deviations with a negative impact.

  This monitoring is based on customer segmentation, and is carried out by dedicated local and global risk teams, supplemented by internal audit.

  This function involves identifying and tracking customers under special surveillance, reviewing ratings and continuously monitoring indicators.

  The **customers under special surveillance** (FEVE) system has four tiers based on the degree of concern about observed circumstances (terminate, secure, reduce, monitor). The inclusion of a position in FEVE does not mean that default has occurred, but does indicate that it would be advisable to adopt a specific policy for that position, establishing the person responsible for it and the appropriate time frame. Customers classified in FEVE are reviewed at least every six months, and every quarter in the most serious cases. A customer can be classified in FEVE as a result of monitoring, a review by internal audit, a decision by the officer responsible for the customer, or the triggering of the automatic warning system. This system will evolve next year into a new system - SCAN - with more granular policies.

  Ratings are reviewed at least every year, but this may be more frequent if weaknesses are detected or based on the rating itself.

  The main risk indicators for individual customers, businesses and SMEs with low turnover are monitored to detect changes in the performance of the loan portfolio with respect to the projections in the commercial strategic plans (CSPs).

f) Measurement and control

In addition to monitoring the customers' credit quality, the Group puts in place the necessary control procedures to analyse the current credit risk portfolio and its performance throughout the different phases of credit risk.

This function assesses risks from a range of interrelated standpoints. The key vectors of control are geographies, business areas, management models, products, etc. The approach allows for early detection of specific focal points, and the framing of action plans to correct any impairment.

Each control axis supports two types of analysis:

1. Quantitative and qualitative portfolio analysis

Portfolio analysis continuously and systematically monitors changes in risk with respect to budgets, limits and benchmark standards, evaluating the effects with a view to future situations driven by external factors or arising from strategic decisions, so as to establish measures that place the profile and volume of the risk portfolio within the parameters set by the Group.

In the credit risk control phase, the following metrics, among others, are used in addition to the conventional ones:

- **MDV (change in managed NPLs)**

  CMN measures how NPLs change over a period, stripping out write-offs and including recoveries. It is an aggregate metric at the portfolio level that enables us to react to any impairments seen in the behaviour of non-performing loans.

- **EL (expected loss) and capital**

  Expected loss is an estimate of the financial loss that will occur over the next year from the portfolio existing at the given time. It is a further cost of business, and must be reflected in the pricing of transactions.

2. Evaluation of control processes

A systematic scheduled review of procedures and methods, implemented throughout the entire credit risk cycle, to ensure control process effectiveness and validity.

In 2006, within the corporate framework established across the Group for compliance with the Sarbanes-Oxley Act, a corporate methodology was created for the documentation and certification of the Control Model, specified in terms of tasks, operating risks and controls. The risk division annually evaluates the efficiency of internal control of its activities.

Moreover, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, ensures that the management and control systems for the different risks inherent in the Group's business comply with the most stringent criteria and best practices seen in the industry and/or required by regulators. In addition, internal audit is responsible for ensuring that policies, methods and procedures are adequate, effectively implemented and regularly reviewed.

g) Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.

- Maintain and strengthen our relationship with the customer by addressing their behaviour with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

h) Concentration risk

Concentration risk is a key component of credit risk management. The Santander Group, which Santander Consumer Finance Group belongs, continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

The Group is subject to Bank of Spain regulations on large exposures contained in the fourth part of the CRR (Regulation UE No.575 / 2013), according to which the exposure contracted by an entity with respect to a client or related group of clients will be considered 'great exposure' when its value is equal or greater than 10% of its computable capital. Additionally, to limit large exposures, no entity may assume against a client or group of clients linked to each other an exposure whose value exceeds 25% of its eligible capital, after taking into account the effect of credit risk reduction under rule.

The Santander Consumer Finance Group's Risk Division works closely with the Finance Division in the active management of credit portfolios, which includes reducing the concentration of exposures through several techniques, such as the arrangement of credit derivatives for hedging purposes or the performance of securitisation transactions, in order to optimise the risk/return ratio of the total portfolio.

The detail, by activity and geographical area of the counterparty, of the concentration of the Group's risk (*) at 31 December 2019 and 2018 is as follows:

2019					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	1,396,810	7,886,178	-	304,269	9,587,257
Public sector	931,749	1,210,891	-	159,972	2,302,612
Of which:					
Central government	*906,391*	*1,137,422*	-	*120,393*	*2,164,206*
Other	*25,358*	*73,469*	-	*39,579*	*138,406*
Other financial institutions	35,151	372,509	10,866	156,401	574,927
Non-financial companies and individual traders	2,689,608	25,683,973	-	1,561,322	29,934,903
Of which:					
Construction and property development	-	*61,301*	-	-	*61,301*
Civil engineering construction	-	*26,037*	-	-	*26,037*
Large companies	*808,230*	*10,494,418*	-	*473,559*	*11,776,207*
SMEs and individual traders	*1,881,378*	*15,102,217*	-	*1,087,763*	*18,071,358*
Other households and non-profit institutions serving households	13,035,935	50,474,332	25	4,597,447	68,107,739
Of which:					
Residential	*1,874,649*	*2,809,544*	-	-	*4,684,193*
Consumer loans	*11,091,388*	*47,381,034*	*25*	*4,597,447*	*63,069,894*
Other purposes	*69,898*	*283,754*	-	-	*353,652*
Total					110,507,438

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: "Cash, cash balances at central banks and others deposits on demand", "Deposits to Credit Institutions", "Loans and Advances to Customers", "Debt Instruments", "Trading Derivatives", "Hedging Derivatives", "Investments", "Equity Instruments" and "Contingent Liabilities",

2018					
	EUR Thousands				
	Spain	Other EU Countries	Americas	Rest of the World	Total
Credit institutions	1,149,080	5,981,691	-	139,329	7,270,100
Public sector	1,251,991	1,069,640	-	15,078	2,336,709
Of which:					
Central government	*1,201,509*	*995,958*	-	*9*	*2,197,476*
Other	*50,482*	*73,682*	-	*15,069*	*139,233*
Other financial institutions	41,423	530,153	7,241	204,799	783,616
Non-financial companies and individual traders	2,599,622	23,036,448	-	1,352,702	26,988,772
Of which:					
Construction and property development	-	*55,060*	-	-	*55,060*
Civil engineering construction	-	*21,338*	-	-	*21,338*
Large companies	*579,719*	*10,396,360*	-	*422,584*	*11,398,663*
SMEs and individual traders	*2,019,903*	*12,563,690*	-	*930,118*	*15,513,711*
Other households and non-profit institutions serving households	12,169,398	47,241,623	34	5,380,137	64,791,192
Of which:					
Residential	*1,966,230*	*2,886,095*	-	-	*4,852,325*
Consumer loans	*10,125,255*	*43,952,698*	*34*	*5,380,137*	*59,458,124*
Other purposes	*77,913*	*402,830*	-	-	*480,743*
Total					102,170,389

(*) For the purposes of this table, the definition of risk includes the following items in the public consolidated balance sheet: “Cash, cash balances at central banks and others deposits on demand”, “Deposits to Credit Institutions”, “Loans and Advances to Customers”, “Debt Instruments”, “Trading Derivatives”, “Hedging Derivatives”, “Investments”, “Equity Instruments” and “Contingent Liabilities”,

Sovereign risk

As a general rule, the Group considers sovereign risk to be the risk assumed in transactions with central banks, the issuer risk of the Treasury or Republic and the risk arising from transactions with public entities (those whose funds are obtained from fiscal income, which are legally recognised as entities included in the government sector and whose activities are of a non-commercial nature), Following is the Group's total risk exposure to the so-called peripheral countries of the euro zone, distinguishing between sovereign risk and private sector exposure based on the country of the issuer or borrower:

Sovereign Risk by Country of Issuer/Borrower at 31 December 2019 (*)								
	Thousand Euros							
	Debt Instruments						Derivatives (***)	
	Financial assets held for trading and financial assets designated at fair value through profit or loss	Short Positions	Financial assets at fair value through other comprehensive income	Financial asset at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Direct Risk	Indirect risk (CDS)s
Spain	-	-	926,635	-	-	926,635	-	-
Portugal	-	-	-	-	7	7	-	-
Italy	-	-	-	441,589	15,383	456,972	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-

(*) Information prepared under EBA standards, Off-balance sheet exposures other than derivatives-contingent commitments and risks-totalling-amounting to EUR 6 thousand.

(**) Presented without taking into account the valuation adjustments recognised (219 thousand euros),

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying, "CDSs" refers to the exposure to CDSs based on the location of the underlying,

Sovereign Risk by Country of Issuer/Borrower at 31 December 2018 (*)								
	Thousand Euro							
	Debt instruments						Derivatives (***)	
	Financial assets held for trading and other financial assets at fair value through profit or loss	Short Positions	Financial assets at fair value through other comprehensive income	Financial asset at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Direct Risk	Indirect Risk (CDS)s
Spain	-	-	1,251,603	-	39	1,251,642	-	-
Portugal	-	-	-	-	3	3	-	-
Italy	-	-	-	384,924	79,734	464,658	-	-
Greece	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-

(*) Information prepared under EBA standards, Off-balance sheet exposures other than derivatives-contingent commitments and risks-totalling-amounting to EUR 7 thousand and EUR 13,301 thousand (with Spain and Italy, respectively),

(**) Presented without taking into account the valuation adjustments recognised (2,335 thousand euros),

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying, "CDSs" refers to the exposure to CDSs based on the location of the underlying, The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2019 and 2018 is as follows:

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2019 (*)									
	EUR Thousands								
	Balances with Central Banks	Reverse Repurchase Agreements	Debt Instruments			Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
			Financial Assets Held for Trading and Other Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables			Other than CDSs	CDSs
Spain	581,055	-	-	4,045	-	16,136,432	16,721,532	(8,731)	-
Portugal	15,015	-	-	-	-	1,487,377	1,502,392	-	-
Italy	175,706	-	-	-	-	9,190,580	9,366,286	-	-
Greece	-	-	-	-	-	1,893	1,893	-	-
Ireland	-	-	-	-	7,715	39	7,754	-	-

(*) In addition, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 12,575,345 thousand, EUR 185,020 thousand and EUR 479,426 thousand euros to counterparties in Spain, Portugal and Italy, respectively,

(**) Presented without taking into account valuation adjustments and impairment losses recognised (556,979 thousand euros),

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying, "CDSs" refers to the exposure to CDSs based on the location of the underlying,

Exposure to Other Counterparties by Country of Issuer/Borrower at 31 December 2018 (*)									
	EUR Thousands								
	Balances with Central Banks	Reverse Repurchase Agreements	Debt Instruments			Loans and Advances to Customers (**)	Total Net Direct Exposure	Derivatives (***)	
			Financial Assets Held for Trading and Other Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables			Other than CDSs	CDSs
Spain	277,489	-	-	3,016	-	15,122,555	15,403,060	(5,581)	-
Portugal	10,056	-	-	-	-	1,417,631	1,427,687	-	-
Italy	44,465	-	-	-	-	8,601,833	8,646,298	(2,151)	-
Greece	-	-	-	-	-	2,279	2,279	-	-
Ireland	-	-	-	-	-	52	52	-	-

(*) In addition, the Group had off-balance-sheet exposure other than derivatives –contingent liabilities and commitments– amounting to EUR 12,815,027 thousand, EUR 357,436 thousand and EUR 439,766 thousand euros to counterparties in Spain, Portugal and Italy, respectively,

(**) Presented without taking into account valuation adjustments and impairment losses recognised (614,545 thousand euros),

(***) "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying, "CDSs" refers to the exposure to CDSs based on the location of the underlying,

As at 31 December 2019 and 2018, the Group does not have any CDSs (Credit Default Swaps).

III. Market, structural and liquidity risk

1. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is accepted because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading, which includes both the rendering of financial services on markets for clients, where the bank is the counterparty, and proprietary sales, purchases and positioning, mainly in fixed income, equities and foreign currency products.

The Group does not carry out trading, as its treasury activity is limited to management and hedging of the structural risk of its balance sheet, and to management of liquidity as needed to fund its business.

- Balance sheet management or ALM, which involves management of inherent risks in the entity's balance sheet, not including the trading portfolio.

The risks generated in these activities are:

- Trading market: Risk resulting from the possibility of changes in market factors affecting the value of positions held by the entity in its trading book.

- Structural: Risk arising from management of different balance sheet items. This risk includes both losses owing to price variations affecting available-for-sale and held-to-maturity portfolios (banking book), and losses arising from the management of the Group's assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or being met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Trading market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit spread risk: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between financial instruments listed at a margin over other benchmark instruments, basically the Internal Rate of Return (IRR) of government securities and interbank interest rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: This identifies the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to unwind or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact trading market risk (and not structural risk), meaning that market risk can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same or a different type, listed in the market, could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

Liquidity risk may also be classified in the following categories:

- Funding risk: Identifies the possibility that the entity is unable to meet its obligations owing to its inability to sell assets or secure funding.

- Mismatch risk: Identifies the possibility that differences between the maturity structures of assets and liabilities will generate an additional cost to the entity.

- Contingency risk: Identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater funding needs or more strict collateral requirements to raise funds.

2. Measurement and methods

2.1 Structural interest-rate risk

The Group analyses the sensitivity of net interest income and of equity to interest rate fluctuations. This sensitivity is determined by mismatches in the maturity and review dates of interest rates of different balance sheet items.

According to the interest rate positioning of the balance sheet, and considering the situation and perspectives of the market, financial measures are adopted to adjust the positioning to that sought by the Bank. These measures may range from taking up positions in markets to the specification of interest rate characteristics of commercial products.

The metrics used to control de interest rate risk in these activities are the interest rate gap, financial margin sensibility and equity in the levels of interest rate.

- *Interest rate gap*

Analysis of the interest rate gap deals with the mismatch between the timing of re-pricing of on and off-balance aggregates of assets and liabilities and of memorandum accounts (off-balance sheet). It provides a basic profile of the balance sheet structure and can detect concentrations of interest rate risk at different terms. It is also a useful tool for estimates of the potential impact of interest rate movements on net interest income and the equity of the entity.

All on- and off-balance sheet aggregates have to be broken down so that they can be placed in the point of repricing/maturity. For aggregates that do not have a contractual maturity, the Santander Group's internal model for analysis and estimation of their durations and sensitivity is used.

- *Sensitivity of Net Interest Income (NII)*

The sensitivity of net interest income measures the change in expected accruals for a certain period (12 months) in the event of a shift in the interest rate curve.

- *Sensitivity of Economic Value of Equity (EVE)*

This measures the implied interest rate risk in the economic value of equity which, for the purposes of interest rate risk, is defined as the difference between the net present value of assets minus the net present value of liabilities, based on the effect of a change in interest rates on such present values.

2.2 Liquidity risk

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer Finance Group in optimal conditions of term and cost, while avoiding undesired liquidity risks.

The measures used for the control of liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity, liquidity stress tests, the financial plan, the liquidity contingency plan and regulatory reporting.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period in each of the currencies in which the Santander Consumer Finance Group operates. The gap measures the net cash needed or the surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all balance sheet items that generate cash flows are analysed and placed at their point of contractual maturity. For assets and liabilities with no contractual maturity, the Santander Group's internal analysis model is used. It is based on a statistical study of products' time series, and the so-called stable and unstable balance is determined for liquidity purposes.

- *Liquidity ratios*

The minimum liquidity ratio compares liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and assets at less than twelve months with liabilities of up to twelve months.

The Net Stable Funding Ratio measures the extent to which assets that require structural funding are being funded by structural liabilities.

- *Structural Liquidity*

The purpose of this analysis is to determine the structural liquidity position according to the liquidity profile (greater or lesser stability) of different asset and liability instruments.

- *Liquidity stress tests*

The purpose of the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In such stress scenarios, a simulation is made of internal factors that may affect Group liquidity, such as, inter alia, a credit rating downgrade of the institution, a fall in the value of balance sheet assets, banking crises, regulatory factors, a change in consumer trends and/or a loss of depositor confidence.

Every month, four liquidity stress scenarios (banking crisis in Spain, idiosyncratic crisis at the Santander Consumer Finance Group, global crisis and a combined scenario) are simulated by stressing these factors, and the results are used to establish early warning levels.

- *Financial plan*

Every year, a liquidity plan is prepared based on the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of limits on new securitisation considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- *Contingency Funding Plan*

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

- *Regulatory reporting*

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

2.3 Structural *change risk*

Structural change risk is managed centrally, as part of the general corporate procedures of the Santander Group.

3. Limits

Limits are set for balance sheet structural risks as part of the framework of the annual limits plan, responding to the Santander Consumer Finance Group's risk appetite.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of exceeding one of these limits or their sub-limits, the risk management officers involved must explain the reasons and facilitate an action plan to correct it.

The main management limits for structural risk at the consolidated Santander Consumer level are:

- One-year net interest income sensitivity limit.

- Equity value sensitivity limit.

The limits are compared to the sensitivity that would result in the largest loss among those calculated under eight scenarios (parallel 25, 50, 75 and 100 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. The downward scenarios consider negative interest rates, with a defined floor. In 2019, the exposure of the net interest margin and economic value was moderate compared to the budget and the value of own funds, respectively, being within the limits set for the legal scope.

At the end of 2019, the risk on the financial margin at one year, measured as its sensitivity to a parallel rise of 100 basis points, was -7.04 million euros.

4. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and execution of transactions and strategies to manage this risk. Finance Management is responsible for this process, and it takes a projection-based approach where and when this is applicable or feasible. A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.

- Monitoring of movements in the most relevant markets for asset and liability management (ALM) for the Group.

- Planning. Design, maintenance and monitoring of certain planning instruments. Finance Management is responsible for preparing, following and maintaining the financial plan, the funding plan and the liquidity contingency plan.

- Strategy proposals. Design of strategies aimed at funding the SCF sub-group's business by securing the best available market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.

- Execution. To achieve appropriate ALM positioning, Finance Management uses different tools. Chief among these are issues in debt or capital markets, securitisation, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.

- Compliance with risk limits and with risk appetite

IV. Operational risk

a) Definition and objectives

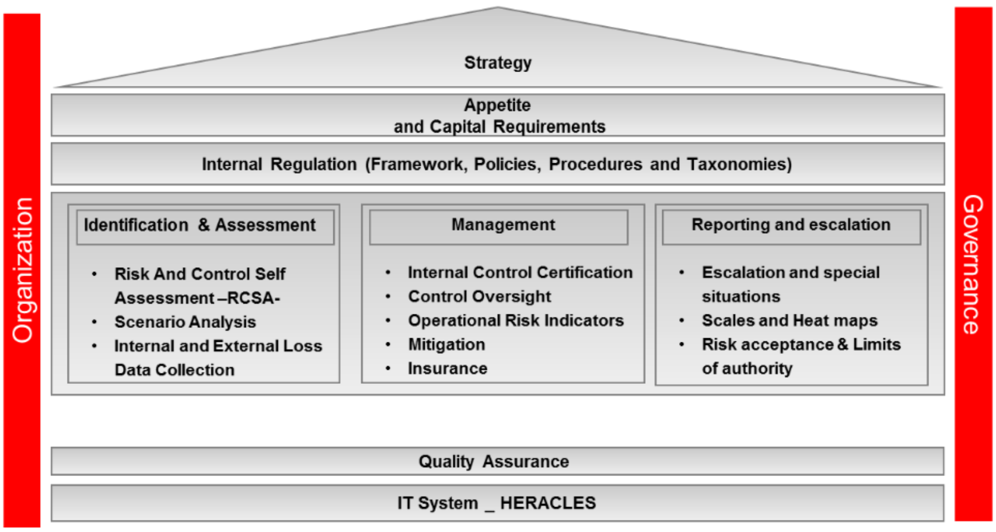
The Group defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate focal points of risk, irrespective of whether they have given rise to any losses. Measurement also contributes to the establishment of priorities in the management of operational risk.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the standardised approach set out in the BIS II regulation.



b) Operational risk management and control model

Operational risk management cycle

The stages of the model of operational risk management and control involve the following:

- Identifying the operational risk inherent to all activities, products, processes and systems of the Group. This process is carried out via the Risk and Control Self-assessment (RCSA) exercise.

- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.

- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.

- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.).

- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.

- Establishment of mitigation measures to eliminate or minimise operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for the senior management of the Group and its areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- The existence of a system whereby operational risk exposures can be reported and controlled, as part of the Group's daily management efforts.

  Towards this end, the Group has implemented a single tool for management and control of operational risk, compliance and internal control, called Heracles.

- Internal rules and regulations based on principles for management and control of operational risk have been defined and approved pursuant to the established governance system and in line with prevailing regulation and best practices.

  In 2015, the Group adhered to the relevant corporate framework and subsequently, the model, policies and procedures were approved and implemented, along with the Operational Risk Committee Regulation.

The model of operational risk management and control implemented by the Group provides the following benefits:

- It promotes the development of an operational risk culture.
- It allows for comprehensive and effective management of operational risk (identification, measurement / assessment, control / mitigation, and reporting).
- It improves knowledge of both actual and potential operational risks and their assignment to businesses and support lines.

- Information on operational risk helps improve processes and controls and reduce losses and income volatility.
- It facilitates the setting of limits for operational risk appetite.

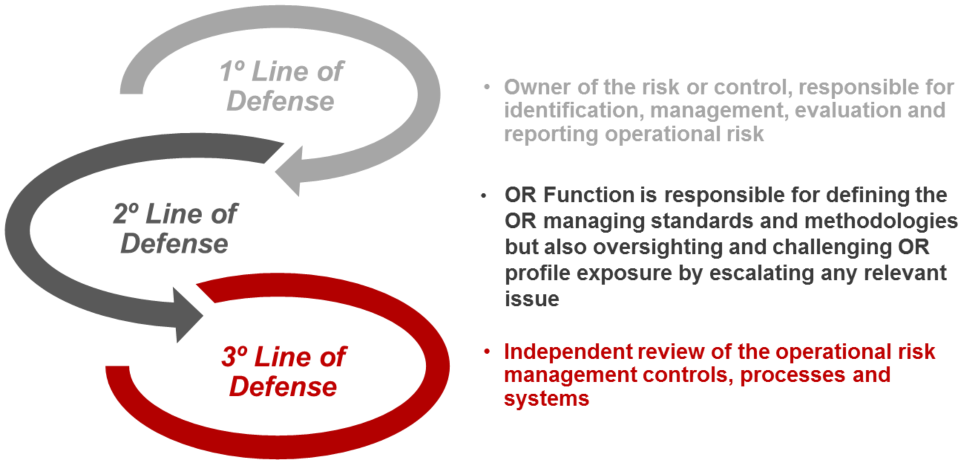
c) Risk identification, measurement and assessment model

In November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defence are defined:

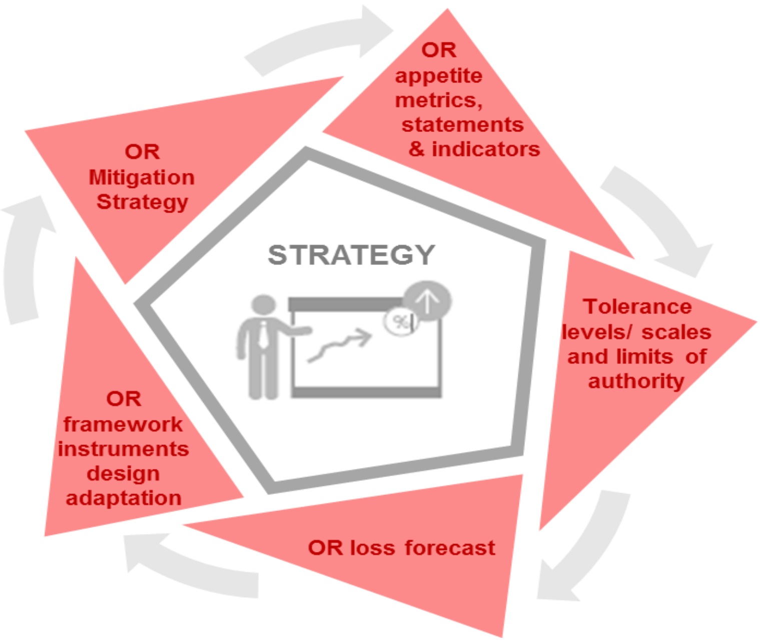
- 1st line of defence: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

- 2nd line of defence: performed by the Non-Financial Risks Department, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the first line of defence against operational risk.

- 3rd line of defence: Carried out by Internal Audit, which assesses compliance with its policies and procedures by all the entity's activities and units.



The components of risk management at the Group are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of qualitative and quantitative corporate techniques/tools, and these are combined to carry out a diagnosis based on the risks identified and obtain an assessment through measurement/evaluation of the area or unit.

The quantitative analysis of this risk is carried out mainly with tools that record and quantify the level of potential losses associated with operational risk events.

- An internal event database to capture all operational risk events at the Group. The capture of operational risk-related events is not limited to the establishment of thresholds, i.e., events are not excluded because of their amount, and the database contains events both with an accounting impact (including positive impacts) and those without.

  Accounting reconciliation processes are in place that ensure the quality of the information in the database. The most significant events of the Group and of each of its operational risk units are especially documented and reviewed.

- The external event database, as the Group, through the Santander Group, takes part in international consortia such as the Operational Risk data exchange Association (ORX). In 2016, the Group started to make increased use of external databases that provide quantitative and qualitative information to enable a more detailed and structured analysis of significant events occurring in the sector.

- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their potential effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact.

  This feature has also been included in the Heracles tool.

- Calculation of capital using the Standardised Approach.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place. These tools are mainly as follows:

- RCSA: Operational risk assessment methods, based on managers' expert judgement, leading to a qualitative view of the Group's main risk focuses, regardless of whether or not they have materialised previously.

  Benefits of RCSA:

  a. Incentivising the responsibility of the first lines of defence: It establishes the first line figures of risk owner and control owner.

  b. Helping identify the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.

  c. Improved integration of OR tools: Root cause analysis is added.

  d. Improved test validation. Carried out through workshops instead of questionnaires.

  e. Tests with a more forward-looking approach: The financial impact of risk exposure is assessed

- Continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. These are diverse statistics or parameters that provide information on an entity's exposure to risk. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis risk.

- Recommendations from regulators, Internal Audit and the external auditor. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.

- Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

d) Operational risk information system

HERACLES is the corporate operational risk information system. This system has modules for risk self-assessment, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting systems and scenario analysis, and it is applied to all entities of the Group.

e) Business Continuity Plan

The Santander Group and, accordingly, the Santander Consumer Finance Group, have a Business Continuity Management System (BCMS) to ensure the continuity of its entities' business processes in the event of a disaster or serious incident.

Impact analysis	Scenarios & strategies	Plan Development	Continuous processes
Identify **processes which not planned interruption may carry a severe impact in the business process**, as well as the requirements needed for their recovery. These processes are identified as "critical".	Identification of **threats or risk situations** that potentially **can cause the interruption of the normal activity of the business**, approach of the probability / frequency and the **impact of the materialization** of each threat.	Document the **response procedures in case of emergencies**, since the moment when an incident happens until a serious contingency is declared, **roles and process to follow up for the resolution** and recovery of the critical processes.	Update of processes and BCP maintenance. Tests and simulations.

The basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.
- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Safeguarding the public image of, and confidence in, the Group.
- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

f) Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: a corporate level, with consolidated information, and an individual level containing information for each country/unit.
- Dissemination of best practices among the Santander Group countries/units, obtained from the combined study of the results of quantitative and qualitative analyses of operational risk.

Specifically, information is prepared on the following subjects:

- The operational risk management model in the Bank and the main units and geographic areas of the Group.
- The scope of operational risk management.
- The monitoring of appetite metrics
- Analysis of internal event database and of significant external events.
- Analysis of most significant risks detected using various information sources, such as operational and technology risk self-assessment processes.
- Evaluation and analysis of risk indicators.
- Mitigation measures/active management.
- Business continuity plans and contingency plans.

This information is used as the basis for meeting reporting requirements to the Executive Risk Committee, the Risk Supervision, Regulation and Compliance Committee, the Operational Risk Committee, senior management, regulators, credit rating agencies, etc.

The role of insurance in operational risk management

The Santander Consumer Finance Group considers insurance to be a key tool in the management of operational risk. Since 2014, common guidelines have been in place for coordination between the different functions involved in the management cycle of operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also different areas of first line risk management.

These guidelines include the following activities:

- Identification of all risks at the Group that could be covered by insurance, as well as new insurance cover for risks already identified in the market.
- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.

- Negotiation with suppliers and contract awards in accordance with the relevant procedures established by the Group.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.
- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to inform on the specific activities, situation and projects of the two areas.
- Active participation of both areas in the global insurance sourcing desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

Cyber risk

Cybersecurity risk (also known as cyber-risk) is defined as any risk that results in financial loss, business interruption or damage to Santander Consumer Finance's reputation resulting from the destruction, misuse, theft or abuse of systems or information. This risk comes from inside and outside the corporation.

In the event of a cyber incident, the main cyber risks for Santander Consumer Finance consist of three elements:

- Unauthorized access to or misuse of information or systems (e.g., theft of business or personal information).
- Theft and financial fraud.
- Business interruption (e.g., sabotage, extortion, denial of service).

In 2019, Santander Consumer Finance has continued to devote its full attention to risks related to cyber-security, which affect our units in different geographical areas. This situation, which is causing concern among entities and regulators, is leading to the adoption of preventive measures to be prepared for attacks of this nature.

The Group has further developed its cyber regulations with the approval of a new cyber-security framework and the cyber-risk supervisory model, and new polices related to this area.

Also, a new organisational structure has been defined, and governance for the management and control of this risk has been strengthened. For this purpose, specific committees have been set up and cyber-security metrics have been incorporated to the Group's risk appetite. These metrics have been monitored and reported both in different geographical areas and at a Global level.

The main instruments and processes established for the control of cybersecurity risk are:

- Compliance with cyber-risk appetite: the objective of this process is to ensure that the cyber-risk profile is in line with the risk appetite. Cyber-risk appetite is defined by a series of metrics, risk statements and indicators with corresponding tolerance thresholds and where existing governance structures are used for monitoring and escalation, including risk committees and cybersecurity committees.
- Identification and assessment of cybersecurity risk: The cyber-risk identification and assessment process is a key process for anticipating and determining the risk factors that could cause cyber-risk and estimating likelihood and impact. Cyber risks are identified and classified in line with the control categories defined in the latest industry-relevant security standards (such as ISO 27k, NIST Cybersecurity Framework, etc.). The methodological catalogue includes methods used to identify, qualify and quantify cyber-risks, and to evaluate the controls and corrective measures taken by the first line of defence. Cyber-risk assessment tests are a key tool for identifying and assessing cybersecurity risks at Santander Consumer Finance entities. Cybersecurity and technology risk assessment must be updated when reasonably necessary,

taking into account changes in information systems, confidential or business information, and the entity's business operations.

- Cyber-risk control and mitigation processes relating to assessing the effectiveness of risk control and mitigation. Once cyber risks have been assessed and mitigation measures defined, these measures are included in a Santander Consumer Finance cybersecurity risk mitigation plan. Residual risks are identified and formally accepted. Due to the nature of cyber-risks, risk mitigation plans are regularly reassessed. A key process in the face of a successful cybersecurity attack is the business continuity plan. Santander Consumer Finance has mitigation strategies and measures in place in connection with business continuity management plans and disaster recovery. These measures also address cyberattacks, based on defined policies, methods and procedures.

- Monitoring, supervision and reporting of cyber-risk: Santander Consumer Finance controls and monitors cyber-risk in order to regularly analyse the information available on the risks accepted in the course of the Group's activities. For this purpose, Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) are monitored to assess whether risk exposure is in line with authorised risk appetite.

- Escalation and reporting: Proper escalation and reporting of cyber threats and cyberattacks is another key process. Santander Consumer Finance has tools and processes for detecting internal threats and potential hazards in its infrastructure, servers, applications and databases. Reporting encompasses the preparation of reports and submission to the relevant committees of information required to assess exposure to cyber-risk, analyse the cyber-risk profile and take the necessary decisions and measures. Appropriate cyber-risk situation reports are produced for management committees accordingly. There are also mechanisms in place for independent internal escalation of technological and cybersecurity incidents to the bank's management team and, if necessary, to the appropriate regulator.

Compliance and conduct risk

The compliance function includes all issues relating to regulatory compliance, prevention of money laundering and terrorist financing, governance of products and consumer protection, and reputational risk according to the General Corporate Compliance and Conduct Framework (*Marco Corporativo General de Cumplimiento y Conducta)*.

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defence, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that non-compliance and irregularities occur and that any that should occur are identified, assessed, reported and quickly resolved.

The main tools used by the Compliance function in order to meet their objectives are (among others): establishment and coordination with the Compliance Program, coordination of the Risk Assessments of all the areas of Compliance and Conduct, definition and monitoring of the Compliance Metrics that participate in the SCF Appetite Risk Framework and monitoring of the Norms of Obligatory Compliance.

g) Compliance with regulatory framework

The Basel III regulations came into effect in 2014, setting new global standards for the capital, liquidity and leverage of financial entities.

From the capital perspective, Basel III redefines what is considered available capital for financial entities (including new deductions and increasing requirements for eligible capital instruments); increases minimum capital requirements; requires financial entities to always hold capital buffers; and adds new requirements for the risks considered.

These regulations were implemented in Europe through Directive 2013/36/EU, known as 'CRD IV', and its regulations, 575/2013 (CRR), which apply directly in all EU member states (Single Rule Book). These rules are currently subject to regulatory development by the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014, on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable to member states from 1 January 2014 and repeals lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the capital instruments and elements that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV are also being phased in gradually, starting in 2016 and reaching full implementation in 2019.

In 2019, the Santander Consumer Finance Group must maintain a minimum capital ratio of 8.85% CET1 phase-in (4.5% for Pillar I, 1.5% for Pillar II, 2.5% for the capital conservation buffer, and 0.35% for the anti-cyclical buffer), This requirement includes: (i) the minimum Common Equity Tier 1 requirement to be maintained at all times under Section 92(1)(a) of Regulation (EU) No 575/2013 (ii) the Common Equity Tier 1 requirement to be maintained in excess at all times under Section 16(2)(a) of Regulation (EU) No 1024/2013; and (iii) the capital conservation buffer under Section 129 of Directive 2013/36/EU. In addition, Santander Consumer Finance must maintain a minimum capital ratio of 10.35% of Q1 phase-in as well as a minimum Total Ratio of 12.35% phase-in.

Reconciliation of accounting capital with regulatory capital (Millions of euros)

	2019	2018
Subscribed capital	5,639	5,639
Share premium account	1,140	1,140
Reserves	3,373	2,998
Other equity instruments	1,050	1,050
Attributable profit	1,133	1,219
Approved dividend	-	-
Interim dividend	(445)	-
Shareholders' equity on public balance sheet	**11,890**	**12,046**
Valuation adjustments	(529)	(463)
Non- controlling interests	1,883	1,590
Total Equity on public balance sheet	**13,244**	**13,173**
Goodwill and intangible assets	(2,228)	(2,158)
Accrued dividend	-	(502)
Eligible preference shares and participating securities	-	-
Other adjustments (*)	(865)	(915)
Tier 1 (Phase-in)	**10,151**	**9,598**

(*) Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2019	2018
Capital coefficients		
Level 1 ordinary eligible capital (millions of euros)	9,023	8,485
Level 1 additional eligible capital (millions of euros)	1,128	1,113
Level 2 eligible capital (millions of euros)	809	563
Risk-weighted assets (millions of euros)	71,957	68,915
Level 1 ordinary capital coefficient (CET 1)	12.54%	12,31%
Level 1 additional capital coefficient (AT1)	1.57%	1.62%
Level 1 capital coefficient (TIER1)	14.11%	13.93%
Level 2 capital coefficient (TIER 2)	1.12%	0.81%
Total capital coefficient	**15.23%**	**14.74%**

Eligible capital (Millions of euros)

	2019	2018
Eligible capital		
Common Equity Tier I	**9,023**	**8,485**
Capital	5,639	5,639
Share Premium	1,140	1,140
Reserves	3,375	2,898
Other retained earnings	(525)	(460)
Minority interests	1,238	1,591
Profit net of dividends	688	717
Deductions	(2,532)	(3,040)
Goodwill and intangible assets	*(1,910)*	*(2,158)*
Others	*(618)*	*(882)*
Additional Tier I	**1,128**	**1,113**
Eligible instruments AT1	1,050	1,050
T1- excesses-subsidiaries	78	63
Residual value of dividends	-	-
Others	-	-
Tier II	**809**	**563**
Eligible instruments T2	749	478
Gen. funds and surplus loans loss prov. IRB	-	-
T2-excesses- subsidiaries	60	85
Others		-
Total eligible capital	**10,960**	**10,161**

The Bank is continuing its plan to implement the Basel advanced internal rating-based measurement approach (AIRB). This objective is also conditioned by the acquisition of new entities, as well as by the need for coordination of the validation processes for internal models by supervisors.

The Santander Consumer Finance Group mainly operates in countries within the same legal supervisory framework, as is the case in Europe through the Capital Directive.

Santander Consumer Finance currently has supervisory authorisation to use advanced approaches for calculating regulatory capital requirements for credit risk for its main portfolios in Spain, and some portfolios in Germany, Scandinavia and France.

Santander Consumer Finance Group currently applies the standard approach to calculating regulatory capital for operational risk, as set out in the European Capital Directive.

As for the other risks expressly considered in Basel Pillar I, market risk is not significant in Santander Consumer Finance, as this is not part of its business purpose, and it therefore uses the standard approach.

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).

Santander Consumer Finance maintains a fully loaded leverage ratio of 8.64% (8.48% Phased-in) at the end of 2019. Pending publication of the definitive rules on the minimum requirements for this ratio, the benchmark was set at 3,5%.

Millions of euros	31-12-2019	31-12-2018
Leverage		
Level 1 Capital	10,151	9,598
Exposure	119,751	110,837
Leverage Ratio	**8.48%**	**8.66%**

Economic capital

From the point of view of solvency, in the context of Basel Pillar II Santander Consumer Finance Group uses its economic model for its internal capital adequacy assessment process (ICAAP). For this purpose, business performance and capital needs are planned under a base case scenario and under alternative stress scenarios. In this planning, the Group ensures that its solvency objectives are upheld even in adverse economic scenarios.

Economic capital is the capital required, according to an internally developed model, to support all the risks of our business at a certain level of solvency. In our case, the solvency level is determined by the long-term objective rating of 'A' (two steps above Spain's rating), which means applying a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

The Group's economic capital model includes in its measurement all significant risks incurred by the Group in its operations, and therefore considers risks such as concentration, structural interest rate, business, pensions and others that are outside the scope of "regulatory" Pillar 1. Furthermore, economic capital incorporates the diversification effect, which in the case of the Group is crucial, due to the multinational and multi-business nature of its activity, in order to determine the overall risk and solvency profile.

The Santander Consumer Finance Group uses the RORAC method in its risk management to calculate the economic capital consumption and return on risk-adjusted capital of the Group's business units, segments, portfolios or customers, in order to periodically analyse value creation and facilitate optimal allocation of capital.

The RORAC methodology makes it possible to compare, on a uniform basis, the returns on transactions, customers, portfolios and businesses, identifying those that obtain a risk-adjusted return higher than the Group's cost of capital, and thus aligning risk and business management with the intention of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

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Appendix I

Subsidiaries

Entity	Domicile	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2019	2018		Capital and reserves(a)	Net profit (a)	Profit/(loss) (b)
Andaluza de Inversiones, S.A.	Ciudad Grupo Santander, Av. Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	-	100%	100%	Holding company	92.00	-	27.00
Auto ABS DFP Master Compartment France 2013 (d)	-	France	-	(d)			Securitisation	-	-	-
Auto ABS French Lease Master Compartiment 2016 (d)	-	France	-	(d)			Securitisation	-	-	-
Auto ABS French Loans Master (d)	-	France	-	(d)			Securitisation	-	-	-
Auto ABS French LT Leases Master		France	-	(d)			Securitisation	-	-	-
Auto ABS2 FCT Compartiment 2013-A (d)	-	France	-	(d)			Securitisation	-	-	-
Banca PSA Italia S.p.a.	Via Gallarate 199, 20151 Milano	Italy	-	50%	50%	50%	Banking	386.00	55	153.00
Banco Santander Consumer Portugal, S.A.	Rua Castilho 2/4 1269-073, Lisboa	Portugal	80%	20%	100	100%	Banking	172.00	12	240.00
BCLF 2013-1 B.V. (d)	-	Netherlands	-	(d)			Securitisation	-	-	-
Bilkreditt 4 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Bilkreditt 5 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Bilkreditt 6 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Bilkreditt 7 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	100%	50%	Banking	363.00	(87)	856.00
Compagnie Pour la Location de Vehicules – CLV	12 av. André Malraux 92300 Levallois-Perret	France	-	50%	100%	50%	Financial	20.00	(5)	52.00
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Av. António Augusto Aguiar, 31 1069-413 Lisboa	Portugal	-	51%	51%	51%	Financial	9.00	1	8.00
Financiera El Corte Inglés, E.F.C., S.A.	C/ Hermosilla 112, 28009, Madrid	Spain	51%	-	51%	51%	Financial	214.00	75	140.00
Guaranty Car, S.A. Unipersonal	-	Spain	-	100%	100%	100%	Auto	2.00	1	1.00
Hispamer Renting, S.A. Unipersonal	Nacional II, Km 16,500 San Fernando de Henares, Madrid	Spain	-	100%	100%	100%	Renting	1.00	-	1.00
PSA Bank Deutschland GmbH	Siemensstraße 10, 63263 Neu-Isenburg, Hesse	Germany	-	50%	50%	50%	Banking	470.00	46	231.00
PSA Banque France	29 rue Ernest Cognacq 92300 Levallois-Perret	France	-	50%	50%	50%	Banking	1,093.00	140	463.00
PSA Finance Belux S.A.	8 boîte 2, Braine-l'Alleud, Avenue de Finlande, 1420 Braine-l'Alleud	Belgium	-	50%	50%	50%	Financial	109.00	15	42.00

Entity	Address	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2019	2018		Capital and reserves(a)	Net profit (a)	Profit/(loss) (b)
Santander Consumer Finance	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	99%	-	99%	99%	Other services	-	-	-
Global Services, S.L		Spain						5.00	1	5.00
PSA Finance Suisse, S.A.	Brandstrasse 24, 8952 Schlieren	Switzerland	-	50%	100%	50%	Leasing	37.00	19	28.00
PSA Financial Services Nederland B.V.	Hoofdweg 256, 3067 GJ Rotterdam	Netherlands	-	50%	50%	50%	Financial	73.00	15	29.00
PSA Financial Services Spain, E.F.C., S.A.	C/ Eduardo Barreiros Nº 110. 28041, Madrid	Spain	50%	-	50%	50%	Financial	416.00	72	174.00
Santander Consumer Bank AG	Santander Platz I, 41061 (Mönchengladbach)	Germany	-	100%	100%	100%	Banking	2,609.00	454	4,820.00
Santander Consumer Bank AS	Strandveien 18, 1366 Lysaker, 0219 (Baerum)	Norway	100%	-	100%	100%	Financial	2,361.00	300	1,783.00
Santander Consumer Bank GmbH	Andromeda Tower, Donan City. Strów-Wien	Austria	-	100%	100%	100%	Banking	330.00	51	363.00
Santander Consumer Bank S.p.A.	Vía Nizza 262, I-10126 (Turín)	Italy	100%	-	100%	100%	Banking	817.00	81	981.00
Santander Consumer Banque S.A.	26 Quai Michelet Levallois Perret Levallois Perret, 92300	Francia	100%	-	100%	100%	Banking	495.00	34	492.00
Santander Consumer Finance Benelux B.V.	Guldensporenpark 81, 9820 (Merelbeke)	Netherlands	100%	-	100%	100%	Financial	132.00	14	190.00
Santander Consumer Finance Oy	Hermannin Rantatie 10, 00580 (Helsinki)	Finlandia	-	100%	100%	100%	Financial	211.00	42	130.00
Santander Consumer Holding Austria GmbH	Rennweg 17, A 1030 (Wien)	Austria	100%	-	100%	100%	Holding company	364.00	25	518.00
Santander Consumer Holding GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	100%	-	100%	100%	Holding company	4,926.00	278	5,827.00
Santander Consumer Operations Services GmbH		Germany	100%				Other services	9.00	1	18.00
Santander Consumer Technology Services GmbH		Germany	100%				Other services	14.00	1	22.00
Santander Consumer Leasing GmbH	Santander Platz I, 41061 (Mönchengladbach)	Germany	-	100%	100%	100%	Leasing	34.00	54	101.00
Hyundai Capital Bank Europe GmbH	Friedrich-Ebert-Anlage 35-37 · 60327 Frankfurt am Main	Germany	-	51%	51%	-	Financial	219.00	17	134.00
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Ciudad grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	78%	17%	100%	100%	Insurance	1.00	-	-
Santander Consumer Renting, S.L.	Santa Bárbara 1, 28180, Torrelaguna - Madrid	Spain	-	100%	100%	100%	Leasing	37.00	1	39
Santander Consumer Services GmbH	Thomas Alva Edison Str. I, Eisendstadt	Austria	-	100%	100%	100%	Services	-	-	-
Santander Consumer Services, S.A.	Rua Castilho nº 2, 1269-073 Lisboa, Portugal	Portugal	80%	20%			Financial	8.00	2	10.00
Santander Consumer, EFC, S.A.	Ciudad Grupo Santander, Av Cantabria, 28660, Boadilla del Monte - Madrid	Spain	100%	-	100%	100%	Financial	447.00	102	505.00
SC Austria Finance 2013-1 S.A. (d)	-	Luxembourg	-	(d)			Securitization	-	-	-

Entity	Address	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2019	2018		Capital and reserves(a)	Net profit (a)	Profit/(loss) (b)
SC Germany Auto 2013-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Auto 2014-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Auto 2014-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Auto 2016-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Auto 2016-2 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Consumer 2014-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Consumer 2015-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Consumer 2016-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt) (d)	-	Germany	-	(d)			Securitisation	-	-	-
SCF Ajoneuvohallinto KIMI VI Limited (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Ajoneuvohallinto I Limited (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Ajoneuvohallinto II Ltd (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCFI Ajoneuvohallinto Limited (d) (e)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Rahoituspalvelut 2013 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Rahoituspalvelut I Designated Activity Company (d) (e)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Rahoituspalvelut II DAC (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Rahoituspalvelut VIII DAC (d)	-	Ireland	-	(d)			Securitisation	-	-	-
SCFI Rahoituspalvelut Limited (d) (e)	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Ajoneuvohallinto VII Limited	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Ajoneuvohallinto VIII Limited	-	Ireland	-	(d)			Securitisation	-	-	-
SCF Rahoituspalvelut KIMI VI DAC (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Secucor Finance 2013-I Designated Activity Company (q) (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Silk Finance No. 4 (d)	-	Portugal	-	(d)			Securitisation	6.00	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2013-1 (d)	-	Spain	0%	100%			Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1 (d)	-	Spain	0%	100%			Securitisation	-	-	-
Golden Bar Stand Alone 2014-1 (d)	-	Italy	-	(d)			Securitisation	-	-	-
Golden Bar Stand Alone 2015-1 (d)	-	Italy	-	(d)			Securitisation	-	-	-
Golden Bar Stand Alone 2016-1 (d)	-	Italy	-	(d)			Securitisation	-	-	-
Golden Bar Whole Loan Note VFN 2013-1 (d)	-	Italy	-	(d)			Securitisation	-	-	-

Entity	Address	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2019	2018		Capital and reserves(a)	Net profit (a)	Profit/(loss) (b)
Suzuki Servicios Financieros, S.L.	C/Carlos Sainz 35, Pol. Ciudad del Automóvil, Leganés - Madrid	Spain	-	51%	51%	51%	Intermediation	6.00	1	-
Svensk Autofinans 1 Limited (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Svensk Autofinans WH 1 Designated Activity Company (d)	-	Ireland	-	(d)			Securitisation	-	-	-
Transolver Finance EFC, S.A.	Av. Aragón 402, Madrid	Spain	51%	-	51%	51%	Leasing	53.00	7	22.00
SC GERMANY AUTO 2017-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
SC GERMANY AUTO 2018-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
SC GERMANY CONSUMER 2017-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
SC GERMANY CONSUMER 2018-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
SC GERMANY CONSUMER 2019-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
SC GERMANY MOBILITY 2019-1 UG (HAFTUNGSBESCHRÄNKT)		Germany	-	(d)			Securitisation	-	-	-
VCFS GERMANY GMBH		Germany	-	(d)			Securitisation	-	-	-
SCF RAHOITUSPALVELUT VII DAC		Ireland	-	(d)			Securitisation	-	-	-
AUTO ABS FRENCH LEASES 2018		France	-	(d)			Securitisation	-	-	-
PSA RENTING ITALIA S.P.A.	Vía Nizza 262, I-10126 (Turín)	Italy	-	50%	50%	50%	Renting	6.00	4	6.00
Autodescuento, S.L.		Spain	-	100%	100%	-	Other services	0.00	-	18.4
PSA Life Insurance Europe Ltd	Mediterranean Building 53 Abate Rigord Street Ta' Xbiex XBX 1122 Malta	Malta		50%	50%	50%	Insurance	-	-	6.00
PSA Insurance Europe Ltd	Mediterranean Building 53 Abate Rigord Street Ta' Xbiex XBX 1122 Malta	Malta		50%	50%	50%	Insurance	-	-	8.00
Santander Benelux,S.A.,N.V.	4 - 8, Avenue de Finlande, 1420 Eigenbrakel, Belgium	Belgium		100%			Financial	1,167.00	16	1,170.00

(a) Data obtained from the financial statements of each subsidiary for 2019. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Carrying amount of the investments in each subsidiary per the books of the holding company, net of the related impairment allowance, if any.

(c) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the subsidiary holding a direct ownership interest in such companies.

(d) Vehicles over which effective control is exercised.

Appendix II

Joint ventures and associates

Entity	Address	Country	Bank's ownership interest (%)		Voting rights (%) (c)		Line of business	EUR Millions		
			Direct	Indirect	2019	2018		Assets	Capital and reserves	Profit/(loss)
Bank of Beijing Consumer Finance Company	Associate	China	20%	-	20%	20%	Finance	827	103	157
Fortune Auto Finance Co., Ltd	JV	China	50%	-	50%	50%	Finance	2,474	279	41
PSA Insurance Europe Limited	JV	Malta	50%	-	50%	50%	Insurance	204	71	15
PSA Life Insurance Europe Limited	JV	Malta	50%	-	50%	50%	Insurance	100	11	11
Santander Consumer Bank S.A.	Associate	Poland	40%	-	40%	40%	Banking	4,767	667	119
Santander Consumer Finanse Sp. z o.o.	Associate	Poland	-	40%	40%	40%	Services	15	12	0
Santander Consumer Multirent Sp. z o.o.	Associate	Poland	-	40%	40%	40%	Leasing	584	26	1
VCFS Germany GmbH	JV	Germany	-	50%	50%	50%	Marketing	390	0	0
PSA Finance Polsja sp.z o.o	Associate	Poland	-	20%	45%	20%	Finance	433	34	4
Payever Gmbh	Associate	Germany	-	10%	0%	10%	Other services	2	1	1
PSA Consumer Finance Polska sp.zo.o.	Associate	Poland	-	20%	0%	20%	Finance	49	1	1

(a) Data obtained from the financial statements of each associate and/or jointly controlled entity for 2019. These financial statements have not yet been approved by the respective governing bodies. However, the Bank's directors consider that they will be ratified without any changes.

(b) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September, approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other parties acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. Accordingly, the number of votes corresponding to the Parent in relation to companies in which it has an indirect interest is the number corresponding to the company holding a direct ownership interest in such companies.

Appendix III

Changes and notifications of acquisitions and disposals of investments in 2019

(Article 155 of the Consolidated Spanish Limited Liability Companies Law and Article 125 of Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Market Law).

Investee	Line of business	Net ownership interest (%)		Effective date of the transaction (or date of notification if appropriate)
		Acquired/sold in the year	At year end	
Acquisitions in 2019:				
Hyundai Capital Bank Europe, GmbH	Finance	51%	51%	28-03-2019
Autodescuento S.L.	Finance	100%	100%	23-12-2019

Appendix IV

List of agents as required by Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions, on 31 December 2019

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Álvarez and Garrúes Dos, S.L.	Av. de Vigo, 65 - Pontevedra	27003	B027380799	01-08-08	Pontevedra, Villagarcía de Arosa, O Grove, Sanxenxo, Cambados, Lalín, La Estrada, Silleda and Caldas de Rey	Mortgage loans, consumer loans, finance leases.
Álvarez and Garrúes, S.L.	Av. A Coruña, 439 - Lugo	27003	B27274216	01-12-03	Lugo.	Mortgage loans, consumer loans, finance leases.
Álvarez and Garrúes Tres, S.L.	C/ Salvador Dalí, 12 - Ourense	27003	B27412816	01-11-10	Ourense, Barco de Valdeorras and Rua.	Mortgage loans, consumer loans, finance leases.
Antonio García Fernández Servicios Financieros, S.L	C/Jara, nº1 local, esquina doctor Antonio Cabrera (14400), Pozoblanco	14400	B14771554	01-10-06	Alcaracejos, Añora, Belalcazar, Belmez, Los Blázquez, Cardenas, Conquista, Dos Torres, Espiel, Fuente La Lancha, Fuente Obejuna, El Guijo, Hinojosa del Duque, Pedroche, Peñarroya-Pueblonuevo, Pozoblanco,.	Mortgage loans, consumer loans, finance leases.
Asedime Servicios Financieros, S.L.	Doctor Dorronsoro 2 – Valverde del Camino	21600	B021380746	01-04-08	Alajar, Almonaster la Real, Aracena, Aroche, Arroyo Molinos de León, Beas, Berrocal, Cala, Calañas, El Campillo, Campofrío, Cañaveral de León, Castaño de Robledo, Corteconcepción, Cortegana, Cortelazor, Cumbre de En Medio, Cumbres de San Bartolomé, Cumbres Mayores, Encinasola, Fuenteheridos, Galaroza, La Granada de Ríotinto, La Nava, Nerva, Puerto del Moral, Rosal de la Frontera, Santa Ana la Real, Santa Olalla del Cala, Trigueros, Valdelarco, Valverde del Camino, Zalamea la Real and Zufre.	Mortgage loans, consumer loans, finance leases.
Asesoramiento Financiero Zafra, S.L.	AVDA ADOLFO DIAZ AMBRONA , 23C 06300 ZAFRA	6300	B06433973	03-01-05	Badajoz	Mortgage loans, consumer loans, finance leases.

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
AUTO CONSUMER ALAVA, S.L.	Avd. de los Huetos, 79 Vitoria 01006 (Álava)	01010	B2650557	18/07/2007	Vitoria /Gasetiz	Mortgage loans, consumer loans, finance leases.
Berga Gestió, S.L.	C/ Gran Vía, 46 (08600) Berga	08600	B64396476	02-01-10	Berga,Navas, Cardona and Nou de La Bergueda.	Mortgage loans, consumer loans, finance leases.
Canovaca Agentes Financieros S.L.	POL IND. EL GARROTAL Nº 17 EDIFICIO GEFICA, PLANTA 1 (14700 PALMA DEL RIO)	14700	B14539290	01-04-00	Almodóvar del Rio, Fuente Palmera, Palma del Rio, Posadas, Lora del Rio, Peñaflor, Carmona, La Campana, La Puebla de los Infantes, Mairena del Alcor, El Viso del Alcor	Mortgage loans, consumer loans, finance leases.
Carrasco Agentes, S.L.	C/ BETULA Nº 9 PISO 1º A (23400)ÚBEDA	23700	B023478704	02-01-04	Jaén.	Mortgage loans, consumer loans, finance leases.
Centro Asesor de Teruel Financiera, S.L.	La calle es Ronda Ambeles n. 52 (44004) Teruel	44003	B44224947	02-06-08	Teruel.	Mortgage loans, consumer loans, finance leases.
Centro Financiero de Benidorm, S.L.	Avda/Villajoyosa, Edf. Alborán, local 2 ; 03502 Benidorm	46009	B098050305	10-06-08	Alfaz del Pi, Altea, Beniarres, Benidorm, Callosa d'en Sarria, Finestrat, Guadalest, La Nucia, Polop and Villajoyosa	Mortgage loans, consumer loans, finance leases.
Consultoría Financiera de la Mancha, S.L.	C/ Ramiro Ledesma, s/n bloque 5 Local 3 (13630) Socuéllamos	13630	B013354303	15-12-03	Socuéllamos, Tomelloso, Argamasilla de Alba, Pedro Muñoz, Campo de Criptana, Alcázar de San Juan, Las Pedroñeras, Monta del Cuervo, Villanueva de los Infantes	Mortgage loans, consumer loans, finance leases.
Donat Finance Service, S.L.	Pza. Velazquez, 11 - Bajo (52004) Melilla	52004	B052016435	01-02-07	Melilla	Mortgage loans, consumer loans, finance leases.

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Estudios and Análisis de Riesgos, S.L.	Plaza de los carros, 2, 16001 Cuenca.	16004	B016156598	30-06-07	Cuenca	Mortgage loans, consumer loans, finance leases.
Financiaceuta, S.L.U	C/ Cervantes, galería "La Riojana", 2ª planta, local nº 26 (51001) Ceuta	51001	B51017101	01-07-06	Ceuta	Mortgage loans, consumer loans, finance leases.
Financiera Palentina, S.L.	Avda. Santander, 44 Planta Loc. Puerta 11 (34003) Palencia	34003	B34279315	01-11-17	Abarca de Campos, Abia de las Torres, Aguilar de Campoo and Alar del Rey	Mortgage loans..
Finanduero 2007, S.L.U.	Avda Castilla 47 – Aranda de Duero	9400	B009480013	02-11-07	Aranda de Duero, Lerma, Huerta del Rey, Salas de los Infantes and Roa.	Crédito Hipotecario, Crédito al Consumo, Arrendamiento Financiero.
Finangi. Cat, S.L.	Avda. de la Rápita, 33 1º Amposta (Tarragona)	43870	B43571660	01-06-99	Tarragona	Mortgage loans, consumer loans, finance leases.
Fromán Consultores, S.L.U.	Av. Del Mantecado, 23 (41560) Estepa	41560	B41969767	01-06-04	Aguadulce, Badolatosa, Casariche, Los Corrales, Estepa, Gilena, Herrera, La Lentejuela, Lora de Estepa, Marinaleda, Martin de la Jara, Osuna, Pedrea, La Roda de Andalucía, El Rubio, El Saucejo.	Mortgage loans, consumer loans, finance leases.
García and Trinidad Asesoramiento and Financiación, S.L	Rosario, 9 - Albox	4800	B04577383	01-10-06	Albox, Alcontar, Almanzorra, Armuña de Almanzorra, Bacares, Bayarque, Benitagla, Bezalon, Cantoria, Cobrar, Fines, Laroya, Lijar, Lubrin, Lucar, Macael, Olula del Rio, Partaloa, Purchena, Seron, Sierro, Somontin, Tahall, Tijola, Uleila del Campo, Urracal and Zurgena.	Mortgage loans, consumer loans, finance leases.
Gestió de Financament I Inversions de Ponent	Av. De la Pau, 49 – Mollerusa	25230	B25539123	01-10-06	Comarcas del Pla D´urgel, la Noguera, L´urgell and La Segarra. Y Lérida, Balafia; Les Basses D'Alpicat, La Bordeta, Camps D'Escorts, Cap Pont, Castel De Gardeny, Clot_Princep de Viana, Gualda; Llivia, Magraners, Mariola, Pardinyes, Raimat, Seca Sant Pere, Sucs, Suquets; Les Torres de Sanui, Abella de la Conca Les Alamus, L'Albages, Albatarrec, L'Albi, Alanco, Alcarras, Alcoletge, Alfes, Alguaire, Almatret, Almenar, Alpicat, Artessa de Lleida, Aspa, Aitona, Benavent de Segria, Bovera, Les Borges, Blanquets, Castelldans, Cervia de Garrigues, Corbins, L'Espluga Calba, La Floresta, Fulleda, La Granja D'Escarp, Gimenells i Pla de la Font, Granyera de les Garrigues, Juncosa, Juneda, Llardecans, Masalcoreig, Maials de Lleida, Els Omellons, La Pobla de Cervoles, Bellaguarda, La Portella, Puiggros, Puigverd,de Lleida; Roselló, Seros, El Soleras, Soses, Tarres, Els TOrms, Torrebesses, Torrefarrera, Torres de Segre, Torre Serona, Vilanova de Segria, El Vilosell, Vilanova de la Barca and Vinaixa.	Mortgage loans, consumer loans, finance leases.

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Gestión de Servicios Financieros Artimar, S.L.	Avda. de Canarias 344- Sta. Lucia de Tirajana	35110	B35496777	26-01-98	Agüimes, Santa Lucía de Tirajana, San Bartolomé de Tirajana	Mortgage loans, consumer loans, finance leases.
Gestión Financiera Villalba S.L.	C/ Carmelo Vega, 26 - A(11600) Ubrique	11600	B11517620	01-07-01	Ubrique, Alcalá del Valle, Algodonales, Arcos de la Frontera, Benaocaz, Bornos, El Bosque, El Gastor, Espera, Grazalema, Olivera, Prado del Rey, Setenil, Torre Alhaquine, Villanueva del Rosario, Villa Martín, Puerto Serrano	Mortgage loans, consumer loans, finance leases.
GEYBA Servicios Financieros, S.L.	Avda. La Libertad nº 2 Local (41980) La Algaba	41980	B91385377	01-09-04	Arevalillo de Cega, Alacala del Rio, Alcolea del Rio, La Algaba, Almaden de la Plata, Brenes, Burguillos, Cantillana, Castilblanco de los Arroyos, El Castillo de las Guardas, Cazalla de la Sierra, Constantina, El Garrobo, Gerena, El Madroño, Las Navas de la Concepción, El Pedroso, La Roda de Andalucía, La Rinconada	Mortgage loans, consumer loans, finance leases.
Graciano Vega Vidal, S.L.	C/ Del Agua, 2 - Gijón (Asturias)	33206	B33957580	02-01-10	Gijón, Cabrales, Cangas de Onís, Caravía, Caso, Colunga, Llanes, Nava, Onís, Parrés, Peñamerella Alta, Peñamellera Baja, Pesoz, Pilonga, Ponga, Rivadedeva, Rivadesella, Villaviciosa	Mortgage loans, consumer loans, finance leases.
Indastec Asociados, S.L.	Madrid, 20 - Ibiza	7800	B57150310	01-01-04	Eivissa, Sant Antoni de Portmany, Santa Eulalia del Rio San Jose Formentera	Mortgage loans, consumer loans, finance leases.
Insema Inversiones, S.L.	Av. Andalucía 11 – Planta 1- Puente Genil (Córdoba)	14500	B14499909	19-12-08	Aguilar de la Frontera, Benameji, Castro del Río, Espejo, Fernan Nuñez, Montalbal de Córdoba, Montemayor, Montilla, Monturque, Moriles, Palenciana, Puente Genil, La Rambla and Santaella	Mortgage loans, consumer loans, finance leases.
Intermediación and Servicios Junval, S.L.	C/ BEBRICIO , 39, Pasaje Local nº 7 (26500) Calahorra	26500	B26319178	01-12-03	Calahorra	Mortgage loans, consumer loans, finance leases.

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Juan Jiménez Gestión Financiera, S.L.	C/ BARTOLOME DE MEDINA , local 18 (41004) Sevilla	41004	B91167973	01-02-02	Bormujos, Coria del Río, Gelves, Gines, Pilas, Sanlucar la Mayor, Umbrete, Villamanrique de la Condesa, Villanueva del Ariscal.	Loans, credit and finance leases
L'Eliana Finance, S.L.	Av. Cortes Valencianes 35 - L'Eliana	46183	B9739462	01-10-05	Riba - Roja de Turia, Lliria, Betera, Buñol, Requena, Utiel, L'Eliana, La Pobla de Vallbona	Mortgage loans, consumer loans, finance leases.
Martín & Castilla Servicios Financieros, S.L.	Fray Diego de Cádiz,163 - Morón de la Frontera	41530	B91369231	01-06-04	Algamitas, Arahal, Caripe, El Coronil, Marchena, Montellano, Morón de la Frontera, Paradas, Pruna, La Puebla de Cazalla, Villanueva de San Juan	Mortgage loans, consumer loans, finance leases.
Medifirent, S.L.	C/ LA ESTACION, 1, ENTREPLANTA, OF. 9 (9200) Mirande de Ebro (Burgos)	9200	B09410572	01-03-04	Miranda de Ebro	Mortgage loans, consumer loans, finance leases.
Noguer Bau, S.L.	Sant Fidel, 5. Vic	8500	B64018179	31-08-07	Aiguafreda, Alpens, El Brull, Calldetenes, Centelles, Collsuspina, Espinelves, Folgueroles, Gurb, Els Hostalets De Balenya, Lluça, Perafita, Prats De Lluçanes, Roda De Ter, Rupit-Pruit, Santa Cecilia De Voltrega, Santa Eugenia De Berga Santa Eulalia De Riuprimer, Sant Agusti Del Lluçanes, Santa Maria De Corco L'asquirol, Sant Bartomeu Del Grau, Sant Boi De Lluçanes, Sant Hipolit De Voltrega	Mortgage loans, consumer loans, finance leases.
Ramsa Servicios Financieros and Empresariales, S.L.	Blas Infante, 7 - Lepe	21440	B21347190	02-01-04	Punta Umbría, Cartaya, Lepe, Isla Cristina and Ayamonte	Mortgage loans, consumer loans, finance leases.
European Finantial Consume, S.L.	C/Sexmo del Espinar, 3 1º C Segovia	40006	B86080280	03-01-2011	Segovia.	Automotive financing, automotive leasing, full-service leasing, consumer lending, co-branded cards, general-purpose cards, proprietary cards.
Servicios Financieros Quintanar, S.L.	C/ Vicente Gálvez Villarejo, 12. (45800) Quintanar de la Orden	45800	B45545167	01-12-03	Quintanar de la Orden, Madridejos	Mortgage loans, consumer loans, finance leases.
Servicios Financieros Sorianos, S.L.	C/Del Ferial , 4 Oficina 3 B2 4200 Soria	42002	B42180927	02-01-06	Soria	Mortgage loans, consumer loans, finance leases.
Servital Asesores S.L.	Nuestro Padre Jesús 3- La Palma del Condado	14500	B2161177	02-11-05	Almonte, Bollullos Par del Condado, Bonares, Chucena, Escacena del Campo, Hinojos, Lucena del Puerto, Manzanilla, Niebla, La Palma del Condado, Paterna del Campo, Rociana del Condado, Villalba del Alcor, Villarrasa	Mortgage loans, consumer loans, finance leases.

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Soluciones Financieras del Este S.L	C/ Mariano Barbacid Rivas VaciaMadrid	28521	B84418904	02-11-05	Arganda del Rey, Rivas – Vaciamadrid	Mortgage loans, consumer loans, finance leases.
SOLUCIONES FINANCIERAS GRIGEM, S.L	CALLE PAISES BAJOS, 34-1 (05004) AVILA	05004	B05256375	01-04-2017	Ávila, Adanero, La Adrada, Albornos, Ávila, Donvidas, Gallegos de Sobrinos, Higuera de las Dueñas and la Horcajada.	Finance leases
Hermanos P.Q. Servicios Financieros S.L.	Pasaje Neptuno, local 7 (Junto a BBVA) Vera (04620). Domicilio Social: C/ Armonía, 14 VELEZ RUBIO (04820)	4820	B04678348	01-09-09	Vera	Mortgage loans, consumer loans, finance leases.
Tudegues Tudela, S.L.	Sancho el Fuerte, 1-1º - Tudela - Navarra	31500	B31618325	23-02-10	Tudela	Mortgage loans, consumer loans, finance leases.
Finanroda Servicios Financieros S.L.	Calle Molino 82 – Ronda	29400	B92963388	02-01-09	Agatocin, Alpendeire, Arriate, Atajate, Benalid, Benalauria, Benaojan, Benarraba, El Burgo, Cañete La Real, Cartajima, Cortes de la Frontera, Cuevas del Becerro,Faraja, Gaucin, Genalquacil, Igualeja, Jimera de Libas, Jubrique, Juzcar, Montecorto, Montejaque, Parauta, Pujerra, Ronda and Yunquera.	Mortgage loans, consumer loans, finance leases.
M&G Figueres Associats S.L.	C/ Col·legi, 54 Bajo- Figueres	17600	B17673823	01-01-11	Agullana, Albanya, Arrentera, Bascara, Biure, Boadella i les Escaudes, Cebanes, Cantallaps, Capmany, Cistella, Escada, Empolla,Figueres, Garniguelia, Jenguera, Lladó, Masarac, Mollet de Peralado, Pont de Mollins and Crespia.	Mortgage loans, consumer loans, finance leases.
Financiaciones Costa Sol Oriental, S.C.A	C/ del mar, 27 1º C Torre del Mar	29740	B93195477	23-07-12	Alcaucin, Alfarnate, Algarrobo, Almachar, Archez, Arenas, Benamargosa, El Boger, Canillas de Aceituno, Canillas de Albaida, Comares, Competa, Macharaviaya, Moclinejo, Frigiliana, Nerja, Periana, Riogordo, Salares, Sayalonga, Torre del Mar, Torrox, Velez Málaga, Viñuela.	Loans, credit and finance leases
Servicios Financieros Jienenses, S.L.	Plaza del Camping, 4 Local 10- Andujar	23740	B86340767	01-12-11	Aldeaquemada, Andújar, Arjona, Arjonilla, Bailén, Baños de Quemada, Carboneros, La Carolina, Cazalilla, Espeluy, Higuera de Arjona, Lopera, Marmolejo, Santa Elena, Villanueva de la Reina, Villardonpardo and Villa del Río,	Loans, credit and finance leases

Name	Domicile	Postcode	Employer/National identification number	Date of granting of powers	Geographical area of activity	Scope of representation
Inversiones Financieras Bilegui, S.L.	C/ Artiz Bidea, 48-Mungía	48100	B95659579	01-10-12	Eibar, Mondragón, Genika - Lumo	Loans, credit and finance leases
Asfinza Badajoz, S.L.	AVDA. JUAN CARLOS I, 10, 1ºD. 06001 BADAJOZ)	06300	B06580708	01-06-10	Badajoz.	Mortgage loans, consumer loans, finance leases.
Fincar Gestiones Financieras, S.L.	Av. Buenos Aires, 32- Guadix	18500	B21507751	01-02-12	Guadix, Baza, Huescar, Cullar, Cuevas del Campo, Iznalloz and Guadahortuna.	Loans, credit and finance leases
128Innova24H, S.L.	C/ Oasis, 17- El Ejido (Almería)	04700	B92999846	01-03-11	El Ejido, Adta and Berja	Loans, credit and finance leases
Efincar Fleet Services, S.L.	C/ Dr. Fleming, 1 Local. Ecija (Sevilla)	41440	B91958363	01-01-2012	Écija, Fuentes de Andalucía, La Luisina, Cañada Rosal, La Carlota.	Loans, credit and finance leases
Gestión Financiera and Diversas; S.L.	Calle Molina de Segura, 5, 30007, Puente Tocinos (Murcia)	30007	B30512446	01-02-2016	Hellin, Jumilla, Albacete	Mortgage loans, consumer loans, finance leases.
Gestions MassóPrat S.LN.E.	C / Tarragona, 18 BAJOS (08700) – IGUALADA (BARCELONA)	25008	B 65808818	14/03/2018	Argencola, Bellprat, Bruc(EI) Cabrera DÍgualada, Calaf, Calonge de Segarra, Capellades, Carme, Castellfollit de Riubregós, Castellolí, copons, Hostalets de Pierola(Els) Igualada, Jorba, Llacuna(La) Masquefa, Montmaneu, Ordena, Orpí, Piera, Pobla de Claramunt(La) Prats de Rei(Els), Pujalt, Rubió, Sant Martí de Tous, Sant Martí Sesgueioles, Sant Pere Sallavinera, Santa Margarida de Montbui, Santa Maria de Miralles, Torre de Claramunt(La), Vallbona dÁnoia, Veciana, Vilanova del Camí, Castellví de rosanes, Collbato, Esparreguera, Martorell, Olesa de Montserrat	Mortgage loans, consumer loans, finance leases.
Orges-Fin Gestiones 2018, s.l. Unipersonal	SA ROVELLADA DE DALT 38 bajos izq 07702 MAHON-MENORCA	07702	B55733471	Aún sin poderes	Isla de Menorca	Mortgage loans, consumer loans, finance leases.
Praga Services 64, S.L.	C/ De Alicante 70 28939 - (Arroyomolinos) - Madrid	28939	B85464402	01-03-2014	Aranjuez	Loans, credit and finance leases
Finanzamora Services, S.L.	Avda. Tres Cruces 29, Zamora	49008	B49282403	01-01-2015	Zamora	Loans, credit and finance leases

Anexo V

Annual Banking Report

This Annual Banking Report was prepared in compliance with Article 87 of Law 10/2014, of 26 June, on the regulation, supervision and capital adequacy of credit institutions.

Pursuant to the aforementioned Article, from 1 January 2015, credit institutions must send the Bank of Spain and publish annually a report as an appendix to the financial statements audited in accordance with the legislation regulating audits of financial statements, which specifies, by country in which they are established, the following information on a consolidated basis for each year:

a) Name(s), nature of activities and geographical location.

b) Turnover.

c) Number of employees on a full time equivalent basis.

d) Gross profit or loss before tax.

e) Tax on profit or loss.

f) Public subsidies received.

Following is a detail of the criteria used to prepare the annual banking report for 2019:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and II to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The Group has 264 branches in total, which provide its customers with all their basic financial requirements.

b) Turnover

For the purposes of this report, turnover is considered to be gross income, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

The data on turnover by country were obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

c) Number of employees on a full time equivalent basis

The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Gross profit or loss before tax

For the purposes of this report, gross profit or loss before tax is considered to be profit or loss before tax, as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

As with the information relating to turnover, the data included were obtained from the statutory accounting records of the Group companies with the corresponding geographical location and translated to euros. Accordingly, this is aggregate information from the separate financial statements of the companies that operate in each jurisdiction, reconciliation of which with the information from the Group's consolidated financial statements requires a series of unifying adjustments and the elimination of transactions between the various Group companies, such as those relating to the distribution of dividends by subsidiaries to their respective parents.

e) Tax on profit or loss

In the absence of specific criteria, this is the amount of tax effectively paid in respect of the taxes the effect of which is recognised in Income tax in the consolidated income statement.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- supplementary payments relating to income tax returns, normally for prior years.
- advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- refunds collected in the year with respect to returns for prior years that resulted in a refund.
- where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts are part of the statement of cash flows (EUR 452,191 thousand in 2019, which implies an effective tax rate of 22,8%) and, therefore, differ from the income tax expense recognised in the consolidated income statement (EUR 575,245 thousand in 2019, which implies an effective tax rate of 29%). Such is the case because the tax legislation of each country establishes:

* The time at which taxes must be paid and, normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.

Its own criteria for calculating the tax and establishes temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, etc., thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carryforwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

f) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2019.

The detail of the information for 2019 is as follows:

Jurisdiction (EUR millions)	**Turnover**	**No. of employees on a full-time equivalent basis**	**Gross profit/(loss) before tax**	**Tax on profit/(loss)**
Germany	1,323	4,015	500	78
Austria	176	355	86	17
Belgium	85	202	36	17
China	21	-	21	
Spain	782	1,595	376	103
Denmark	188	245	94	40
Finland	108	178	53	9
France	551	867	308	59
Ireland	(2)	-	(5)	-
Italy	387	814	195	73
Malta	13	-	13	-
Norway	318	515	169	20
Netherlands	90	289	33	11
Portugal	54	243	27	4
Sweden	154	304	60	21
Switzerland	20	40	19	-
Total	**4,268**	**9,662**	**1,985**	**452**

The return on assets (ROA) of the Group for the year ended 31 December 2019 was estimated at 1.23%.

Appendix VI

Disclosures required pursuant to Mortgage Market Law 2/1981, of 25 March, and to Royal Decree 716/2009, of 24 April, implementing certain provisions of the aforementioned Law

Disclosures relating to mortgage-backed bond issues

The detail of the nominal value of the Bank's mortgage-backed bond issues outstanding on 31 December 2019 and 2018, indicating the annual interest rate and the maturity date of each issue, is as follows

Currency of issue	EUR Thousands (*)		Annual interest rate (%)	Maturity date
	2019	2018		
EURO:				
May 2019 issue	450,000	-	0.000	May 2022
May 2016 issue	-	500,000	0.125	May 2019
July 2007 issue	150,000	150,000	5.135	July 2022
Balance at end of year	**600,000**	**650,000**		

(*) Face value.

On 31 December 2019 and 2018, the detail of the mortgage loans and credits, indicating their eligibility and computability for mortgage market regulatory purposes, was as follows:

	EUR Thousands	
	Face Value	
	2019	2018
Total mortgage loans and credits	1,697,366	1,855,600
Mortgage participation certificates issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans securing borrowings	-	-
Mortgage loans backing mortgage and mortgage-backed bond issues (*)	1,697,366	1,855,600
i) Non-eligible mortgage loans and credits	588,937	717,908
- Which comply with the requirements to become eligible, except for the limit established in Article 5,1 of Royal Decree 716/2009	588,937	717,908
- Other	-	-
ii) Eligible mortgage loans and credits	1,108,429	1,137,692
- Non-computable amounts	-	-
- Computable amounts	1,108,429	1,137,692
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	1,108,429	1,137,692

(*) On 31 December 2019 and 2018, the Bank had not issued mortgage bonds and, therefore, all the loans and credits back the mortgage-backed bond issues.

Following is a detail of the nominal value of the outstanding mortgage loans and credits and of the nominal value of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the calculation limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average residual term to maturity, interest rate, holders and type of collateral as of 31 December 2019 and 2018:

	EUR Thousands			
	2019		2018	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Origin of transactions				
Originated by the Bank	1,697,366	1,108,429	1,855,600	1,137,692
Subrogation from other entities	-	-	-	-
Other	-	-	-	-
Currency				
Euro	1,697,366	1,108,429	1,855,600	1,137,692
Other currencies	-	-	-	-
Payment status				
Current	1,629,714	1,084,571	1,786,337	1,113,009
Past due	67,652	23,858	69,263	24,683
Average term to maturity				
Less than 10 years	149,596	136,258	157,523	142,808
10 to 20 years	641,895	528,726	707,777	565,474
20 to 30 years	809,981	398,151	875,624	383,103
More than 30 years	95,894	45,294	114,676	46,307
Interest rate				
Fixed	141	1	38	4
Floating	1,697,225	1,108,428	1,855,562	1,137,688
Hybrid	-	-	-	-

(*) Including EUR 453,436 and 505,211 thousand in 2019 and 2018, respectively, relating to mortgage participation certificates acquired from Banco Santander, S.A. (see Note 9)

	EUR Thousands			
	2019		2018	
	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans	Mortgage Loans and Credits Backing Mortgage and Mortgage-Backed Bond Issues	Of which: Eligible Loans
Borrowers				
Legal entities and individual businessmen	21,453	8,248	24,373	8,812
Of which: Property developments				
Other individuals and non-profit institutions serving households (NPISHs)	1,675,913	1,100,181	1,831,227	1,128,880
Type of guarantee				
Completed buildings				
- Residential	1,665,719	1,097,943	1,819,112	1,125,546
Of which: Officially sponsored housing				
- Commercial	31,647	10,486	36,488	12,146
- Other	-	-	-	-
Buildings under construction				
- Residential	-	-	-	-
Of which: Officially sponsored housing	-	-	-	-
- Commercial	-	-	-	-
- Other	-	-	-	-
Land	-	-	-	-
- Developed	-	-	-	-
- Other	-	-	-	-
	1,697,366	**1,108,429**	**1,855,600**	**1,137,692**

With regards to the disclosures on guarantees associated with mortgage loans and those loans eligible in accordance with the aforementioned regulations, following is a detail of the nominal value of these mortgage loans and eligible loans, based on the related loan-to-value ratio, as of 31 December 2019 and 2018.

	LTV Ranges				
	2019				
	EUR millions				
	<= 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*335*	*427*	-	*336*	*1,098*
- *Other mortgages*	*3*	*7*	-	-	*10*

	LTV Ranges				
	2018				
	EUR millions				
	<=40%	>40h%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for mortgage and mortgage-backed bond issues					
- *Home mortgages*	*298*	*393*	*435*	-	*1,126*
- *Other mortgages*	*4*	*8*	-	-	*12*

Following is a detail of the changes in 2019 and 2018 in the nominal value of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	EUR Thousands	
	Eligible Mortgage Loans and Credits	Non-Eligible Mortgage Loans and Credits
Balance on 1 January 2018	**1,224,373**	**808,816**
Disposals in the year	(87,040)	(94,574)
Repaid on maturity	-	-
Early repayment	*(84,537)*	*(64,545)*
Subrogation by other entities	-	-
Other	*(2,503)*	*(30,029)*
Additions in the year	359	3,666
Originated by the Bank	*359*	*3,666*
Subrogation from other entities	-	-
Other	-	-
Balance on 31 December 2018	**1,137,692**	**717,908**
Disposals in the year	(41,470)	(130,889)
Repaid on maturity	-	-
Early repayment	*(32,170)*	*(21,398)*
Subrogation by other entities	-	-
Other	*(9,300)*	*(109,491)*
Additions in the year	12,207	1,918
Originated by the Bank	*2,850*	*1,918*
Subrogation from other entities	-	-
Other	*9,357*	-
Balance on 31 December 2019	**1,108,429**	**588,937**

The detail of the nominal value of the Bank's mortgage securities outstanding on 31 December 2019 and 2018 is as follows:

	EUR millions		Average term to maturity
	Face value		
	2019	2018	
Mortgage bonds outstanding			-
Mortgage-backed bonds	600	650	-
Of which: Not recognised in liabilities			-
i) Debt instruments. Issued through a public offering	600	650	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	500	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	600	150	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
ii) Debt instruments. Other issues	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
iii) Deposits	-	-	-
- Term to maturity of up to 1 year	-	-	-
- Term to maturity of 1 to 2 years	-	-	-
- Term to maturity of 2 to 3 years	-	-	-
- Term to maturity of 3 to 5 years	-	-	-
- Term to maturity of 5 to 10 years	-	-	-
- Term to maturity of more than 10 years	-	-	-
Mortgage participation certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-
Mortgage transfer certificates issued	-	-	-
i) Issued through a public offering	-	-	-
ii) Other issues	-	-	-

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations.

None of the mortgage-backed bonds issued by the Bank had replacement assets assigned to them.

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

Santander Consumer Finance, S.A. and Companies composing the Santander Consumer Finance Group (Consolidated)

2019 Consolidated Directors' Report

Economic, banking and regulatory backdrop

Santander Group's activity in 2019 has been carried out in an economic environment that is slowing down (3% estimated vs. 3.6% in 2018), due to trade tensions between the US and China and the uncertainty regarding how would the UK leave the EU. In both areas, uncertainty was reduced in the final part of the year: the US and China reached a trade agreement and the result of the UK elections points to a non-traumatic exit. This reduction in uncertainty, together with the expansionary monetary policy measures, has allowed activity to stabilise in the final part of the year.

PAIS	%Chg. GDP	
	2018	2019
United Kingdom	1.4	1.2
Eurozone	1.9	1.2
Spain	2.4	2.0
Portugal	2.4	1.9
Poland	5.1	4.2

- United Kingdom: The economy has been very volatile throughout the year, influenced by the different attempts to exit the EU. The engine of growth has been private consumption supported by real wage gains, which have increased as inflation has come down (1.5% in November). The unemployment rate (3.8% in 3Q19) remains at historical lows. The official interest rate remains at 0.75%.

- Eurozone: GDP growth was weakened by the negative effect of the external environment, due to cyclical depletion. Inflation remained stagnant at around 1%. The ECB reacted with another package of monetary easing measures, including a cut in interest rates and the resumption of the bond purchase programme.

- Spain: The economic expansion continued, although at more moderate rates. The unemployment rate fell again, to around 14%. The economy is not showing inflationary pressures due to falling energy prices and a compression of business margins that have offset wage increases.

- Portugal: The economy moderated its growth supported by private consumption and investment, whose momentum generates an increase in imports that reduces the contribution of the external sector to GDP. The unemployment rate continues to fall (6.1%) and inflation stood at only 0.3% in November.

- Poland: The economy continues to grow at a good pace although at more moderate rates, supported by domestic demand, and the unemployment rate is at a historical low (close to 3%). Inflation is within the tolerance bands of the central bank, which has kept the official interest rate at 1.5%.

Financial markets and exchange rates

In this environment, financial markets underwent several episodes of risk aversion, which led to some stress in global financial conditions, however 2019 ended on a positive note

In the US, market developments were marked by geopolitical tensions, increased uncertainty and a slowdown in growth. The Fed's rate cuts and the reduction in commercial risks led to a steepening of the yield curve at the end of the year and a return to record highs.

In the Eurozone, the ECB adopted a comprehensive package of monetary easing measures in response to weakening economic growth and the fact that inflation (and the inflation outlook) has been persistently deviating from its target. The most notable measures have been an interest rate cut (the deposit facility was reduced to -0.50% from -0.40%), resumed asset purchases and new long-term liquidity auctions for banks.

In the United Kingdom, markets supported the reduction of uncertainty following the general election results with rises in stock markets and the appreciation of the pound.

Latin American currencies performed heterogeneously throughout 2019, with depreciations predominating for most of the year but with the final months of appreciation, reflecting the improved international climate.

The banking sector environment

The international banking environment continued to be marked by balance sheet reinforcement through improvements in solvency, liquidity and unproductive assets, which make the sector better prepared for any downturn in the economy, as seen from the stress tests conducted by supervisory bodies.

Profitability was uneven among geographic areas, although in general it was mainly affected by the worsening of the economic outlook and by the relaxation of monetary policies.

Profitability remains one of the sector's main challenges, especially in Europe, where institutional progress and structural reforms are needed to support improved profitability and bolster the markets' perception of the sector.

In emerging economies, profitability remained higher, with higher interest rates and wider spreads, even in less favourable economic condition and episodes of financial volatility observed throughout the year.

The digital challenge is changing the way banks and customers interact. The competition and process efficiency continue to demand heavy investments. In addition, the banking industry must adapt to the population aging process in developed economies and leverage new technologies to increase access to banking services for the rising middle classes in emerging economies.

Regulatory changes

Within the regulatory agenda for 2019, the most notable milestone of the year is the approval of the revision of capital and resolution regulations in Europe after more than two years of intense negotiations, while work continued on the implementation of Basel 3. On the other hand, Europe continues to make progress in the implementation of the crisis management framework, including the approval of the reform of the European Stability Mechanism (ESM), as well as in the discussions on the creation of a European Deposit Guarantee System, the treatment of sovereign debt, the harmonisation of insolvency laws and the need to have an instrument that provides liquidity in resolution.

In the digital field, the Fintech phenomenon and the need to review the regulatory and supervisory framework are increasingly present on the agenda of international authorities.

During 2019 the most relevant are the reports published by the different authorities (FSB, BIS) on the consequences that the entry of Bigtechs in financial services could have. They propose ideas such as the need to review the suitability of the regulatory and supervisory framework, and the potential risks to financial stability arising from the use of the cloud by financial institutions and the small number of dominant players worldwide.

Taxes

In taxation and in the context of a digital economy, there is an international debate on how tax systems should ensure a fair contribution to society by all companies

The sustainable economy

Significant progress is being made on sustainable financing, especially in Europe where the key pieces of the European Commission's 2019 Action Plan are being implemented. The Regulation on disclosure requirements for sustainable investments and sustainability risks in the financial services sector has been adopted. This issue is expected to remain a priority in Europe, and will be intensified, following the Commission's announcement of the European Green Pact.

Finally, both at international and European level, the authorities have intensified the message on the need to strengthen the framework for the prevention of money laundering and terrorist financing, and the importance of its connection with the prudential area.

Strategy

The Santander Consumer Finance Group is the market leader in consumer finance in Europe. It is active in 15 countries, with more than 130,000 partnered points of sale (car dealers and retail businesses).

In 2019, Santander Consumer Finance continued to gain market share, driven forward by a solid business model: wide-ranging geographic diversification with a solid presence in key products, better cost-to-income than its peers and a risks and recovery management system that allows it to maintain a strong credit rating.

On the other hand, SCF continues to sign and develop new agreements with both retail distributors and manufacturers, with the aim of helping them in the process of commercial transformation and improving the value proposal for the end customer.

Management focused on:

- Improving the efficiency of capital, in a competitive environment characterised by the emergence of new competitors, surplus liquidity in the markets, and slow GDP growth.

- Increasing vehicle financing and consumer financing and extending agreements with the main dealers/retailers.

- Develop innovative products and digitise customer-facing processes.

- Move forward in developing open e-commerce platforms in business

Business Growth

Lending increased 7% over the year, with new loans 10% higher than in 2018, strongly supported by the vehicle business, which grew 10% over the previous year, and the direct lending business, which rose 5%. As in the previous year, there was growth in almost all countries. More than 70% of lending was arranged in the highest-rated countries; Germany and Scandinavian countries accounted for more than 50% of the portfolio.

On the liabilities side, there was an 8% increase in customer deposits. Wholesale funding came to EUR 19,669 million, via senior issues, securitisations and other long-term issues.

At the end of December, customer deposits and medium and long-term securitisations and issues placed on the market covered 77% of net lending.

Results

In 2019, attributable profit stood at EUR 1,133.3 million, down by 7% from 2018. The main reason for this was a decrease in sales of portfolios during the year and the derecognition of intangible assets due to obsolescence.

Analysing the income statement by line item:

- Revenue rose (3.2%), because of the increase in net interest income (+3.5), which was boosted by higher volumes. Net fee income increased 3%, mainly in Germany

- Costs increase by 2.2% affected by the new acquisition of the Hyundai Kia JV in Germany, but below business growth, thanks to efficiency projects in several units. The cost-to-income ratio improves to 42,2%.

- Provisions rose 47% due to the increase in lending and lower sales of non-performing loans, however the cost of risk for the year continued to be satisfactory, at 0.39% compared to 0.38% for the previous year. The NPL ratio increased by 5 basis points to 2.01%. Coverage stood at 98%.

In short, the Santander Consumer Finance Group continued to prove that it can maintain high profitability and streamlined efficiency. Expectations for 2020 are positive for all territories where the Group operates

I. Risk management

Corporate principles

The Santander Group, to which the Santander Consumer Finance Group belongs, has set itself the strategic objective of excellence in risk management. Throughout its 150 year history, risk management has always been a priority for the Group.

During the last few years it accelerated its development to anticipate and respond to the major challenges of the constantly changing economic, social and regulatory environment.

This means that the risk function is now more crucial than ever for the Santander Group, as it enables it to be a solid, secure and sustainable bank, and a role model for the financial sector and for any company seeking to turn leadership in risks into a competitive advantage.

The Santander Group is focused on building the future through forward-looking management of all risks, protecting the present through a robust control environment. It therefore bases its risk function on the following pillars, which are aligned with the Santander Group's strategy and business model, and incorporate the recommendations of supervisory bodies, regulators and best practices in the market:

1. The business strategy is defined by the risk appetite. The Santander Group's Board of Directors calculates the amount and type of risk that it considers reasonable to assume in implementing its business strategy and deploys this through objective, verifiable limits consistent with the risk appetite for each significant activity.

2. All risks have to be managed by the units that generate them, using advanced approaches and tools that are integrated into the businesses. The Santander Group is fostering advanced risk management, using innovative models and metrics together with a control, reporting and escalation framework to ensure that risks are identified and managed from multiple angles.

3. A forward-looking approach for all risk types must be part of all risk identification, assessment and management processes.

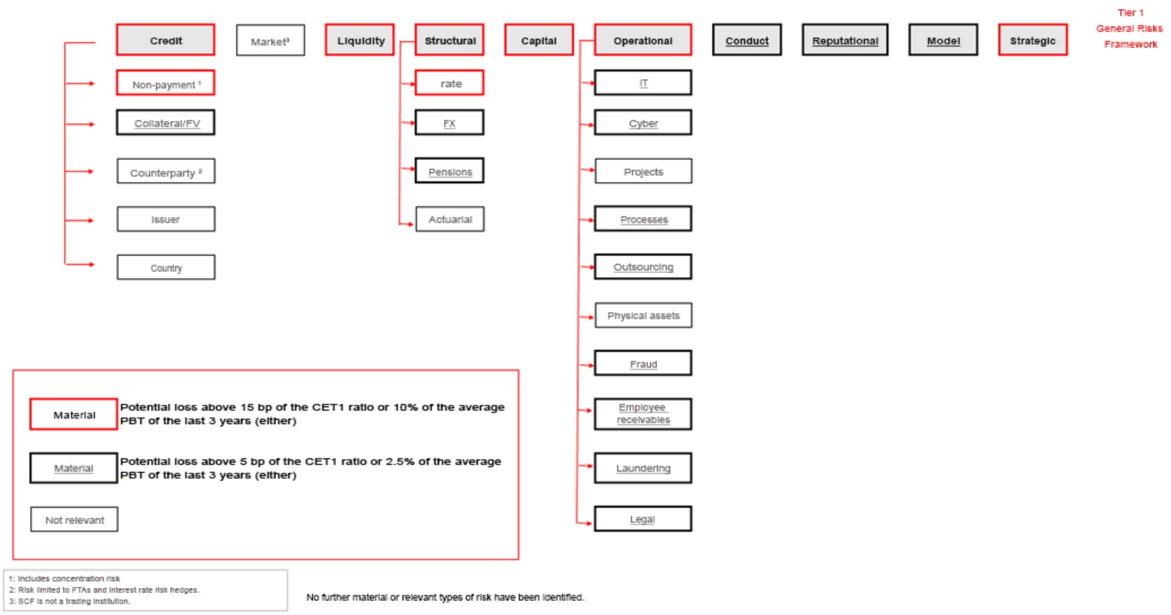
4. The independence of the risk function encompasses all risks and provides appropriate separation between the risk generating units and units responsible for controlling these risks. This involves having sufficient authority and direct access to management and the governing bodies responsible for setting and supervising risk strategy and policies.

5. Risk management has to employ the best processes and infrastructure. The Santander Group aims to set the benchmark for the development of infrastructure and processes to support risk management.

6. A risk culture integrated throughout the organisation, consisting of a series of attitudes, values, skills and guidelines for action vis-à-vis all risks. The Santander Group understands that advanced risk management cannot be attained without a strong, constant risk culture that is present in each and every one of its activities.

Risk map

Santander Consumer Finance has in place a recurring process for identifying the material risks to which it is or could be exposed, as reflected in the risk map. Material risks must be covered by the risk profile assessment exercise, risk appetite, risk strategy and ICAAP/ILAAP. Below is the latest update of Santander Consumer Finance's risk map.



The first level includes the following risks (General Risks Framework):

- Credit risk is the risk of financial loss arising from a contractual breach or impairment of the credit quality of a customer or other third party that the Santander Group has financed or in respect of whom a contractual obligation has been assumed.

- Market risk is the risk incurred as a result of changes in market factors that affect the value of positions in trading portfolios.

- Liquidity risk is the risk that Santander Group does not have the liquid financial assets required to meet its obligations when due, or can only obtain them at a high cost.

- Structural risk is the risk arising from the management of balance sheet items, in the banking portfolio and in relation to insurance and pension activities.

- Capital risk is the risk that Santander Group does not have sufficient capital, in quantity or quality, to meet its internal business objectives, regulatory requirements or market expectations.

- Operational risk is defined as the risk of loss due to inadequacy or failure of internal processes, staff and systems or due to external events. This definition includes legal risk.

- Conduct risk: Conduct risk is the risk that arises from practices, processes or behaviours that are inappropriate or fail to comply with internal regulations, legality or supervisory requirements.

- Reputational risk: Reputational risk is defined as the risk of a current or potential adverse economic impact due to a less favourable perception of the bank by employees, customers, shareholders/investors and society in general.

- Model risk is the risk of loss arising from misuse of a model or inaccurate predictions that may result in sub-optimal decisions by the Bank.

- Strategic risk is the risk of loss or detriment arising from strategic decisions, or poor implementation of such decisions, affecting the long-term interests of our main stakeholders; or from an inability to adapt to the changing environment.

The material risks at Santander Consumer Finance are: credit, default (including concentration), liquidity, structural, structural interest rate, capital, operational and strategic.

The significant risks at Santander Consumer Finance are: collateral/residual value, structural exchange rate, pensions, IT, cyber, processes, outsourcing, fraud, personnel, money laundering, legal, conduct, reputational and model.

Residual Value Risk is defined as the risk of loss that an entity may have if at any time during the life of an automobile contract (loan, lease, etc.) the customer has the option or obligation to return the vehicle as full and final settlement, due to uncertainty about the sale price of the vehicle at that time.

Corporate Risk Governance

The objective of the governance of the risk function is to ensure adequate and efficient decision-making and effective risk control, and to ensure that these functions are managed in accordance with the risk appetite defined by the senior management of the Group and its units.

The following principles have been established for this purpose:

- Segregation between risk decisions and control.
- Enhancing the responsibility of risk generating functions in the decision-making process.
- Ensuring that all risk decisions have a formal approval process.
- Ensuring an aggregate overview of all risk types.
- Bolstering risk control committees.
- Maintaining a responsive and efficient committee structure, ensuring:
    - Participation and involvement of the governance bodies and senior management in all risk decisions, and supervision and control.
    - Coordination between the lines of defence in risk-management and control functions
    - Alignment of objectives, monitoring to ensure they are being achieved and implementing corrective measures when necessary.
    - The existence of an adequate management and control environment for all risks.

To achieve these objectives, the Committee structure in the management model must ensure an adequate:

- Structure, with stratification by levels of relevance, balanced delegation capacity and protocols for escalating incidents.
- Composition, with members of sufficient rank and representation of business and support areas.
- Operations, i.e. frequency, minimum attendance levels and appropriate procedures.

The governance of risk activity must establish and facilitate coordination channels between the units and the Group, together with alignment of management models and risk control.

The governance bodies of the Group's units are set up in accordance with local legal and regulatory requirements, considering the complexity of each unit.

Roles and responsibilities

The risk function is built around three lines of defence. The roles and responsibilities of these lines form an integral part of the management and control of market, structural and liquidity risk, as explained below.

- First line of defence

This comprises the departments, business lines and activities that generate risk exposure. In the scope of this framework, this involves those responsible for management of the trading and balance sheet management portfolios.

This line of defence must ensure at all times:

- That all risks that might have a material impact are identified.

- Recurrent assessment of existing risks.

- The information needed to assess risks is available.

- The limits established for their activities are observed and respected.

- Second line of defence

This involves the specialist teams involved in risk control and monitoring. In the scope of this framework, this involves those responsible for monitoring activities involving the entity's portfolios and the performance and management of the risks assumed.

The second line of defence is an independent function within the risk function that complements the management and control functions of the first line of defence, ensuring at all times that:

- Limits are established and approved by the entity's governance bodies or their delegated bodies.

- The first line of defence understands and complies with these limits.

- The policies, procedures and limits established for trading activities and balance sheet management are respected.

- Systematic reviews are carried out of exposure to market, structural and liquidity risks.

- Robust, reliable and adequate mechanisms are in place for these activities.

The second line of defence must provide a consolidated overview of market, structural and liquidity risks.

- Third line of defence

As the final layer of control in the Group, Internal Audit regularly checks that policies, methods and procedures are adequate and applied effectively in management.

Structure of Risk Committees

The board of directors is ultimately responsible for risk control and management, delegating these powers to commissions and committees. In Santander Consumer Finance, the Board is supported by the Risk, Regulation and Compliance Supervision Commission, which is an independent risk control and monitoring committee. These bylaw-mandated bodies form the highest level of risk governance:

Independent control bodies

- Risk, Regulation and Compliance Supervision Commission

  This Committee's role is to assist the Board of Directors in the monitoring and control or risks, defining and assessing risk policies, and determining the risk propensity and strategy.

It is made up of external non-executive directors (mostly independent) and is chaired by an independent Board member.

The main duties of the Risk, Regulation and Compliance Supervision Commission are:

- To support and advise the Board of Directors in defining and assessing the Group's risk policies and determining its risk propensity and risk strategy.

- To ensure that the pricing policy for assets and liabilities offered to customers fully respects the business model and risk strategy.

- To understand and assess the management tools, ideas for improvement, progress with projects and any other relevant activity relating to risk control.

- To determine with the Board of Directors the nature, amount, format and frequency of the risk information to be received by the Committee and the Board.

- To help establish rational and practical remuneration policies. For this purpose, without prejudice to the duties of the Remunerations Committee, the Risk Committee examines whether the incentives policy planned for the remuneration scheme considers risk, capital, liquidity and the likelihood and suitability of profits.

- *Executive Risk Control Committee (ERCC):*

This collegial body is responsible for overall monitoring and control of the Bank's risks, pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance, S.A.

Its objectives are:

- To provide a tool for effective risk control, ensuring that risks are managed in accordance with the Bank's risk appetite, as approved by the Board of Directors of Santander Consumer Finance, S.A., providing an overview of all of the risks identified in the risk map in the general risk framework, including identification and monitoring of actual and emerging risks and their impact on the risk profile of the Santander Consumer Finance Group.

- To ensure the best estimate of provisions and that they are recognized correctly.

This Committee is chaired by the Bank's Chief Risk Officer (CRO) and is made up of members of its senior management. In addition to the risk function, which chairs the Committee, the compliance, finance and management control functions are also represented. The CROs of local entities can take part on a regular basis to report on the risk profile of the entities and other tasks.

The Executive Risk Control Committee reports to the Risk, Regulation and Compliance Supervision Commission, which it assists in its function of supporting the Board.

Decision-making bodies

- *Executive Risk Committee (ERC):*

The Executive Risk Committee is the collegiate body responsible for overall risk management pursuant to the powers delegated to it by the Board of Directors of Santander Consumer Finance S.A., monitoring all the risks identified in the Bank that fall within its remit.

Its objective is to provide a tool for decisions on accepting risks at the highest level, ensuring that risk decisions are within the limits set by the Santander Consumer Finance Group's risk appetite. It reports on its activity to the Board or its committees, as required.

This Committee is chaired by an executive vice president of the Board of Directors and comprises the Bank's Chief Executive Officer (as an invitee), executive directors and other senior managers. The risk, financial, management control and compliance function are also represented, among others. The Bank's CRO is entitled to veto the Committee's decisions.

- *Proposal Sub-committee (RPSc):*

  The Santander Consumer Finance Risk Proposal Sub-committee is a collegiate body in charge of making decisions regarding business and country transactions, credit risk, market, liquidity and structural issues, guaranteeing that the decisions made comply with the limits established in the appetite risk framework of the Group, as well as informing of its activity to the Risk Executive Committee when it is required so.

  This Committee y chaired by Santander Consumer Finance's CRO, and it comprises SCF executive positions including but not limited to the risk, financial, management control and compliance functions.

- *Credit Committee:*

  The Credit Committee is the collegiate decision-making body responsible for recommending and validating credit risk proposals, ensuring that this respect the limits set in the risk appetite, reporting to the Executive Risk Committee, as required.

  This Committee is chaired by the Bank's CRO and its members are senior managers. The risk and business functions are also represented.

- *Provisions Committee:*

  The Provisions Committee is the decision-making body responsible for overall management of provisions in accordance with the powers delegated by the Executive Risk Committee of Santander Consumer Finance S.A., and supervises, within its sphere of action and decision, all matters relating to provisions in the SCF Group. Its purpose is to be the instrument for decision-making, ensuring that decisions are consistent with the governance of provisions established at the Santander Consumer Finance Group, and reporting to the Board of Directors or its committees on its activities when required.

Structural organisation of the risk function

The *Group Chief Risk Officer* (GCRO) is responsible for the risk function in Santander Consumer Finance and reports to the Head of Santander Consumer Finance, who is a member of the Board.

The GCRO advises and challenges the executive line and also reports independently to the Risk, Regulatory and Compliance Committee and to the Board.

Advanced risk management is based on a holistic, forward-looking approach to risks, based on intensive use of models, to foster a robust control environment that meets the requirements of the regulator and the supervisor.

The Santander Consumer Finance Group's risk management and control model shares certain core principles via its corporate frameworks. These frameworks are established by the Group. The Santander Consumer Finance Group adheres to them through its management bodies. They shape the relationship between the subsidiaries and the Group, including the role played by the latter in validating important decisions.

The Group-Subsidiaries Governance Model and good governance practices for subsidiaries recommend that each subsidiary should have a bylaw-mandated risk committee and an executive risk committee chaired by the Chief Executive Officer (CEO). This is in line with best corporate governance practices and consistent with those already in place in the Group, as set out in the corporate framework, to which Santander Consumer Finance has signed up.

Under the Group's internal governance framework, the management bodies of Santander Consumer Finance have their own model of risk powers (both quantitative and qualitative), which must follow the principles set out in the benchmark models and frameworks developed at the corporate level.

Given its capacity for comprehensive and aggregated oversight of all risks, the corporation exercises a validation and questioning role with regard to the operations and management policies of the units, insofar as they affect the Group’s risk profile.

Identifying and evaluating risks is a cornerstone for controlling and managing risk. The main risk types to which the Group is exposed are credit risk, market risk, operational risk and compliance and conduct risk.

II. Credit Risk

Credit risk stems from the possibility of losses arising from the failure of clients or counterparties to meet their financial obligations with the Group, in full or in part.

The risk function in the Group is organised by customer type, distinguishing between individualised and standard customers throughout the risk-management process:

- Individualised customers are those assigned to a risk analyst, mainly because of the risk they entail. This category includes Wholesale Banking companies and some Retail Banking companies. Risk management involves expert analysis, complemented by decision-making support tools based on internal risk-assessment models.

- Standard risks are those customers to whom no risk analyst is expressly assigned. They generally include risk with individuals, individual businesspeople and non-individualised retail banking companies. Management of these risks is based on internal-assessment and automatic-decision models, complemented by teams of analysts specialising in specific risk types when the model does not cover the risk or is not sufficiently accurate.

Key figures and change over time

Santander Consumer Finance's credit risk portfolio is characterised by its diversified geographic distribution and predominance of retail banking activity.

a) Global credit risk map 2018

The following table details the global map of SCF's gross credit risk exposure by geographic area::

SCF Group - Gross credit risk exposure			
	2019 (€ million)	Change on December 2018	% portfolio
Spain and Portugal	17,624	6.71%	17.58%
Italy	9,206	7.36%	9.18%
France	14,160	15.45%	14.13%
Germany and Austria	38,565	6.06%	38.47%
Scandinavia	16,761	1.96%	16.72%
Other	3,921	7.93%	3.91%
Total	**100,237**	**6.88%**	**100.00%**

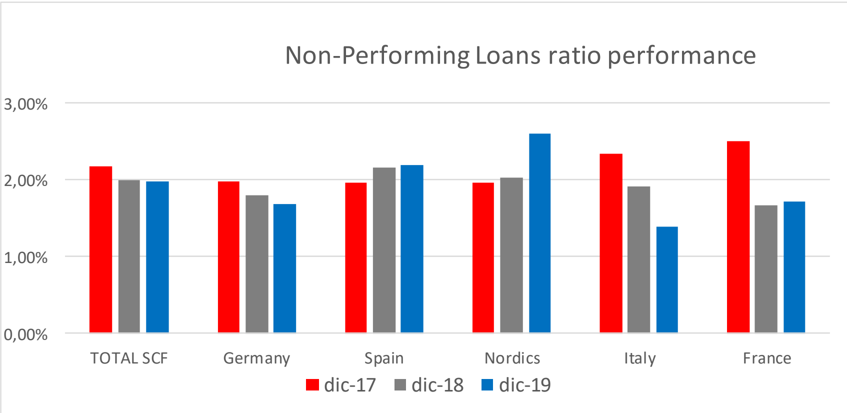
Gross credit risk exposure increased by 6.9% year-on-year. This was mainly due to the growth generated at units subject to the PSA Group agreement (+13.5% year-on-year).

Germany accounted for the largest share of the portfolio, 38%, together with Austria and their respective JVs. On the other hand, the Spain and Portugal units and their respective JVs accounted for 17.6%, followed by a similar percentage of 16.7% by the Nordic countries including the Norway, Denmark, Sweden and Finland units.

b) Changes in 2019

The performance of non-performing assets and the cost of credit reflects the impact of deterioration in the economic backdrop, offset by prudent risk management that has, in general, enabled us to keep these figures below those of our peers over recent years. This has resulted in the Group maintaining adequate coverage to handle the expected loss on its credit risk portfolios.

The portfolios performed adequately in 2019, since the risk profile was kept in check by continuous improvement in recovery procedures, both at early stages of irregularity and advanced stages of impairment, resulting in fewer than expected new non-performing loans. This resulted in a non-performing loans ratio of 2.01% in December 2019, up 1 basis point compared to December 2018 (2.00%). The non-performing loans ratio performed positively in all of the main units, as shown in the table below:



Coverage of non-performing loans stood at 99% at year-end, compared to 104% at the end of the previous year, explained mainly because of the Nordics units.

Loans to customers distribution

The Group is geographically diversified, with a presence in fifteen countries, concentrated in our core markets. The Group's profile is mainly retail (88% consumer credit and 12% dealer stock finance), with the main activity being funding vehicle purchases.

Concentration risk

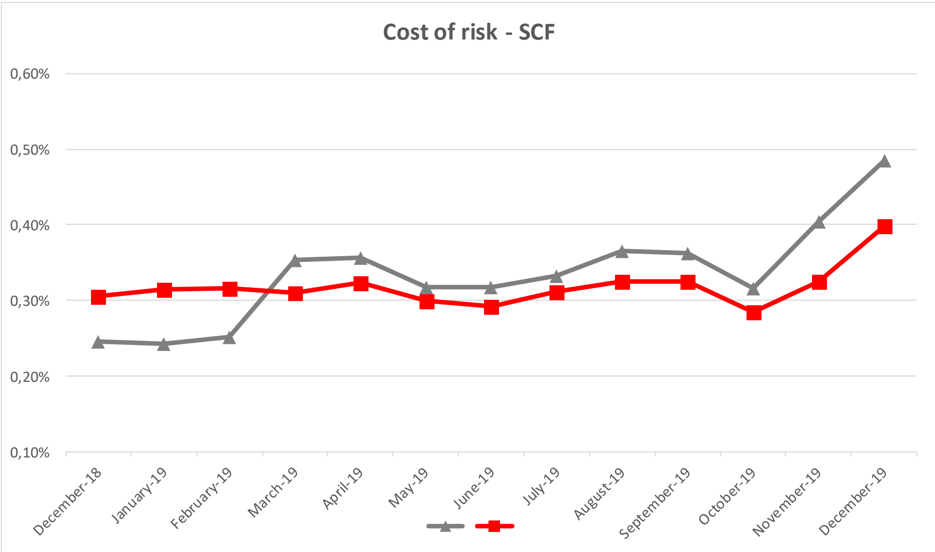
Concentration risk is a key component of credit risk management. The Santander Group, which Santander Consumer Finance Group belongs, continuously monitors the degree of credit risk concentration, by geographical area/country, economic sector, product and customer group.

The Board of Directors, by reference to the risk appetite, determines the maximum levels of concentration, and the executive risk committee establishes the risk policies and reviews the appropriate exposure limits to ensure the adequate management of credit risk concentration.

Management metrics

Santander Consumer Finance uses various approaches to measure the cost of credit risk for loss recognition purposes: CMN - Change in Managed NPLs (new NPLs - cures - recovery of write-offs); NIP – net insolvency provision (gross provisions – recovery of write-offs); net write-offs (new write-offs – recovery of write-offs); and expected loss. The first two of these ratios (over 12 months) are divided by the 12-month average for the total portfolio to give the risk premium and cost of credit, which are used as monitoring ratios. These enable risk managers to form a complete picture of how the portfolio is developing and its future outlook.

The behaviour of the risk premium and cost of credit in 2019 are shown below: (grey and red line representing the risk premium and the cost of credit respectively)

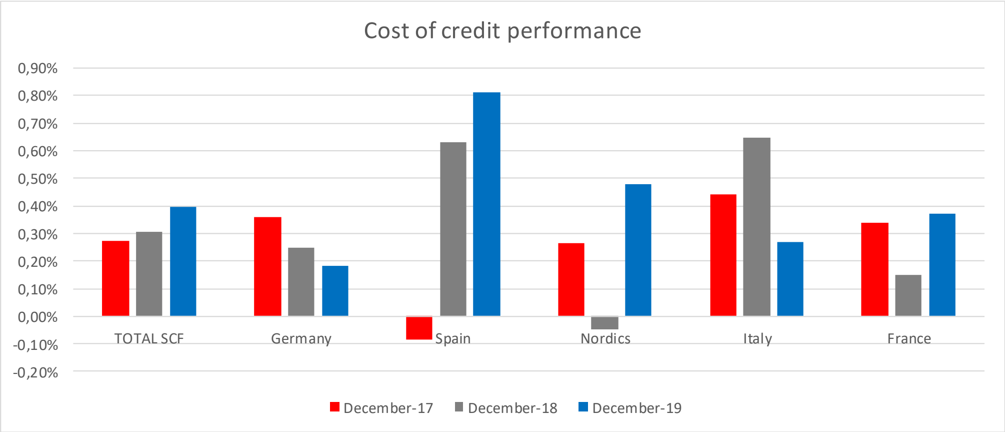


Both approaches measure the same reality and, consequently, converge over the long term, although they represent different moments in time for the purpose of measuring the cost of credit risk: NPL flows (CMN) and NPL coverage, respectively. While these measurements converge over the longer term in the same economic cycle, there can be differences at particular times, as was seen in this period. These differences are explained by the different times at which the losses are calculated, which are basically determined by accounting standards (for example, there is a -coverage schedule for mortgages, which become write-offs much more “slowly” that consumer portfolios). Furthermore, the analysis can be complicated by changes in coverage and write-off policies, portfolio composition, changes in accounting standards (IFRS 9), sale of portfolio items and parameter adjustments for the calculation of expected loss, etc.

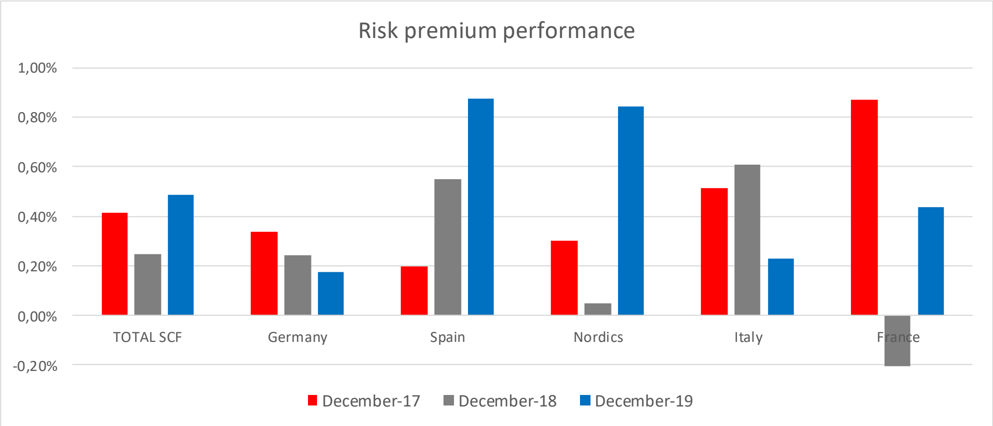
During 2019, both indicators displayed a similar trend from the first quarter onwards, driven by portfolio sales throughout the year at the various units and also by strong performance in the portfolio itself.

The following charts show the cost of credit risk at Santander Consumer Finance (risk premium and cost of credit) and its main areas of activity in 2019 and previous years. These show a general stable trend in the SCF Total and different trends in the different units.

Cost of credit evolution from 2017 to 2019 in the different Units is shown in the chart below:



Risk premium evolution from 2017 to 2019 in the different Units is shown in the chart below:

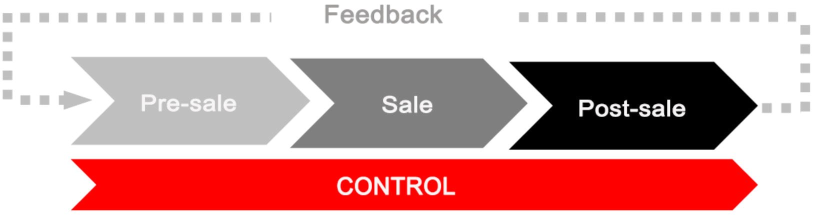


e) Credit risk cycle

The credit risk management process consists of identifying, measuring analysing, controlling, negotiating and deciding on the risks incurred in the Group's operations. This process involves the areas that take risks, senior management and the Risk function.

As the Group is a member of the Santander Group, the process starts with senior management, through the board of directors and the executive risk committee, which set the risk policies and procedures, the limits and delegation of powers, and approve and supervise the framework for action by the risk function.

The risk cycle has three phases: pre-sale, sale and post-sale. The process is constantly revised, incorporating the results and conclusions of the after-sale phase into the study of risk and pre-sale planning.



e.1) ***Pre-sale***

- **Study of risk and credit rating process**

Generally speaking, risk study consists of analysing a customer's capacity to meet their contractual commitments with the Group and other creditors. This entails analysing the customer's credit quality, risk operations, solvency and profitability on the basis of the risk assumed.

With this objective, the Group has used rating models for classifying customer solvency since 1993. These mechanisms are applied in the wholesale segment (sovereign, financial entities, corporate banking) and to SMEs and individuals.

The rating results from a quantitative model based on balance sheet ratios or macroeconomic variables, complemented by the expert judgement of analysts.

The ratings given to customers are regularly reviewed, incorporating the latest available financial information and experience in the development of the banking relationship. The regularity of the reviews increases in the case of customers who trigger certain levels in the automatic warning systems and who are classified as special watch. The rating tools are also reviewed in order to adjust the accuracy of the rating.

While ratings are used in the wholesale sector and for companies and institutions, scoring techniques predominate for individuals and smaller companies. In general, these techniques automatically assign a score to the customer for decision-making purposes, as explained in the Decisions on operations section.

- **Planning and setting limits**

  The purpose of this phase is to limit the levels of risk assumed by the Group, efficiently and comprehensively. The credit risk planning process serves to set the budgets and limits at the portfolio level for subsidiaries. Planning is carried out through a dashboard that ensures that the business plan and lending policy are achieved, and that the resources needed to achieve these are available. This arose as a joint initiative between the Sales area and the Risk function, providing a management tool and a way of working as a team.

  Incorporating the volatility of macroeconomic variables that affect portfolio performance is a key aspect in planning. The Group simulates this performance under a range of adverse and stressed scenarios (stress testing), enabling assessment of the Group's solvency in specific situations.

  Scenario analysis enables senior management to understand the portfolio's evolution in the face of market conditions and changes in the environment. It is a key tool for assessing the sufficiency of provisions in stress scenarios.

  Limits are planned and established using documents agreed between the Business and Risk areas and approved by the Group, setting out the expected business results in terms of risk and return, the limits to which this activity is subject and management of the associated risks, by group or customer.

e.2) Sales

- **Decisions on operations**

  The sales phase consists of the decision-making process, analysing and deciding on operations. Approval by the risk area is a prior requirement before the contracting of any risk. This process must take into account the policies defined for approving operations, the risk appetite and the elements of the operation that are relevant to the search for the right balance between risk and profitability.

  In the sphere of standardised customers (individuals and businesses and SMEs with low turnover), large volumes of credit operations can be managed more easily by using automatic decision models for classifying the customer/transaction pair. The ratings these models give to transactions enable lending to be classified consistently into homogeneous risk groups, based on information on the characteristics of the transaction and its owner.

e.3) After-sales

- **Monitoring**

  The Monitoring function is based on a continuous process of ongoing observation, enabling early detection of changes that could affect the credit quality of customers, in order to take measures to correct deviations with a negative impact.

  This monitoring is based on customer segmentation and it is carried out by dedicated local and global risk teams, supplemented by internal audit.

  This function involves identifying and tracking customers under special surveillance, reviewing ratings and continuously monitoring indicators.

  The **customers under special surveillance** (FEVE) system has four tiers based on the degree of concern about observed circumstances (terminate, secure, reduce, monitor). The inclusion of a position in FEVE does not mean that default has occurred, but does indicate that it would be advisable to adopt a specific policy for that position, establishing the person responsible for it and the appropriate time frame. Customers classified in FEVE are reviewed at least every six months, and every quarter in the most serious cases. A customer can be classified in FEVE as a result of monitoring, a review by internal audit, a decision by the officer responsible for the customer, or the triggering of the automatic warning system. This system will evolve next year into a new system - SCAN - with more granular policies.

Ratings are reviewed at least every year, but this may be more frequent if weaknesses are detected or based on the rating itself.

The main risk indicators for individual customers, businesses and SMEs with low turnover are monitored to detect changes in the performance of the loan portfolio with respect to the projections in the commercial strategic plans (CSPs).

f) Measurement and control

In addition to monitoring the customers' credit quality, the Group puts in place the necessary control procedures to analyse the current credit risk portfolio and its performance throughout the different phases of credit risk.

This function assesses risks from a range of interrelated standpoints. The key vectors of control are geographies, business areas, management models, products, etc. The approach allows for early detection of specific focal points, and the framing of action plans to correct any impairment.

Each control axis supports two types of analysis:

1. Quantitative and qualitative portfolio analysis

Portfolio analysis continuously and systematically monitors changes in risk with respect to budgets, limits and benchmark standards, evaluating the effects with a view to future situations driven by external factors or arising from strategic decisions, so as to establish measures that place the profile and volume of the risk portfolio within the parameters set by the Group.

In the credit risk control phase, the following metrics, among others, are used in addition to the conventional ones:

- **CMN (change in managed NPLs)**

  CMN measures how NPLs change over a period, stripping out write-offs and including recoveries. It is an aggregate metric at the portfolio level that enables us to react to any impairments seen in the behaviour of non-performing loans.

- **EL (expected loss) and capital**

  Expected loss is an estimate of the financial loss that will occur over the next year from the portfolio existing at the given time. It is a further cost of business, and must be reflected in the pricing of transactions.

2. Evaluation of control processes

A systematic scheduled review of procedures and methods, implemented throughout the entire credit risk cycle, to ensure control process effectiveness and validity.

In 2006, within the corporate framework established across the Group for compliance with the Sarbanes-Oxley Act, a corporate methodology was created for the documentation and certification of the Control Model, specified in terms of tasks, operating risks and controls. The risk division annually evaluates the efficiency of internal control of its activities.

Moreover, the internal validation function, as part of its mission to supervise the quality of the Group's risk management, ensures that the management and control systems for the different risks inherent in the Group's business comply with the most stringent criteria and best practices seen in the industry and/or required by regulators. In addition, internal audit is responsible for ensuring that policies, methods and procedures are adequate, effectively implemented and regularly reviewed.

g) Recoveries management

Recovery activity is an important function within the Group's risk management area. The area responsible is Collection and Recoveries, which frames a global strategy and a comprehensive approach to recovery management.

The Group combines a global model with local execution, taking account of the specific features of the business in each area.

The main objective of the recovery activity is to recover outstanding debts and obligations by managing our customers, thus contributing to a lesser need for provisions and a lower cost of risk.

The specific targets of the recovery process are guided as follows:

- Achieve collection or regularisation of outstanding balances, so that an account returns to its normal state; if this is not possible, the objective is total or partial recovery of debts, whatever their accounting or management status.

- Maintain and strengthen our relationship with the customer by addressing their behaviour with an offer of management tools, such as refinancing products according to their needs, consistently with careful corporate policies of approval and control, as established by the risk areas.

In the recovery activity, Standardised customers and Individually Managed customers are segmented or differentiated with specific and comprehensive management models in each case, according to basic specialisation criteria.

Management is articulated through a multichannel customer relationship strategy. The telephone channel is oriented towards standardised management, with a focus on achieving contact with customers and monitoring payment agreements, prioritising and adapting management actions based on the state of progress of their situation of "in arrears", "doubtful" or "in default", their balance sheet and their payment commitments.

The commercial network of recovery management operates alongside the telephone channel. It is a means of developing a closer relationship with selected customers, and is composed of teams of agents with a highly commercial focus, specific training and strong negotiation skills. They conduct personalised management of their own portfolios of high-impact customers (large balance sheets, special products, customers requiring special management).

Recovery activities at advanced stages of non-performance are guided by a dual judicial and extra judicial management approach. Commercial and follow-up activities by telephone and via agent networks are continued, applying strategies and practices specific to the state of progress.

The management model encourages proactivity and targeted management through continuous recovery campaigns with specific approaches for customer groups and non-performance states, acting with predefined goals through specific strategies and intensive activities via appropriate channels within limited time frames.

Suitable local production and analysis of daily and monthly management information, aligned with corporate models, have been defined as the basis of business intelligence for ongoing decision-making for management guidance and results monitoring.

III. Market, structural and liquidity risk

1. Scope and definitions

The measurement, control and monitoring scope of the Market Risk function encompasses operations where an asset risk is accepted because of changes in market factors.

Such risks are generated through two types of basic activities:

- Trading, which includes both the rendering of financial services on markets for clients, where the bank is the counterparty, and proprietary sales, purchases and positioning, mainly in fixed income, equities and foreign currency products.

  The Group does not carry out trading, as its treasury activity is limited to management and hedging of the structural risk of its balance sheet, and to management of liquidity as needed to fund its business.

- Balance sheet management or ALM, which involves management of inherent risks in the entity's balance sheet, not including the trading portfolio.

The risks generated in these activities are:

- Trading market: Risk resulting from the possibility of changes in market factors affecting the value of positions held by the entity in its trading book.

- Structural: Risk arising from management of different balance sheet items. This risk includes both losses owing to price variations affecting available-for-sale and held-to-maturity portfolios (banking book), and losses arising from the management of the Group’s assets and liabilities measured at amortised cost.

- Liquidity: Risk of payment obligations not being met on a timely basis or being met at an excessive cost. The types of losses that this risk triggers include losses on the forced selling of assets or impacts on the margin because of the mismatch of forecast cash outflows and inflows.

Trading market and structural risks, depending on the market variable that triggers them, may be classified as:

- Interest rate risk: Identifies the possibility that interest rate variations may have a negative impact on the value of a financial instrument, a portfolio or the Group as a whole.

- Credit spread risk: Identifies the possibility that variations in credit risk curves associated with issues and specific types of debt may have an adverse effect on a financial instrument, a portfolio or the Group as a whole. The spread is a differential between financial instruments listed at a margin over other benchmark instruments, basically the Internal Rate of Return (IRR) of government securities and interbank interest rates.

- Exchange rate risk: Identifies the possibility that variations in the value of a position in a currency other than the base currency can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Inflation risk: This identifies the possibility that changes in inflation rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Volatility risk: Identifies the possibility that variations in the listed volatility of market variables may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Market liquidity risk: Identifies the possibility that an entity or Group as a whole is unable to unwind or close a position on a timely basis without impacting the market price or transaction cost.

- Risk of early payment or cancellation: Identifies the possibility of early cancellation without negotiation on operations where the contractual relationship so allows explicitly or implicitly, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact trading market risk (and not structural risk), meaning that market risk can also be classified as follows:

- Equity risk: Identifies the possibility that changes in the value of prices or dividend expectations from equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Commodity price risk: Identifies the possibility that changes in commodity prices may have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.

- Correlation risk: Identifies the possibility that changes in the correlation between variables, either of the same or a different type, listed in the market, could adversely affect the value of a financial instrument, a portfolio or the Group as a whole.

- Underwriting risk: Identifies the possibility that placement targets for securities or other types of debt are not reached when the entity participates in underwriting them.

Liquidity risk may also be classified in the following categories:

- Funding risk: Identifies the possibility that the entity is unable to meet its obligations owing to its inability to sell assets or secure funding.

- Mismatch risk: Identifies the possibility that differences between the maturity structures of assets and liabilities will generate an additional cost to the entity.

- Contingency risk: Identifies the possibility that adequate management levers will be unavailable to raise liquidity as a result of an outlier event that entails greater funding needs or more strict collateral requirements to raise funds.

2. <u>Measurement and methods</u>

2.1 Structural interest-rate risk

The Group analyses the sensitivity of net interest income and of equity to interest rate fluctuations. This sensitivity is determined by mismatches in the maturity and review dates of interest rates of different balance sheet items.

According to the interest rate positioning of the balance sheet, and considering the situation and perspectives of the market, financial measures are adopted to adjust the positioning to that sought by the Bank. These measures may range from taking up positions in markets to the specification of interest rate characteristics of commercial products.

The possibility that the financial margin or the Entity's equity will be affected by adverse changes in market interest rates to which asset, liability or off-book transaction positions are referenced.

- *Interest rate gap*

Analysis of the interest rate gap deals with the mismatch between the timing of re-pricing of on and off-balance aggregates of assets and liabilities and of memorandum accounts (off-balance sheet). It provides a basic profile of the balance sheet structure and can detect concentrations of interest rate risk at different terms. It is also a useful tool for estimates of the potential impact of interest rate movements on net interest income and the equity of the entity.

All on- and off-balance sheet aggregates have to be broken down so that they can be placed in the point of repricing/maturity. For aggregates that do not have a contractual maturity, the Santander Group's internal model for analysis and estimation of their durations and sensitivity is used.

- *Sensitivity of Net Interest Income (NII)*

The sensitivity of net interest income measures the change in expected accruals for a certain period (12 months) in the event of a shift in the interest rate curve.

- *Sensitivity of Economic Value of Equity (EVE)*

This measures the implied interest rate risk in the economic value of equity which, for the purposes of interest rate risk, is defined as the difference between the net present value of assets minus the net present value of liabilities, based on the effect of a change in interest rates on such present values.

2.2 Liquidity risk

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer Finance Group in optimal conditions of term and cost, while avoiding undesired liquidity risks.

The measures used for the control of liquidity risk are the liquidity gap, liquidity ratios, the statement of structural liquidity, liquidity stress tests, the financial plan, the liquidity contingency plan and regulatory reporting.

- *Liquidity gap*

The liquidity gap provides information on contractual and expected cash inflows and outflows for a given period in each of the currencies in which the Santander Consumer Finance Group operates. The gap measures the net cash needed or the surplus at a given date and reflects the liquidity level maintained under normal market conditions.

In the contractual liquidity gap, all balance sheet items that generate cash flows are analysed and placed at their point of contractual maturity. For assets and liabilities with no contractual maturity, the Santander Group's internal analysis model is used. It is based on a statistical study of products' time series, and the so-called stable and unstable balance is determined for liquidity purposes.

- *Liquidity ratios*

The minimum liquidity ratio compares liquid assets available for sale or transfer (after the relevant discounts and adjustments have been applied) and assets at less than twelve months with liabilities of up to twelve months.

The Net Stable Funding Ratio measures the extent to which assets that require structural funding are being funded by structural liabilities.

- *Structural Liquidity*

The purpose of this analysis is to determine the structural liquidity position according to the liquidity profile (greater or lesser stability) of different asset and liability instruments.

- *Liquidity stress tests*

The purpose of the liquidity stress tests conducted by the Santander Consumer Finance Group is to determine the impact of a severe, but plausible, liquidity crisis. In such stress scenarios, a simulation is made of internal factors that may affect Group liquidity, such as, inter alia, a credit rating downgrade of the institution, a fall in the value of balance sheet assets, banking crises, regulatory factors, a change in consumer trends and/or a loss of depositor confidence.

Every month, four liquidity stress scenarios (banking crisis in Spain, idiosyncratic crisis at the Santander Consumer Finance Group, global crisis and a combined scenario) are simulated by stressing these factors, and the results are used to establish early warning levels.

- *Financial plan*

Every year, a liquidity plan is prepared based on the funding needs arising from the business budgets of all the Group's subsidiaries. Based on these liquidity requirements, an analysis is made of limits on new securitisation considering eligible assets available, in addition to potential growth in customer deposits. This information is used to establish an issue and securitisation plan for the year. Throughout the year, regular monitoring is carried out of actual trends in funding requirements, thus giving rise to the revisions of the plan.

- *Contingency Funding Plan*

The purpose of the Liquidity Contingency Plan is to set out the processes (governance structure) to be followed in the event of a potential or real liquidity crisis, as well as the analysis of contingency actions or levers available to Management should such a situation arise.

The Liquidity Contingency Plan is underpinned by, and must be designed in line with, two key elements: liquidity stress tests and the early warning indicator (EWI) system. Stress tests and different scenarios are used as the basis for analysing available contingency actions and for determining such actions are sufficient. The EWI system monitors and potentially triggers the escalation mechanism for activating the plan and subsequently monitoring the situation.

- *Regulatory reporting*

Santander Consumer Finance applies the Liquidity Coverage Ratio (LCR) as required by the European Banking Authority (EBA) for the consolidated sub-group on a monthly basis, and the net stable funding ratio (NSFR) on a quarterly basis.

In addition, Santander Consumer Finance has produced an annual Internal Liquidity Adequacy and Assessment Process (ILAAP) report as part of the consolidated document of the Santander Group, although the supervisor does not require this report at sub-group level.

2.3 Structural change risk

Structural change risk is managed centrally, as part of the general corporate procedures of the Santander Group.

3. **<u>Limits</u>**

Limits are set for balance sheet structural risks as part of the framework of the annual limits plan, responding to the Santander Consumer Finance Group's risk appetite.

The limit structure involves a process that considers:

- Efficient and comprehensive identification and delimitation of the main types of market risk incurred, consistently with the management of the business and the strategy defined.

- Quantification and communication of the risk levels and profile considered acceptable by senior management to the business areas, so that undesired risks are not incurred.

- Providing flexibility for the business areas in the acceptance of risks, responding efficiently and appropriately to developments in the market and changes in business strategies, within the risk limits considered acceptable by the entity.

- Enabling business generators to take sufficient prudent risks to achieve their budgeted results.

- Delimiting the range of products and underlying assets in which each Treasury unit can operate, considering characteristics such as the model and assessment systems, the liquidity of the instruments involved, etc.

In the event of exceeding one of these limits or their sub-limits, the risk management officers involved must explain the reasons and facilitate an action plan to correct it.

The main management limits for structural risk at the consolidated Santander Consumer level are:

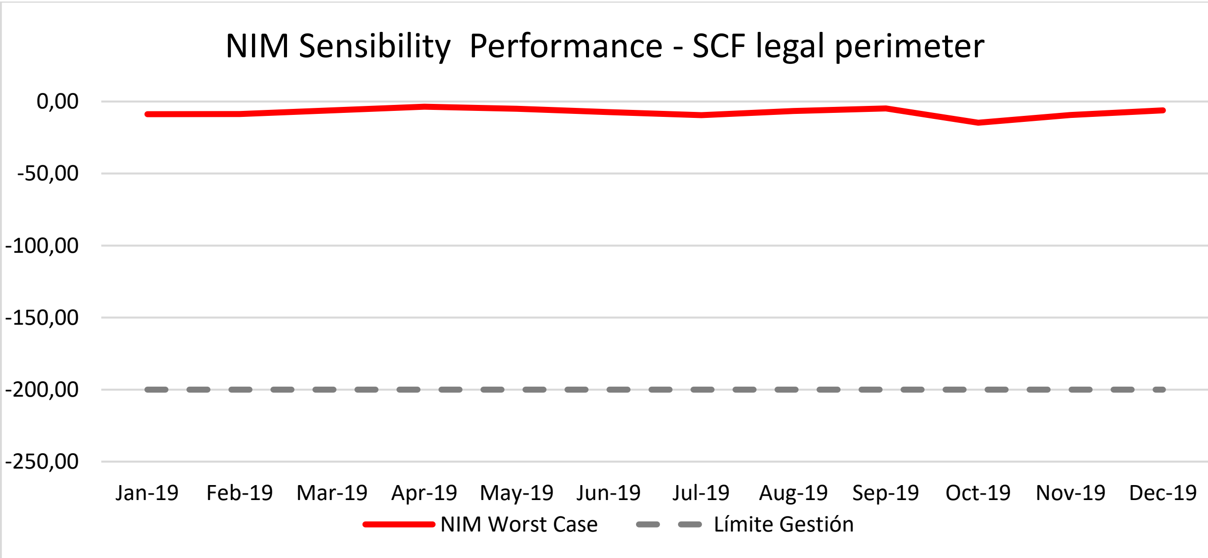
- One-year net interest income sensitivity limit.

- Equity value sensitivity limit.

The limits are compared to the sensitivity that would result in the largest loss among those calculated under eight scenarios (parallel 25, 50, 75 and 100 basis point increases and decreases in the interest rate curve). Using a range of scenarios fosters improved control of interest rate risk. The downward scenarios consider negative interest rates, with a defined floor. In 2019, the exposure of the net interest margin and economic value was moderate compared to the budget and the value of own funds, respectively, being within the limits set for the legal scope.

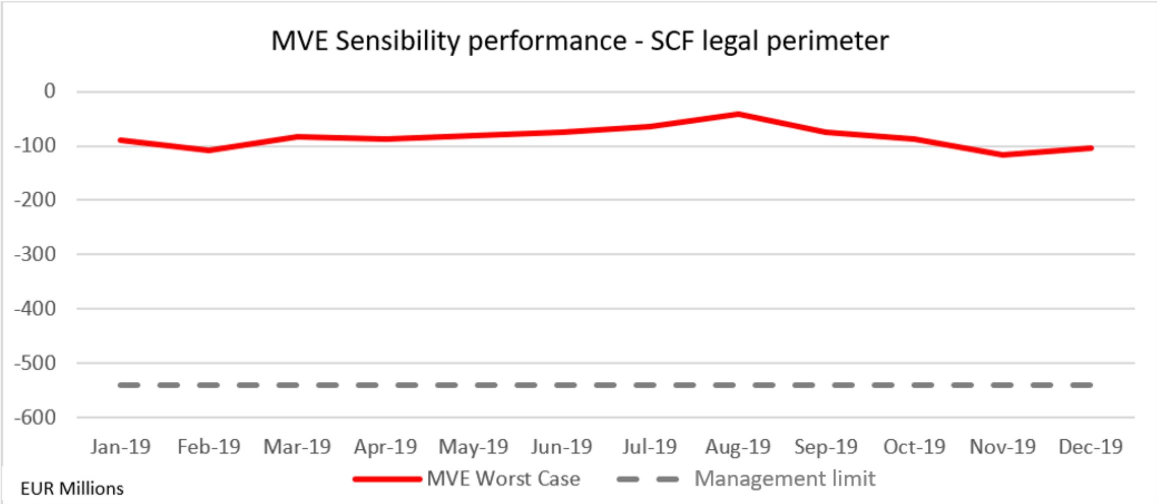
At the end of 2019, the risk on the financial margin at one year, measured as its sensitivity to a parallel rise of 100 basis points, was -7.04 million euros.

The sensitivity of the net interest margin in 2019 is shown in the chart below:



The sensitivity of the market value of equity to a parallel 100 basis point fall in the same period was EUR -103.97 million.

The sensitivity of market value of equity in 2019 is shown in the chart below:



With respect to liquidity risk, the main limits at Santander Consumer Finance Group include regulatory liquidity metrics such as the LCR and the NSFR (for which there is no regulatory limit yet in force), as well as the liquidity stress tests under various adverse scenarios mentioned above.

At the end of December 2019, all liquidity metrics are above the current internal limits and regulatory requirements. Both the LCR and the NSFR at the consolidated Group level were above 115% and 102% throughout the year.

4. Management

Balance sheet management entails the analysis, projection and simulation of structural risks, along with the design, proposal and execution of transactions and strategies to manage this risk. Finance Management is responsible for this process, and it takes a projection-based approach where and when this is applicable or feasible.

A high-level description of the main processes and/or responsibilities in managing structural risks is as follows:

- Analysis of the balance sheet and its structural risks.
- Monitoring of movements in the most relevant markets for asset and liability management (ALM) for the Group.
- Planning. Design, maintenance and monitoring of certain planning instruments. Finance Management is responsible for preparing, following and maintaining the financial plan, the funding plan and the liquidity contingency plan.
- Strategy proposals. Design of strategies aimed at funding the SCF sub-group's business by securing the best available market conditions or by managing the balance sheet and its exposure to structural risks, thereby avoiding unnecessary risks, preserving net interest income and safeguarding the market value of equity and capital.
- Execution. To achieve appropriate ALM positioning, Finance Management uses different tools. Chief among these are issues in debt or capital markets, securitisation, deposits and interest rate and/or currency hedges, and management of ALCO portfolios and the minimum liquidity buffer.

- Compliance with risk limits and with risk appetite

IV. Operational risk

a) Definition and objectives

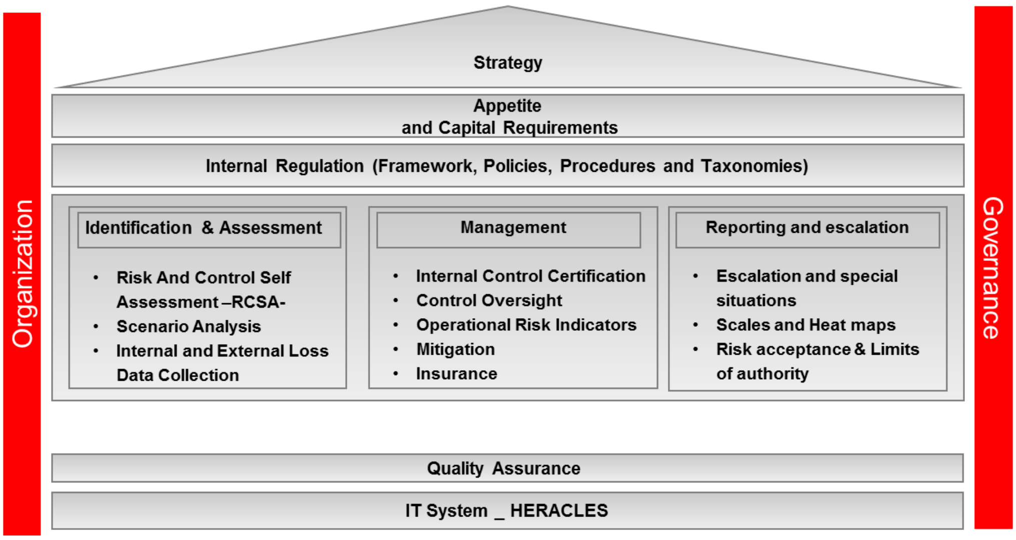
The Group defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Accordingly, all employees are responsible for managing and controlling operational risks arising in their area of activity.

The aim pursued by the Group in operational risk control and management is primarily to identify, measure/assess, monitor, control, mitigate and report this risk.

The Group's priority, therefore, is to identify and mitigate focal points of risk, irrespective of whether they have given rise to any losses. Measurement also contributes to the establishment of priorities in the management of operational risk.

For the purpose of calculating regulatory capital for operational risk, the Group has been applying the standardised approach set out in the BIS II regulation.



b) Operational risk management and control model

Operational risk management cycle

The stages of the model of operational risk management and control involve the following:

- Identifying the operational risk inherent to all activities, products, processes and systems of the Group. This process is carried out via the Risk and Control Self-assessment (RCSA) exercise.

- Definition of the target operational risk profile, specifying the strategies by unit and time horizon, through the establishment of the operational risk appetite and tolerance, the budget and the related monitoring.

- Encouragement of the involvement of all employees in the operational risk culture, through appropriate training for all areas and levels of the organisation.

- Objective and ongoing measurement and assessment of operational risk, consistent with industry and regulatory standards (Basel, Bank of Spain, etc.).

- Continuous monitoring of operational risk exposures, implementation of control procedures, improvement of internal awareness and mitigation of losses.

- Establishment of mitigation measures to eliminate or minimise operational risk.

- Preparation of periodic reports on the exposure to operational risk and its level of control for the senior management of the Group and its areas/units, and reporting to the market and the regulatory authorities.

- Definition and implementation of the methodology required for calculating capital in terms of expected and unexpected loss.

The following is required for each of the key processes indicated above:

- The existence of a system whereby operational risk exposures can be reported and controlled, as part of the Group's daily management efforts.

  Towards this end, the Group has implemented a single tool for management and control of operational risk, compliance and internal control, called Heracles.

- Internal rules and regulations based on principles for management and control of operational risk have been defined and approved pursuant to the established governance system and in line with prevailing regulation and best practices.

  In 2015, the Group adhered to the relevant corporate framework and subsequently, the model, policies and procedures were approved and implemented, along with the Operational Risk Committee Regulation.

The model of operational risk management and control implemented by the Group provides the following benefits:

- It promotes the development of an operational risk culture.
- It allows for comprehensive and effective management of operational risk (identification, measurement / assessment, control / mitigation, and reporting).
- It improves knowledge of both actual and potential operational risks and their assignment to businesses and support lines.
- Information on operational risk helps improve processes and controls and reduce losses and income volatility.
- It facilitates the setting of limits for operational risk appetite.

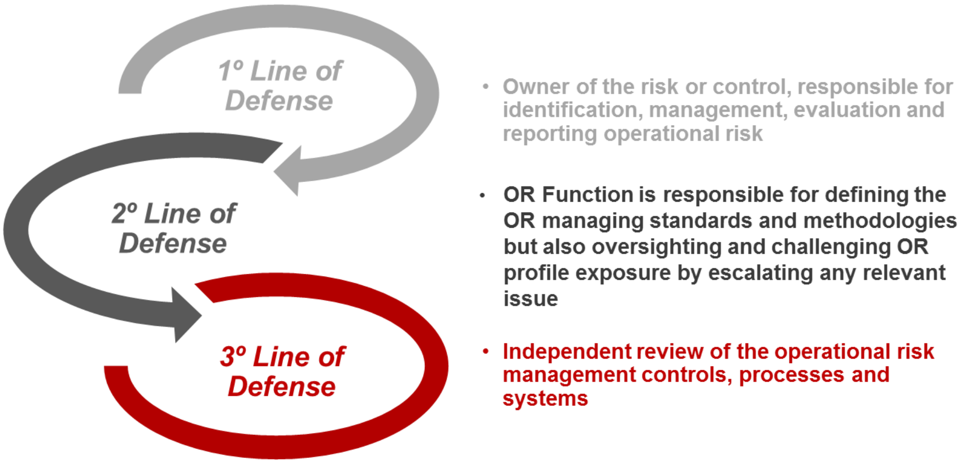
c) Risk identification, measurement and assessment model

In November 2014, the Group adopted the new management system of the Santander Group, in which three lines of defence are defined:

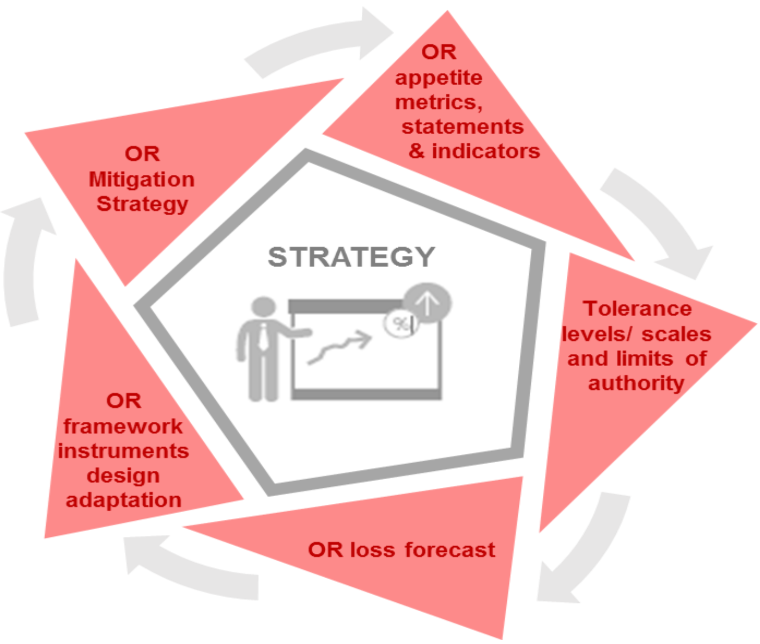
- 1st line of defence: integrated in areas of business or support areas. Its tasks are to identify, measure or assess, control (primary control) mitigate and report the risks inherent to the activity or function for which it is responsible.

- 2nd line of defence: performed by the Non-Financial Risks Department, reporting to the CRO. Its functions are to design, maintain and develop the local adaptation of the Operational Risk Management Framework (BIS), and to control and challenge the first line of defence against operational risk.

- 3rd line of defence: Carried out by Internal Audit, which assesses compliance with its policies and procedures by all the entity's activities and units.



The components of risk management at the Group are as follows:



In order to identify, measure and assess operational risk, the Group defined a set of qualitative and quantitative corporate techniques/tools, and these are combined to carry out a diagnosis based on the risks identified and obtain an assessment through measurement/evaluation of the area or unit.

The quantitative analysis of this risk is carried out mainly with tools that record and quantify the level of potential losses associated with operational risk events.

- An internal event database to capture all operational risk events at the Group. The capture of operational risk-related events is not limited to the establishment of thresholds, i.e., events are not excluded because of their amount, and the database contains events both with an accounting impact (including positive impacts) and those without.

  Accounting reconciliation processes are in place that ensure the quality of the information in the database. The most significant events of the Group and of each of its operational risk units are especially documented and reviewed.

- The external event database, as the Group, through the Santander Group, takes part in international consortia such as the Operational Risk data exchange Association (ORX). In 2016, the Group started to make increased use of external databases that provide quantitative and qualitative information to enable a more detailed and structured analysis of significant events occurring in the sector.
- OR scenario analysis. Expert opinion is obtained from the business lines and the risk and control managers with the aim of identifying potential events which, although very unlikely to occur, could result in a very high loss for the institution. Their potential effect on the institution is evaluated and additional controls and mitigating measures are identified that reduce the possibility of a high economic impact.

  This feature has also been included in the Heracles tool.
- Calculation of capital using the Standardised Approach.

The tools defined for the qualitative analysis aim to assess aspects (coverage/exposure) linked to the risk profile, thereby making it possible to capture the control environment in place. These tools are mainly as follows:

- RCSA: Operational risk assessment methods, based on managers' expert judgement, leading to a qualitative view of the Group's main risk focuses, regardless of whether or not they have materialised previously.

  Benefits of RCSA:

  a. Incentivising the responsibility of the first lines of defence: It establishes the first line figures of risk owner and control owner.

  b. Helping identify the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.

  c. Improved integration of OR tools: Root cause analysis is added.

  d. Improved test validation. Carried out through workshops instead of questionnaires.

  e. Tests with a more forward-looking approach: The financial impact of risk exposure is assessed

- Continuously-evolving corporate system of operational risk indicators that is coordinated with the corresponding corporate area. These are diverse statistics or parameters that provide information on an entity's exposure to risk. They are revised periodically in order to warn of any changes that could reveal problems vis-à-vis risk.

- Recommendations from regulators, Internal Audit and the external auditor. These provide relevant information on inherent risk arising from internal and external factors, and enable identification of weaknesses in controls.

- Other specific instruments that permit a more detailed analysis of technology risk, such as control of critical incidences in systems and cyber-security events.

d) Operational risk information system

HERACLES is the corporate operational risk information system. This system has modules for risk self-assessment, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting systems and scenario analysis, and it is applied to all entities of the Group.

e) Business Continuity Plan

The Santander Group and, accordingly, the Santander Consumer Finance Group, have a Business Continuity Management System (BCMS) to ensure the continuity of its entities' business processes in the event of a disaster or serious incident.

Impact analyisis	Scenarios & strategies	Plan Development	Continuous processes
Identify **processes which not planned interruption may carry a severe impact in the business process**, as well as the requirements needed for their recovery. These processes are identified as “critical”.	Identification of **threats or risk situations** that potentially **can cause the interruption of the normal activity of the business**, approach of the probability / frequency and the **impact of the materialization** of each threat.	Document the **response procedures in case of emergencies**, since the moment when an incident happens until a serious contingency is declared, **roles and process to follow up for the resolution** and recovery of the critical processes.	Update of processes and BCP maintenance. Tests and simulations.

The basic objective consists of the following:

- Minimising possible injury to persons, as well as adverse financial and business impacts for the Group, resulting from an interruption of normal business operations.
- Reducing the operational effects of a disaster by supplying a series of pre-defined, flexible guidelines and procedures to be employed in order to resume and recover processes.
- Resuming time-sensitive business operations and associated support functions, in order to achieve business continuity, stable earnings and planned growth.

- Re-establishing the time-sensitive technology and transaction-support operations of the business if existing technologies are not operational.
- Safeguarding the public image of, and confidence in, the Group.
- Meeting the Group's obligations to its employees, customers, shareholders and other third-party stakeholders.

f) Corporate information

The Santander Group's corporate operational risk control area has an operational risk management information system that provides data on the Group's main risk elements. The information available from each country/unit in the operational risk sphere is consolidated to obtain a global view with the following features:

- Two levels of information: a corporate level, with consolidated information, and an individual level containing information for each country/unit.
- Dissemination of best practices among the Santander Group countries/units, obtained from the combined study of the results of quantitative and qualitative analyses of operational risk.

Specifically, information is prepared on the following subjects:

- The operational risk management model in the Bank and the main units and geographic areas of the Group.
- The scope of operational risk management.
- The monitoring of appetite metrics
- Analysis of internal event database and of significant external events.
- Analysis of most significant risks detected using various information sources, such as operational and technology risk self-assessment processes.
- Evaluation and analysis of risk indicators.
- Mitigation measures/active management.
- Business continuity plans and contingency plans.

This information is used as the basis for meeting reporting requirements to the Executive Risk Committee, the Risk Supervision, Regulation and Compliance Committee, the Operational Risk Committee, senior management, regulators, credit rating agencies, etc.

The role of insurance in operational risk management

The Santander Consumer Finance Group considers insurance to be a key tool in the management of operational risk. Since 2014, common guidelines have been in place for coordination between the different functions involved in the management cycle of operational risk-mitigating insurance, mainly the areas of proprietary insurance and operational risk control, but also different areas of first line risk management.

These guidelines include the following activities:

- Identification of all risks at the Group that could be covered by insurance, as well as new insurance cover for risks already identified in the market.

- Establishment and implementation of criteria for quantifying insurable risk, based on the analysis of losses and in loss scenarios that make it possible to determine the Group's level of exposure to each risk.
- Analysis of the cover available in the insurance market, as well as preliminary design of the terms and conditions that best suit the requirements previously identified and evaluated.
- Technical assessment of the level of protection provided by a policy, the cost and levels of retention that would be assumed by the Group (deductibles and other items borne by the insured) for the purpose of deciding whether to contract it.
- Negotiation with insurance providers and contract awards in accordance with the relevant procedures established by the Group.
- Monitoring of claims reported under the policies, as well as those not reported or not recovered due to incorrect reporting.
- Analysis of the appropriateness of the Group's policies for the risks covered, taking the necessary measures to correct any shortcomings detected.
- Close cooperation between local operational risk officers and local insurance coordinators in order to enhance operational risk mitigation.
- Regular meetings to inform on the specific activities, situation and projects of the two areas.
- Active participation of both areas in the global insurance sourcing desk, the Group's highest technical body for the definition of insurance cover and arrangement strategies.

Cyber risk

- Cybersecurity risk (also known as cyber-risk) is defined as any risk that results in financial loss, business interruption or damage to Santander Consumer Finance's reputation resulting from the destruction, misuse, theft or abuse of systems or information. This risk comes from inside and outside the corporation.

  In the event of a cyber incident, the main cyber risks for Santander Consumer Finance consist of three elements:
- Unauthorized access to or misuse of information or systems (e.g., theft of business or personal information).
- Theft and financial fraud.
- Business interruption (e.g., sabotage, extortion, denial of service).

In 2019, Santander Consumer Finance has continued to devote its full attention to risks related to cyber-security, which affect our units in different geographical areas. This situation, which is causing concern among entities and regulators, is leading to the adoption of preventive measures to be prepared for attacks of this nature.

The Group has further developed its cyber regulations with the approval of a new cyber-security framework and the cyber-risk supervisory model, and new polices related to this area.

Also, a new organisational structure has been defined, and governance for the management and control of this risk has been strengthened. For this purpose, specific committees have been set up and cyber-security metrics have been incorporated to the Group's risk appetite. These metrics have been monitored and reported both in different geographical areas and at a Global level.

The main instruments and processes established for the control of cybersecurity risk are:

- Compliance with cyber-risk appetite: the objective of this process is to ensure that the cyber-risk profile is in line with the risk appetite. Cyber-risk appetite is defined by a series of metrics, risk statements and indicators with corresponding tolerance thresholds and where existing governance structures are used for monitoring and escalation, including risk committees and cybersecurity committees.

- Identification and assessment of cybersecurity risk: The cyber-risk identification and assessment process is a key process for anticipating and determining the risk factors that could cause cyber-risk and estimating likelihood and impact. Cyber risks are identified and classified in line with the control categories defined in the latest industry-relevant security standards (such as ISO 27k, NIST Cybersecurity Framework, etc.). The methodological catalogue includes methods used to identify, qualify and quantify cyber-risks, and to evaluate the controls and corrective measures taken by the first line of defence. Cyber-risk assessment tests are a key tool for identifying and assessing cybersecurity risks at Santander Consumer Finance entities. Cybersecurity and technology risk assessment must be updated when reasonably necessary, taking into account changes in information systems, confidential or business information, and the entity's business operations.

- Cyber-risk control and mitigation processes relating to assessing the effectiveness of risk control and mitigation. Once cyber risks have been assessed and mitigation measures defined, these measures are included in a Santander Consumer Finance cybersecurity risk mitigation plan. Residual risks are identified and formally accepted. Due to the nature of cyber-risks, risk mitigation plans are regularly reassessed. A key process in the face of a successful cybersecurity attack is the business continuity plan. Santander Consumer Finance has mitigation strategies and measures in place in connection with business continuity management plans and disaster recovery. These measures also address cyberattacks, based on defined policies, methods and procedures.

- Monitoring, supervision and reporting of cyber-risk: Santander Consumer Finance controls and monitors cyber-risk in order to regularly analyse the information available on the risks accepted in the course of the Group's activities. For this purpose, Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) are monitored to assess whether risk exposure is in line with authorised risk appetite.

- Escalation and reporting: Proper escalation and reporting of cyber threats and cyberattacks is another key process. Santander Consumer Finance has tools and processes for detecting internal threats and potential hazards in its infrastructure, servers, applications and databases. Reporting encompasses the preparation of reports and submission to the relevant committees of information required to assess exposure to cyber-risk, analyse the cyber-risk profile and take the necessary decisions and measures. Appropriate cyber-risk situation reports are produced for management committees accordingly. There are also mechanisms in place for independent internal escalation of technological and cybersecurity incidents to the bank's management team and, if necessary, to the appropriate regulator.

Compliance and conduct risk

The compliance function includes all issues relating to regulatory compliance, prevention of money laundering and terrorist financing, governance of products and consumer protection, and reputational risk according to the General Corporate Compliance and Conduct Framework (*Marco Corporativo General de Cumplimiento y Conducta)*.

The compliance function promotes the adhesion of Santander Consumer Finance, S.A. ("SCF") to standards, supervisory requirements, and the principles and values of good conduct by setting standards, debating, advising and reporting, in the interest of employees, customers, shareholders and the wider community. In accordance with the current corporate configuration of the Santander Group's three lines of defence, the compliance function is a second-line independent control function that reports directly to the Board of Directors and its committees through the CCO. This configuration is aligned with the requirements of banking regulation and with the expectations of supervisors.

The SCF Group's objective in the area of compliance and conduct risk is to minimise the probability that non-compliance and irregularities occur and that any that should occur are identified, assessed, reported and quickly resolved.

The main tools used by the Compliance function in order to meet their objectives are (among others): establishment and coordination with the Compliance Program, coordination of the Risk Assessments of all the areas of Compliance and Conduct, definition and monitoring of the Compliance Metrics that participate in the SCF Appetite Risk Framework and monitoring of the Norms of Obligatory Compliance.

Compliance with regulatory framework

The Basel III regulations came into effect in 2014, setting new global standards for the capital, liquidity and leverage of financial entities.

From the capital perspective, Basel III: redefines what is considered available capital for financial entities (including new deductions and increasing requirements for eligible capital instruments); increases minimum capital requirements; requires financial entities to always hold capital buffers; and adds new requirements for the risks considered.

These regulations were implemented in Europe through Directive 2013/36/EU, known as 'CRD IV', and its regulations, 575/2013 (CRR), which apply directly in all EU member states (Single Rule Book). These rules are currently subject to regulatory development by the European Banking Authority (EBA).

CRD IV was introduced into Spanish law through Act 10/2014, on the ordering, supervision and solvency of credit institutions, and its subsequent regulatory implementation through Royal Decree Act 84/2015. The CRR is directly applicable to member states from 1 January 2014 and repeals lower-ranking standards that entail additional capital requirements.

The CRR provides for a phase-in period that will allow institutions to adapt gradually to the new requirements in the European Union. The phase-in arrangements have been introduced into Spanish law through Bank of Spain Circular 2/2014. The phase-in affects both the new deductions from capital and the capital instruments and elements that cease to be eligible as capital under the new regulations. The capital conservation buffers provided for in CRD IV are also being phased in gradually, starting in 2016 and reaching full implementation in 2019.

In 2019, the Santander Consumer Finance Group must maintain a minimum capital ratio of 8.85%[1] CET1 phase-in (4.5% for Pillar I, 1.5% for Pillar II, 2.5% for the capital conservation buffer, and 0.35% for the anti-cyclical buffer), This requirement includes: (i) the minimum Common Equity Tier 1 requirement to be maintained at all times under Section 92(1)(a) of Regulation (EU) No 575/2013 (ii) the Common Equity Tier 1 requirement to be maintained in excess at all times under Section 16(2)(a) of Regulation (EU) No 1024/2013; and (iii) the capital conservation buffer under Section 129 of Directive 2013/36/EU. In addition, Santander Consumer Finance must maintain a minimum capital ratio of 10.35% of Q1 phase-in as well as a minimum Total Ratio of 12.35% phase-in.

At year-end 2019, the Bank far exceeded the prudential requirement defined by the ECB, with a CET1 ratio (fully loaded) of 12.54% and total capital ratios of 15.23% (fully loaded)

The Bank is continuing its plan to implement the Basel advanced internal rating-based measurement approach (AIRB). This objective is also conditioned by the acquisition of new entities, as well as by the need for coordination of the validation processes for internal models by supervisors.

The Santander Consumer Finance Group mainly operates in countries within the same legal supervisory framework, as is the case in Europe through the Capital Directive.

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1 This requirement includes: (i) the minimum Common Equity Tier 1 requirement that must be maintained at all times pursuant to Article 92(1)(a) of Regulation (EU) No. 575/2013; (ii) the Common Equity Tier 1 required to retain a buffer pursuant to Article 16(2)(a) of Regulation (EU) No. 1024/2013; and (iii) the capital conservation buffer pursuant to Article 129 of Directive 2013/36/EU.

Santander Consumer Finance currently has supervisory authorisation to use advanced approaches for calculating regulatory capital requirements for credit risk for its main portfolios in Spain, and some portfolios in Germany, Scandinavia and France.

Santander Consumer Finance Group currently applies the standard approach to calculating regulatory capital for operational risk, as set out in the European Capital Directive.

As for the other risks expressly considered in Basel Pillar I, market risk is not significant in Santander Consumer Finance, as this is not part of its business purpose, and it therefore uses the standard approach.

Leverage ratio

The leverage ratio has been established within the Basel III regulatory framework as a non-risk sensitive measure of the capital required from financial institutions. The Group calculates the ratio in accordance with the provisions of CRD IV and the 17 January 2015 amendment of Regulation (EU) No. 575/2013, the purpose of which was to harmonise the calculation criteria with those specified in the paper Basel III leverage ratio framework and disclosure requirements, issued by the Basel Committee. This ratio is calculated as Tier 1 divided by leverage exposure.

Santander Consumer Finance maintains a fully loaded leverage ratio of 8.47% at the end of 2018. Pending publication of the definitive rules on the minimum requirements for this ratio, the benchmark was set at 3.5%.

Economic capital

From the point of view of solvency, in the context of Basel Pillar II Santander Consumer Finance Group uses its economic model for its internal capital adequacy assessment process (ICAAP). For this purpose, business performance and capital needs are planned under a base case scenario and under alternative stress scenarios. In this planning, the Group ensures that its solvency objectives are upheld even in adverse economic scenarios.

Economic capital is the capital required, according to an internally developed model, to support all the risks of our business at a certain level of solvency. In our case, the solvency level is determined by the long-term objective rating of 'A' (two steps above Spain's rating), which means applying a confidence level of 99.95% (above the regulatory 99.90%) to calculate the necessary capital.

The Group's economic capital model includes in its measurement all significant risks incurred by the Group in its operations, and therefore considers risks such as concentration, structural interest rate, business, pensions and others that are outside the scope of "regulatory" Pillar 1. Furthermore, economic capital incorporates the diversification effect, which in the case of the Group is crucial, due to the multinational and multi-business nature of its activity, in order to determine the overall risk and solvency profile.

The Santander Consumer Finance Group uses the RORAC method in its risk management to calculate the economic capital consumption and return on risk-adjusted capital of the Group's business units, segments, portfolios or customers, in order to periodically analyse value creation and facilitate optimal allocation of capital.

The RORAC methodology makes it possible to compare, on a uniform basis, the returns on transactions, customers, portfolios and businesses, identifying those that obtain a risk-adjusted return higher than the Group's cost of capital, and thus aligning risk and business management with the intention of maximising value creation, which is the ultimate objective of Santander Consumer Finance's senior management.

Proposed appropriation of profit or loss

The appropriation of profit obtained by the Bank in 2019, amounting EUR 508,212 thousand, will be submitted for approval by the shareholders at the Annual General Shareholder's Meeting in accordance with the following proposal:

Offset of interim dividends: EUR 445,452 thousand
Legal reserve: EUR 50,821 thousand
Voluntary reserves: EUR 11,939 thousand

Capital and treasury shares

In 2019 the Group did not conclude any transactions involving treasury shares/own shares. There was no treasury share balance on its balance sheet at 31 December 2019.

Research and development

The Santander Group regards technological innovation and development as a key anchor of corporate strategy, and seeks to leverage the opportunities offered by digitisation. In line with the Group's strategic and technological innovation, Santander Consumer Finance takes advantage of the global capability and local particularities to maximize the growth of the business, maintaining itself in the front line against its competitors.

Technology and Operations provides critical support to business needs, with value proposals specific to the consumer finance business, focusing on the point of sale, the customer and the product, with optimal management of the process and efficiency in monitoring technological and operational safety.

Like other Santander Group units, Santander Consumer Finance is coming under increasing pressure from the increasingly demanding regulatory requirements that impact the systems model and the underlying technology, and require additional investment to ensure compliance and legal certainty.

Events after the reporting date

Events occurring after the 2019 year-end are disclosed in Note 1-i to the consolidated financial statements.

Outlook

The management report contains certain forward-looking information that reflects the plans, forecasts or estimates of the directors, which are based on assumptions that are considered reasonable by the directors. However, the user of this report should bear in mind that forward-looking information should not be regarded as a guarantee of an entity's future performance, in the sense that such plans, forecasts or estimates are subject to numerous risks and uncertainties, which imply that the entity's future performance need not be the same as initially expected. These risks and uncertainties are described in the risk management section of this directors' report and in Note 45 to the consolidated financial statements.

2019 has been a year of ups and downs. The beginning was positive, but from the summer onwards, expectations of a slight global slowdown - towards growth rates in line with medium-term trends - gave way to considerable pessimism, the novelty of which, compared with other recent phases of instability, was that the economic fundamentals did not show any major imbalances.

However, the uncertainties have been reduced in the last weeks of the year, which together with the impulses of the monetary policies applied in 2019 -especially in the US and in emerging economies-, will probably tend to stabilize global growth at the beginning of 2020. The improvement in confidence indicators -which is beginning to show in some areas-, would tend to favour a certain revitalization of investment and domestic demand, while international trade shows a somewhat better tone.

This will not prevent the US from growing at a slower pace in 2020 as a whole (expected to be around 1.7% vs. 2.3% in 2019), without the support of fiscal policy, and the Eurozone from sustaining growth similar to that of this year (around 1.2% estimated), Germany is expected to maintain growth of around 0.7% (0.6% in 2019 but affected by a series of disturbances) and Spain is expected to maintain a higher rate than the area as a whole but lower than in 2019 (1.7% vs. 2.0% in 2019). Overall, GDP in the advanced economies should slow down from 1.9% in 2019 to around 1.5%.

However, the world economy is expected to maintain a growth rate similar to 2019, around 3%, thanks to the fact that we expect emerging economies to register some revival from the 4% forecast for this year. China's mildly slowing trend will be more than offset by the improved tone of India and the rest of emerging Asia as a whole.

In addition, Latin America as a whole is expected to improve, although at a relatively modest pace, if the reform processes in Brazil and Argentina continue and Mexico benefits from the ratification of the new North American Free Trade Agreement (NAFTA) and the expected improvement in the US manufacturing sector, as well as the central bank's expansionary policies. The region's improvements, in a complex international context, depend more than at other times on its desire and ability to undertake reforms.

The risk balance is tilting downwards, although less intensely than in recent quarters. The consolidation of the improvement in confidence and the absence of significant imbalances in most of the relevant economies may provide positive surprises.

Annual corporate governance report

Pursuant to article 9,4 of Order ECC/461/2013, of 20 March, from the Ministry of Economy and Competitiveness, the Bank, an entity domiciled in Spain with voting rights belonging, directly and/or indirectly, to Banco Santander, S.A., has not prepared an annual corporate governance report, as this is drawn up and filed with the CNMV by Banco Santander, S.A. as the parent of the Santander Group.

Non-financial information

On 28 December 2018, the Council of Ministers approved Law 11/2018 amending the Commercial Code, the consolidated text of the Companies Law approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on account auditing, non-financial reporting and diversity.

The statement of non-financial information shall contain the following: a brief description of the group's business model, the group's relevant policies and their outcomes, the principal risks related to its business, in addition to non-financial key performance indicators on matters relating to the environment, employees, human rights, the fight against corruption and bribery and diversity.

The Directive applies to entities whose average number of employees in the financial year exceeds 500 and which are either considered to be public-interest entities in accordance with auditing legislation or, for two consecutive financial years, at the closing date of each year engage at least two of the circumstances indicated in the Law. However, subsidiaries belonging to a group are exempt from this obligation if the company and its subsidiaries are included in another company's consolidated management report.

In this regard, as a subsidiary of Banco Santander S.A, Santander Consumer Finance, S.A. and the companies in the Consumer Finance Group (consolidated) have included this information in the management report of Banco Santander S.A. and subsidiaries for the year ended 31 December 2019, which has been filed with the Companies' Registry of Santander, together with the consolidated financial statements of the Banco Santander Group and subsidiaries, as set out in note 1 to the accompanying Notes. These are also available at www.santander.com

Capital structure and significant shareholders

Banco Santander, S.A.	1,879,546,152	Percentage	99.99%
Cántabro Catalana de Inversiones, S.A.	20	Percentage	0.00000106%
Total number of shares	1,879,546,172		
Par Value	3,00		
Capital Social	5,638,638,516		

At 31 December 2019, the Bank's share capital consisted of 1,879,546,172 registered shares, with a par value of EUR 3 each, all fully subscribed and paid up, and with equal dividend and voting rights.

Restrictions on the transferability of shares

Not applicable.

Restrictions on voting rights

The shareholders attending the Annual General Meeting will have one vote for each share that they hold or represent.

Only the holders of 20 or more shares will be entitled to attend the Annual General Meeting, provided that they are registered in their name in the share register.

Side agreements

Not applicable.

Appointment and replacement of members of the Board of Directors and amendment of the bylaws

The representation of the Bank is the responsibility of the Board of Directors, which will comprise no fewer than 5 and no more than 15 members, who will be appointed by the Annual General Meeting for a period of three years, although they may be re-elected, as many times as may be desired, for further three-year periods.

It is not necessary to be a shareholder of the Bank in order to be a director.

Powers of the members of the Board of Directors

On 24 May 2012, the Bank granted powers of attorney to the General Managing Director Ms. Inés Serrano González and to the General Managing Director Mr. Bruno Montalvo Wilmot. Furthermore, on 18 July 2019, the Bank made Don David Turiel López General Director granting him powers of attorney. Either of them, acting jointly and severally, for and on behalf of the Bank, can exercise the powers detailed below:

a) To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices.

To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

b) To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

c) To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the amounts of the resulting balances and sign and receive final settlements.

d) To use, with full powers, the signature of the principal bank in all banking transactions, acts and agreements to which the principal bank is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

e) To acquire and dispose of, at the price and under the terms that they may freely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personal and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

   Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, savings banks, credit cooperatives and similar entities registered with the Bank of Spain) have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and irrespective of the type of the loans themselves, in terms of either the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or of the additional guarantees they might have (all manner of security interest, mortgages, etc.).

f) To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

g) To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Land Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

h) To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

i) To appear in the hereditary successions of debtors, at administration and insolvency proceedings and in bankruptcies, to approve inventories and arrangements and contest them; to take part in and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

j) As security for the obligations of third parties and on their behalf, whether said parties be individuals or legal entities, and under the terms and clauses deemed appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal government level, autonomous community governments and their dependent agencies, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,060, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

k) Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and most particularly the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

   To request from the ministries, directorates general, units and offices of central government, from autonomous community governments, provincial, municipal and any other level of public corporations, and from authorities and civil servants, such action as is deemed appropriate in the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders/releases, and to present affidavits and supporting evidence.

   To confer legal and court-case powers on court procedural representatives ("attorneys") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and appeals, including appeals to the Constitutional Court and extraordinary cassation and judicial review appeals, and to withdraw, settle and stay such proceedings.

l) To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account facilities, pledging the amount deemed appropriate in each case, and to sign the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each facility.

m) To present, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

n) To arrange policies with insurance companies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, being able to establish such terms and conditions of the policies as they see fit.

o) To authorise certifications of the company's accounting ledgers and documents.

p) To grant and sign the public deeds and private documents required to execute the aforementioned acts and agreements.

q) To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Company

Not applicable.

Agreements between the Company and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid

Not applicable.