Santander Consumer Finance, S.A. and subsidiaries

Independent auditor´s report on the
condensed interim consolidated financial statements
as at June 30, 2020

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 condensed interim consolidated financial statements

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

Report on the condensed interim consolidated financial statements

Opinion

We have audited the condensed interim consolidated financial statements of Santander Consumer Finance, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at June 30, 2020, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six month period then ended.

In our opinion, the accompanying condensed interim consolidated financial statements of Santander Consumer Finance, S.A. and subsidiaries for the six months period ended June 30, 2020 have been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, as provided in Article 12 of Royal Decree 1362/2007, for the preparation of condensed interim financial statements.

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 condensed interim consolidated financial statements* 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 condensed interim consolidated financial statements 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 condensed interim consolidated financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim consolidated financial statements 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 expected loss impairment calculation models required by International Financial Reporting Standard 9 (IFRS 9), together with related adaptations in response to the COVID-19 crisis, which have increased complexity by bringing in new estimates such as flexibility in the application of staging rules for loans qualifying for a moratorium, loans secured by government guarantees or post-model adjustments entail a high degree of judgement and are among the most significant and complex estimates when preparing the accompanying interim consolidated financial statements. The main judgements and assumptions made by Management are as follows: • Asset identification and staging criteria, including those employed to assess loans subject to moratorium measures. • Estimates of probability of default (PD) and loss given default (LGD) parameters. • Definition and assessment of post-model adjustments to adapt the estimated model parameters to the conditions and environment created by the COVID-19 crisis. • The main assumptions, such as the classification of borrower risk and the expected life of the loan, used to determine individual risks. See Notes 1.d and 5 to the accompanying condensed interim consolidated financial statements at 30 June 2020.	Assisted by our risk specialists, we gained an understanding of Management's process for estimating the impairment of assets at amortised cost - loans and advances to customers, for both provisions estimated collectively and those estimated individually. As regards internal control, we gained an in-depth understanding and tested controls for the process phases, paying particular attention to processes for reviewing the main assumptions employed and the review process for the approval of moratorium measures and government guarantees, if applicable, in the framework of COVID-19 and when determining and approving post-model adjustments. 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 staging of loans; and v) information on scenarios and related assumptions. • Review of documents for a sample of loans subject to moratoria, assessing the fulfilment of conditions to apply the flexibility measures to asset identification and staging. • Re-calculation of collective provisions based on the input obtained from the expected loss models, including any government guarantees in the calculation. • Assessment of the post-model adjustments made by Management in the main geographies. • Obtainment of a sample of individual case files to assess classification and recognition, loss estimation methods and, if applicable, related impairment.

Key audit matter	How our audit addressed the key audit matter
	The result of the procedures described shows that the models and methodologies used to calculate the impairment of financial assets at amortized cost are adequate, considering at the current date the high level of uncertainty in the current crisis situation caused by the Covid-19 and any difference obtained as a result of our procedures has been kept within a reasonable range in relation to the amount of impairment corrections of these assets included in the accompanying condensed consolidated interim financial statements.
Assessment of indications and testing of goodwill impairment The Group estimates annually the recoverable amount of each cash-generating unit (CGU) to which goodwill has been assigned, mainly using 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, Denmark and Finland). With respect to the condensed interim consolidated financial statements, Group management assessed whether any signs of impairment had arisen since the previous year end that warranted the reassessment of the impairment test, paying particular attention to the impact of COVID-19 on the main cash-generating units. In the case of the Nordic countries cash-generating unit and based on the indications of impairment of that unit, Management estimated the recoverable amount, calculating value-in-use by discounting projected cash flows. Both the assessment of indications of impairment and the determination of the most relevant assumptions used in impairment testing for the Nordic countries, such as the discount rate, results projections and constant growth rates in the long term, require a complex estimate by Management that includes a high degree of judgement. The assumptions made in this process are therefore particularly relevant. See Notes 1.d and 8 to the accompanying condensed interim consolidated financial statements.	Assisted by our valuation experts, we gained an understanding of the processes for assessing indications and testing of goodwill impairment, as well as the internal controls designed and implemented by Group management for those processes. As regards the process for assessing indications of impairment, we conducted tests to contrast Management's assessment, including an analysis of budget monitoring for the main CGUs, verification of assumptions such as growth rates and discount rates, and the impact of departures identified in budgets and in rates that have been used by Group management to draw conclusions on possible indications of impairment. The following procedures were carried out to contrast the impairment recognised in the accompanying condensed interim consolidated financial statements for the Nordic countries unit: • 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 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 and the Management's main estimates are not outside a reasonable range in the context in which the condensed interim consolidated financial statements 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. In this context, it is essential to assess aspects such as the organisation of the Technology and Operations Area of the Group and of the External Partners, 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 new Cybersecurity model.	With the help of our IT systems specialists, our work consisted of assessing and verifying internal control over systems, databases and applications supporting the Group's financial information. To this end, internal control review procedures and substantive tests were carried out on the environment of both the Group and the External Partners, 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 focused on the following aspects: • Assessment of the changes made as part of that plan and of the access control improvements made by the Group. • Verification of the design and operability of the controls put in place by Management. We have no key observations to make in this regard as a result of the above-mentioned procedures.

Emphasis of matters

We draw attention to note 1.c accompanying which states that the said financial statements have been formulated in accordance with International Accounting Standard 34, meaning that they do not have to contain all of the information that is required for a complete set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union. Accordingly, for their adequate comprehension, the accompanying condensed interim consolidated financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2019. The matter does not modify our opinion.

Other information: Interim consolidated management report

Other information comprises only the interim consolidated management report for the six-month period ended June 30, 2020, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the condensed interim consolidated financial statements.

Our audit opinion on the condensed interim consolidated financial statements does not cover the interim consolidated management report. Our responsibility regarding the interim consolidated management report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the interim consolidated management report and the condensed interim consolidated financial statements 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. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the interim 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 in the previous paragraph, the information contained in the interim consolidated management report is consistent with that contained in the condensed interim consolidated financial statements for the six month period ended June 30, 2020, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the condensed interim consolidated financial statements

The Parent company´s Directors are responsible for the preparation of the accompanying condensed interim consolidated financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007, and for such internal control as Directors determine is necessary to enable the preparation of condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim consolidated financial statements, 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 condensed interim consolidated financial statements.

Auditor's responsibilities for the audit of the condensed interim consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the condensed interim consolidated financial statements 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 condensed interim consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the condensed interim consolidated financial statements, 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 condensed interim consolidated financial statements 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 condensed interim consolidated financial statements, including the disclosures.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed interim consolidated financial statements. 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 condensed interim consolidated financial statements 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

Appointment period

The General Shareholders' Meeting on May 28, 2020 appointed us as the Group´s auditors for a one-year period, as from the year ended on December 31, 2020.

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

Services provided

The permitted services, other than audit services, which have been rendered to the Group, are detailed in Note 16 to the accompanying condensed interim consolidated financial statements.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Ignacio Martínez Ortiz (23834)

July 31, 2020

Santander Consumer Finance S.A. and its subsidiaries forming Santander Consumer Group (Consolidated)

Interim Condensed Consolidated
Financial Statements and Interim
Consolidated Management Report
for the six-month period ended 30 June 2020

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2020 AND 31 DECEMBER 2019
(Thousands of euros)

ASSETS	Note	30/06/2020	31/12/2019 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**8,514,799**	**7,828,983**
FINANCIAL ASSETS HELD FOR TRADING	5	**15,642**	**20,141**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**94**	**103**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights			
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	5	**-**	-
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	**953,649**	**953,385**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		-	-
FINANCIAL ASSETS AT AMORTISED COST	5	**99,393,231**	**100,184,450**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*786,289*	*88,243*
HEDGING DERIVATES	16	**129,746**	**59,791**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK		**20,390**	**17,763**
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		**631,335**	**617,663**
Investments in joint ventures		213,638	197,288
Associated entities		417,697	420,375
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		**-**	-
TANGIBLE ASSETS	7	**746,970**	**769,798**
Property, plant and equipment		746,970	769,798
For own-use		*420,873*	*424,294*
Leased out under an operating lease		*326,097*	*345,504*
Investment property		-	-
Of which Leased out under an operating lease		-	-
Memorandum items:acquired in financial lease		*309,600*	*309,265*
INTANGIBLE ASSETS	8	**1,907,675**	**2,227,912**
Goodwill		1,627,640	1,912,858
Other intangible assets		280,035	315,054
TAX ASSETS		**1,010,297**	**1,054,229**
Current tax assets		420,690	412,241
Deferred tax assets		589,607	641,988
OTHER ASSETS		**1,071,849**	**843,113**
Insurance contracts linked to pensions		-	-
Inventories		5,504	4,023
Other		1,066,345	839,090
NON-CURRENT ASSETS HELD FOR SALE	6	**8,942**	**5,872**
TOTAL ASSETS		**114,404,619**	**114,583,203**

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2020.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 JUNE 2020 AND 31 DECEMBER 2019
(Thousands of euros)

LIABILITIES	Note	30/06/2020	31/12/2019 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	9	19,168	21,221
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
Memorandum ítems: subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST	9	97,690,711	97,636,981
Memorandum items: subordinated liabilities		*1,576,241*	*1,377,336*
HEDGING DERIVATES	16	84,724	97,410
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		-	-
PROVISIONS	10	859,597	905,598
Pensions and other post-retirement obligations		*583,216*	*603,472*
Other long term employee benefits		*43,763*	*48,882*
Taxes and other legal contingencies		*27,555*	*80,932*
Contingent liabilities and commitments		*35,451*	*38,928*
Other provisions		*169,612*	*133,384*
TAX LIABILITIES		1,135,343	1,016,222
Current tax liabilities		*281,241*	*250,834*
Deferred tax liabilities		*854,102*	*765,388*
OTHER LIABILITIES		1,489,919	1,662,832
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**101,279,462**	**101,340,264**
SHAREHOLDERS´ EQUITY	11	11,858,696	11,889,059
CAPITAL		5,638,639	5,638,639
Called up paid capital		*5,638,639*	*5,638,639*
Unpaid capital which has been called up		-	-
Memorandum items: uncalled up capital		-	-
SHARE PREMIUM		1,139,990	1,139,990
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		1,050,000	1,050,000
Equity component of the compound financial instrument		-	-
Other equity instruments issued		1,050,000	*1,050,000*
OTHER EQUITY		-	-
ACCUMULATED RETAINED EARNINGS		3,917,055	3,247,679
REVALUATION RESERVES		-	-
OTHER RESERVES		107,529	124,836
(-) OWN SHARES		-	-
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		5,483	1,133,367
(-) INTERIM DIVIDENDS		-	(445,452)
OTHER COMPREHENSIVE INCOME	11	(661,071)	(529,200)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(148,566)	(167,170)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(512,505)	(362,030)
NON-CONTROLLING INTEREST		1,927,532	1,883,080
Other comprehensive income		*(4,106)*	*(929)*
Other elements		*1,931,638*	*1,884,009*
EQUITY (*)		**13,125,157**	**13,242,939**
TOTAL EQUITY AND LIABILITIES		**114,404,619**	**114,583,203**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS			
Loan commitments granted	14	21,832,552	23,523,284
Financial guarantees granted	14	551,456	614,943
Other commitments granted	14	427,868	419,346

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated balance sheet as at 30 June 2020.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2020 AND 2019
(Thousands of euros)

	Note	Incomes / (Expenses)	
		30/06/2020	30/06/2019 (*)
Interest income and other similar income	12	1,995,420	1,956,086
Financial assets at fair value through other comprehensive income		-	-
Financial assets at amortised cost		*1,994,937*	*1,955,947*
Rest of interest expense		*483*	*139*
Interest expense		(261,567)	(256,059)
Net interest income		**1,733,853**	**1,700,027**
Dividend income	12	-	1
Share of results of entities accounted for using the equity method		33,189	44,085
Commission income	12	481,066	566,650
Commission expense		(152,417)	(167,614)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	12	425	160
Gain or losses on financial assets and liabilities held for trading, net	12	458	(1,569)
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	12	-	(6)
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net		-	-
Gain or losses from hedge accounting, net	12	1,289	2,853
Exchange differences, net		(9,917)	(1,324)
Other operating income	12	71,597	61,512
Other operating expenses		(105,868)	(100,537)
Income from assets under insurance and reinsurance contracts		-	-
Expenses from liabilities under insurance and reinsurance contracts		-	-
Gross income		**2,053,675**	**2,104,238**
Administrative expenses		(806,812)	(840,791)
Staff costs		*(398,781)*	*(403,857)*
Other general administrative expenses		*(408,031)*	*(436,934)*
Depreciation and amortisation cost		(79,109)	(79,786)
Provisions or reversal of provisions, net	10	(34,755)	3,751
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	5	(462,683)	(149,240)
Financial assets at fair value through other comprehensive income		*64*	-
Financial assets at amortized cost		*(462,747)*	*(149,240)*
Impairment of investments in subsidiaries, joint ventures and associates, net		-	-
Impairment on non-financial assets, net		(289,555)	(1,228)
Tangible assets	*7*	(1,514)	*(741)*
Intangible assets	*8*	(287,535)	-
Others		*(506)*	*(487)*
Gain or losses on non-financial assets and investments, net	7	(199)	(227)
Negative goodwill recognised in results	2	6,272	-
Gains or losses on non-current assets held for sale not classified as discontinued operations	6	(2,588)	4,292
Profit or loss before tax from continuing operations	12	**384,246**	**1,041,009**
Tax expense or income from continuing operations	12	(254,503)	(305,206)
Profit for the period from continuing operations		**129,743**	**735,803**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**129,743**	**735,803**
Profit attributable to non-controlling interests		*124,260*	*131,258*
Profit attributable to the parent		*5,483*	*604,545*
Earnings per share			
Basic	3	*(0.014)*	*0.3043*
Diluted	3	*(0.014)*	*0.3043*

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2020.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	30/06/2020	30/06/2019 (*)
CONSOLIDATED PROFIT FOR THE PERIOD	**129,743**	**735,803**
OTHER RECOGNISED INCOME AND EXPENSE	**(135,048)**	**(37,160)**
Items that will not be reclassified to profit or loss	**16,171**	**(50,053)**
Actuarial gains and losses on defined benefit pension plans	20,688	(75,213)
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	(30)	(116)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	1,980	2,432
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net	-	-
Cambios del valor razonable de los instrumentos de patrimonio valorados a valor razonable con cambios en otro resultado global (elemento cubierto)	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	-	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	(6,467)	22,844
Items that may be reclassified to profit or loss	**(151,219)**	**12,893**
Hedges of net investments in foreign operations (effective portion)	93,298	(29,261)
Revaluation gains (losses)	*93,298*	*(29,261)*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchanges differences	(222,650)	44,108
Revaluation gains (losses)	*(222,650)*	*44,108*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	(2,644)	(3,264)
Revaluation gains (losses)	*(10,545)*	*(9,661)*
Amounts transferred to income statement	*7,901*	*6,397*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments (items not designated)	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Debt instruments at fair value with changes in other comprehensive income	(47)	268
Revaluation gains (losses)	*25*	*455*
Amounts transferred to income statement	*(72)*	*(187)*
Other reclassifications	-	-
Non-current assets held for sale	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments	(18,633)	1,976
Income tax relating to items that may be reclassified to profit or loss	(543)	(934)
Total recognised income and expenses	**(5,305)**	**698,643**
Attributable to non-controlling interests	*121,083*	*130,265*
Attributable to the parent	*(126,388)*	*568,378*

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2020.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2020

(Thousands of euros)

												Non-Controlling interest		
	Capital	Share premium	Other equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit Attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Other comprehensive income	Others items	Total
Balance as at 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**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance as at 01-01-20 (*)	**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**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,483**	**-**	**(131,871)**	**(3,177)**	**124,260**	**(5,305)**
Other changes in equity	**-**	**-**	**-**	**-**	**669,376**	**-**	**(17,307)**	**-**	**(1,133,367)**	**445,452**	**-**	**-**	**(76,631)**	**(112,477)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(157,856)	(157,856)
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	669,376	-	18,539	-	(1,133,367)	445,452	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	(35,846)	-	-	-	-	-	81,225	45,379
Balance as at 30-06-20	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**3,917,055**	**-**	**107,529**	**-**	**5,483**	**-**	**(661,071)**	**(4,106)**	**1,931,638**	**13,125,157**

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in total equity for the six-month period ended 30 June 2020.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2019
(Thousands of euros)

												Non-Controlling interest		
	Capital	Share premium	Other equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit Attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Other comprehensive income	Others items	Total
Balance as at 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**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance as at 01-01-2019 (*)	**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 expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**604,545**	**-**	**(36,167)**	**(993)**	**131,258**	**698,643**
Other changes in equity	**-**	**-**	**-**	**-**	**580,955**	**-**	**12,998**	**-**	**(1,218,931)**	**-**	**-**	**-**	**(54,475)**	**(679,453)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(601,455)	-	-	-	-	-	-	-	(133,440)	(734,895)
Purchase of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	1,182,410	-	36,521	-	(1,218,931)	-	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	78,965	78,965
Share-based payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others increases or (-) decreases of the equity	-	-	-	-	-	-	(23,523)	-	-	-	-	-	-	(23,523)
Balance as at 30-06-19 (*)	**5,638,639**	**1,139,990**	**1,050,000**	**-**	**3,435,512**	**-**	**156,856**	**-**	**604,545**	**-**	**(499,076)**	**(1,649)**	**1,667,453**	**13,192,270**

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in total equity for the six-month period ended 30 June 2019.

SANTANDER CONSUMER FINANCE GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2020 AND 2019

(Thousands of euros)

	Nota	30/06/2020	30/06/2019 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**1,270,586**	**1,373,878**
Profit for the period		**129,743**	**458,803**
Adjustments made to obtain the cash flows from operating activities		**1,129,128**	**1,001,960**
Depreciation and amortisation cost		79,109	*79,786*
Other adjustments		1,050,019	*922,174*
Net increase/(decrease) in operating assets		**31,856**	**(2,525,440)**
Financial assets held-for-trading		*4,443*	*(7,458)*
Non-trading financial assets mandatorily at fair value through profit or loss		*9*	*86*
Financial assets at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		*1,442*	*(199,625)*
Financial assets at amortized cost		*76,114*	*(2,040,310)*
Other operating assets		*(50,152)*	*(278,133)*
Net increase/(decrease) in operating liabilities		**235,849**	**2,673,307**
Liabilities held-for-trading financial		*(2,053)*	*8,159*
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities at amortised cost		*368,099*	*2,595,348*
Other operating liabilities		*(130,197)*	*69,800*
Income tax recovered/(paid)		**(255,990)**	**(234,752)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**27,135**	**(70,060)**
Payments		**(199,054)**	**(257,970)**
Tangible assets		*(37,804)*	*(142,326)*
Intangible assets		*(62,988)*	*(58,015)*
Investments		-	-
Subsidiaries and other business units		*(98,262)*	*(57,629)*
Non-current assets held for sale and associated liabilities		-	-
Held-to-maturity investments		-	-
Proceeds		**226,189**	**187,910**
Tangible assets		*29,064*	*40,202*
Intangible assets		-	-
Investments		*22*	*52,150*
Subsidiaries and other business units		*196,529*	*69,796*
Non-current assets held for sale and associated liabilities		*574*	*25,762*
Other payments related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**(612,469)**	**(599,785)**
Payments		**(890,869)**	**(799,785)**
Dividends		*(633,407)*	*(601,455)*
Subordinated liabilities		*(19,058)*	*(14,134)*
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		-	-
Other payments related to financing activities		*(238,404)*	*(184,196)*
Proceeds		**278,400**	**200,000**
Subordinated liabilities		*200,000*	*200,000*
Issuance of own equity instruments		-	-
Disposal of own equity instruments		-	-
Other proceeds related to financing activities		78,400	-
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		**564**	**(86)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**685,816**	**703,947**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**7,828,983**	**5,871,676**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**8,514,799**	**6,575,623**
		-	-
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		-	-
Cash		*85,363*	*81,040*
Cash equivalents at central banks		*5,517,812*	*3,858,764*
Other financial assets		*2,911,624*	*2,635,819*
Less: Bank overdrafts refundable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD		**8,514,799**	**6,575,623**
In which: restricted cash		-	-

(*) Presented for comparison purposes only (Note 1.f).

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in total equity for the six-month period ended 30 June 2020.

Santander Consumer Finance, S.A. and Subsidiaries forming Santander Consumer Finance Group

Explanatory notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2020

1. Introduction, basis of presentation of the interim condensed consolidated financial statements 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, which 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.) has a direct and indirect ownership interest in the share capital of the Bank at 30 June 2020 (see Explanatory Note 11). Its activity should be considered in the context of the activity and global strategy of the Santander Group; the Bank carries out significant transactions with Santander Group companies (see Explanatory Note 13). The Bank is not listed and, in both 2019 and the first half of 2020, it carried on most of its direct business activities in Spain.

The Group engages in finance leasing, financing of third-party purchases of consumer goods of any kind, full-service leasing ("renting") and other activities. Additionally, since December 2002, the Bank has been the head of a group of financial institutions which engage mainly in commercial banking, consumer finance, operating and finance leasing, full-service leasing and other activities mainly in Germany, Italy, Austria, Poland, the Netherlands, Norway, Finland, Sweden, France, Portugal, China, Denmark, Belgium and Switzerland.

b) Foreign currency transactions

i. Presentation currency

The Group's presentation currency is the euro. As a result, all balances and transactions denominated in currencies other than the euro are treated as foreign currency transactions for presentation purposes.

ii. Translation of foreign currency into the presentation currency

Transactions denominated in currencies other than the presentation currencies of each Group entity performed by the consolidated entities (including those consolidated using the equity method) are initially recognized by applying the spot exchange rate at the date of the transaction. Subsequently, assets and liabilities denominated in currencies other than the presentation currency are translated into these entities' respective functional currencies (the currency of the principal economic environment in which the consolidated entity operates) using the closing exchange rate, with the exception of:

- Non-monetary items that are measured in terms of historical cost, which are translated into the presentation currency using the exchange rate at the date of the transaction.

- Non-monetary items that are measured at fair value, which are translated using the exchange rates at the date when the fair value was determined.

- The forward purchase and sale of currencies against other currencies other than the euro and of currencies against euros that do not hedge asset or liability positions are translated, as warranted, using the exchange rates established by the forward market as of the reporting date for the corresponding delivery or settlement date.

iii. Translation of functional currencies into euros

The financial statement balances of the consolidated entities (including those consolidated using the equity method) whose functional currency is not the euro are translated into euros as follows:

- Asset and liability balances are translated using the official Spanish spot exchange rate at the end of the reporting period (the closing rate).

- Income and expenses are translated using the average exchange rate for the period for all transactions performed during the period.

- The items comprising equity are translated at historical exchange rates.

iv. Recognition of exchange differences

Exchange differences arising upon the translation, using the criteria outlined above, of foreign currency balances into the presentation currency of each Group entity are recognized, generally, at their net amount within “Exchange differences-net” in the condensed consolidated income statement, with the exception of any exchange differences arising in respect of financial instruments classified at fair value through profit and loss, which are recognized in the income statement without differentiating them from the other changes arising in their fair value within “Gain or losses on financial assets and liabilities recognized at fair value through profit and loss, net”.

However, the exchange differences arising on non-monetary items for which changes in their fair value are recognized in “Other accumulated results – Items that can be reclassified to profit and loss – Exchange differences” within equity on the condensed consolidated balance sheet until such gains or losses are realized. Upon realization, the exchange differences deferred in Group equity are reclassified to the condensed consolidated income statement.

Lastly, exchange differences arising upon consolidation from the translation into euros of the financial statements of consolidated entities whose presentation currency is not the euro are recognized with a balancing entry under “Other accumulated results – Items that may be reclassified to profit and loss – Exchange differences” within equity on the consolidated balance sheet.

c) Basis of presentation of the interim condensed consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 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 (“IFRSs”) as previously adopted by the European Union (“EU-IFRSs”). In order to adapt the accounting system of Spanish credit institutions these standards, the Bank of Spain issued Circular 4/2004, of December 22, on Public and Confidential Financial Reporting Rules and Formats, repealed on January 1, 2018 in virtue of the Circular 4/2017, of November 27, 2017 of the Bank of Spain, and its subsequent modifications.
The Group’s consolidated annual accounts for 2019 were authorised by the Bank's directors (at the board of directors meeting on 21 February 2020) in accordance with EU-IFRS, taking into account Bank of Spain Circular 4/2017, and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB-IFRSs), using the basis of consolidation, accounting policies and measurement bases described in Note 2 to the aforementioned consolidated annual accounts and, accordingly, they presented fairly the Group’s consolidated equity and consolidated financial position at 31 December 2019 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in consolidated equity and the consolidated cash flows in 2019.

These interim financial statements were prepared and are presented in accordance with IAS 34, Interim Financial Reporting, for the preparation of interim condensed financial statements, in conformity with Article 12 of Royal Decree 1362/2007, and taking into account the requirements of Circular 3/2018, of June 28, of the Spanish National Securities Market Commission (“CNMV”). The aforementioned financial statements will be incorporated in the half-year financial report for the first semester of 2020 to be presented by the Group, in accordance with the aforementioned Circular 3/2018.

In accordance with IAS 34, the interim financial report is intended only to provide an update on the content of the latest annual consolidated annual accounts authorised for issue, focusing on new activities, events and circumstances occurring during the six-month period, and does not duplicate information previously reported in those latest prepared consolidated annual accounts. Consequently, these interim financial statements do not include all the information that would be required for a complete set of consolidated annual accounts prepared in accordance with IFRSs and, accordingly, for a proper comprehension of the information included in these interim financial statements, they should be read together with the Group’s consolidated annual accounts for the year ended 31 December 2019.

The Santander Consumer Finance Group policies include presenting the interim financial statements for its use in the different markets using the Euro as its presentation currency. The amounts held in other currencies and the balances of entities whose functional currency is not the Euro, have been translated to the presentation currency in accordance with the criteria indicated in Note 2.a to the consolidated annual accounts for 2019. As indicated in that Note, for practical reasons, the balance sheet amount has been converted to the closing exchange rate, the equity to the historical type, and the income and expenses have been converted by applying the average exchange rate of the period; the application of such exchange rate or that corresponding to the date of each transaction does not lead to significant differences in the interim financial statements of the Group.

The accounting policies and methods used in the preparation of these consolidated interim financial statements are the same as those applied in the consolidated financial statements for 2019, except for the standards that came into force during the first six months of 2020, which are detailed below:

- Modification of IFRS conceptual framework: The IFRS Framework, which sets out the fundamental concepts of financial reporting, is amended. The revised Framework includes: a new chapter about measurement; guidance on financial reporting; improved definitions, in particular the definition of liabilities; and clarifications such as management functions, prudence and measurement uncertainty in financial reporting.

- Modification of IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

- Modification of IFRS 3 Business combinations - amendments are introduced. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments are mainly due to: clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

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

  All accounting policies and measurement bases with a material effect on the interim financial statements for 30 June 2020 were applied in their preparation.

  By the time of the preparation and authorisation of these interim financial statements, there was the following standard to be adopted by the European Union whose effective date of implementation by the IASB is 1 January 2020.

- Modification of IFRS 16 Leases - amendments are introduced. The amendment provides a practical expedient that permits leases not to assess whether rent concessions that occur as a direct consequence of the covid-19 pandemic and meet specific conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

  No significant effects on the Group's interim financial statements are expected from the future application of the aforementioned amendments to the accounting standard.

d) Use of estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the Directors of the Bank in preparing the interim financial statements. The main accounting policies and measurement bases are set forth in Note 2 to the consolidated financial statements for 2019, with the exception of those identified in these interim financial statements on the occasion of the regulations that have entered into force during the first semester of 2020.

In the interim 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. The income tax expense, which is recognised in interim periods based on the best estimate of the weighted average tax rate expected by the Group for the full financial year;
2. The impairment losses on certain assets – Financial assets at fair value through other comprehensive income, financial assets at amortized cost, non-current assets held for sale, investments in subsidiaries, joint ventures and associates, tangible assets and intangible assets;
3. The assumptions used in the calculation of the post-employment benefit liabilities and commitments and other obligations;
4. The useful life of the tangible and intangible assets;
5. The measurement of goodwill arising on consolidation;
6. The calculation of provisions and the consideration of contingent liabilities;
7. The fair value of certain unquoted assets and liabilities;
8. The recoverability of deferred tax assets; and
9. The fair value of the identified assets acquired and liabilities assumed in business combinations according to IFRS3.

To update the above estimates, the Group's management has considered that since March 2020, COVID-19, a new strain of Coronavirus, has spread to many countries, including Spain. This event has resulted the viral outbreak to be classified as a pandemic by the World Health Organization, which significantly affects economic activity worldwide and, as a result, the Group's operations and financial results. While there has been a worsening of the macroeconomic outlook to date, the extent to which COVID-19 will ultimately impact the Group's results will depend on future developments, including actions to contain or treat the disease and mitigate its impact on the economies of the affected countries, which generate uncertainties in the Group's estimates. For this reason, the Group's management has assessed the current situation according to the best information available, then developing the potential impacts of COVID-19 on the estimates made during the first six months ended 30 June 2020. From the results of this evaluation, the following aspects stand out:

- Impairment losses: The speed with which events have evolved has required the authorities to take immediate and extraordinary measures worldwide to help mitigate the spread of COVID-19. These measures, which include travel restrictions, quarantines in certain areas and forced closures for certain types of public places and businesses, are adversely affecting levels of economic activity in the main geographies where the Group operates. This pandemic has generated an unexpected, unpredictable and unprecedented crisis. In turn, these events have generated a high degree of uncertainty that may adversely affect consumer and business confidence. The accounting standard (IFRS 9) requires that forecasts of future macroeconomic conditions be considered when estimating provisions for expected losses. Accordingly, since certain assumptions implemented in the Group's current expected loss models are not updated in line with the current environment of uncertainty given the suddenness of the event, Group management carried out a process during the first six months of 2020 to update these estimates taking into account the recommendations of regulatory and supervisory bodies, including the International Accounting Standards Board (IASB), the European Central Bank (ECB), the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), among others. In the IASB statement of 27 March 2020 on the application of IFRS9 in the current situation of uncertainty resulting from the COVID-19 pandemic, the IASB indicated that the expected loss calculation methodology should not be applied mechanically. In addition, he indicated that entities are required to develop estimates based on the best available information on past events, current conditions and forecasted economic conditions. Regarding the forecast of economic conditions, he established that both the effects of COVID-19 and the mitigating support measures being carried out must be considered.
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The ECB, in its communication of 1 April 2020, and in line with the accounting rule, establishes the use of forecasts that avoid pro-cyclical assumptions in the face of the high volatility of forward scenarios and establishes the use of long-term macroeconomic forecasts. As indicated by the regulatory bodies, the current environment of uncertainty makes it necessary to apply significant judgements in estimating the potential impacts on the Group's loan loss provisions.

These potential impacts will depend partly on future developments that cannot be predicted at present and include public and/or private actions to contain the health crisis. Impacts will also depend on support measures from governments, central banks and financial institutions, such as moratoria, guarantees and the availability of credit. Although the health crisis is having an impact on the Group's different geographies, it is of varying intensity and possibly of varying duration. In addition, the support measures that the public and private sectors are promoting to tackle the crisis also vary in different geographies. That said, the complexity of reasonably estimating the Group's expected losses increases given the possibility that in some geographies the exit from the economic crisis will be slower than estimated. The Group has implemented its business continuity plans in all units, with the aim of ensuring the proper functioning of all our activities, as well as providing the necessary support to our customers. In order to address and monitor the possible effects of the current situation, the Group has implemented the specific additional governance envisaged, including crisis management committees, which address, among others, the following issues:

- Assessment of all risk factors and identification of focal points
- Analysis of the potential impact on all the units in which the Group operates, through continuous monitoring and scenario analysis
- Analysis and implementation of the various economic mitigation measures adopted by governments and central banks, as well as those designed internally by the Group.

Ongoing monitoring and reporting of the main risk indicators to the Board and senior management is key to facilitating the decision-making process. Despite the fact that the situation of COVID-19 has profoundly altered the normal functioning of the financial markets and global economic activity, especially since the last weeks of March, the Group has maintained the positive trend in terms of credit quality in the first six months of 2020, supported by the positive evolution of the NPL ratio, an adequate coverage ratio and a stable cost of credit.

As mentioned above regarding the high degree of uncertainty, and given that the effects related to the COVID-19 situation have not yet materialized in the risk indicators and expected loss models that estimate the loan loss provisions for the first six months of 2020, the Group's management, in compliance with accounting standards, has decided to continue with the implementation of the new model, has updated its accounting estimates by qualitatively adjusting the expected loss models to incorporate information that reflects the prospective macroeconomic environment, which includes the future effects of changes in variables to which the models are sensitive (such as gross domestic product, unemployment, housing prices, interest rates, exchange rates, etc.), in the Group's loan loss provisions and has recorded in the first six months of 2020 an additional provision (post-model adjustment) for impairment of financial assets at amortized cost of 160,000 thousands of euros due to the effect of the COVID-19 pandemic. At 30 June 2020, the balance of the provisions covering the impairment losses on the assets comprising the balance of the heading "Financial assets at amortized cost" amounted to 2,178,645 thousands of euros.

In estimating this allocation, the Group has followed the recommendations of the supervisory and regulatory bodies mentioned above, giving greater weight to medium- and long-term projections to avoid the undesired effects of volatility and procyclicality. These medium- and long-term macroeconomic forecasts include different scenarios for economic recovery both in terms of the recovery of activity prior to the pandemic (complete or incomplete recovery) and the time period in which this recovery takes place (periods of between 1 and 3 years).

Under this approach, the Group has assessed the sensitivity of its portfolios to medium- and long-term macroeconomic forecasts in various scenarios, also considering the public and private support measures being implemented in the various geographical areas in which it operates. Thus, the Group's management has developed, giving it greater weight, a scenario of economic recovery in the short term, but reflecting the permanent impact of the COVID-19 situation in the medium term. In addition, another scenario has been established, giving it less weighted weight, which reflects a potential additional impact as it is a slower economic recovery.

These scenarios, which are consistent with the current market consensus, have been constructed under a situation of high uncertainty given the multitude of unknowns in the different geographies where the Group operates. The current environment of uncertainty includes health issues and other economic, fiscal and monetary policy issues that may be taken up and developed in the future. This qualitative approach, as well as the respective scenarios and weightings, are documented and approved in the risk management process and in accordance with the governance established by the Group.

Given the current uncertainty and the evolution of the COVID-19 situation in the main geographical areas where the Group operates, Group management will review these estimates in future periods and determine whether additional adjustments are required to update them with new internal or external information that is available and reliable. The outcome of the pandemic is uncertain and it isnot known how long the adverse conditions associated with it will last and what the final impact on the Group will be. It is possible that the estimates made to calculate the provisions for bad debts during the first six months of 2020 may be materially impacted in the short term and require additional provisions during the current year.

Significant increase in credit risk

As a result of the COVID-19 situation, the Group has implemented certain measures voluntarily, or in accordance with local regulatory requirements, in several of the different geographical areas in which it operates. One of the main measures is the moratorium or deferral of payments on certain mortgage and personal loans and loans to companies with partial government guarantees. In this context, and in relation to the treatment of the significant increase in credit risk, the Group has carried out an evaluation of the measures announced in the different geographical areas, taking into account available information and in line with the criteria established in its risk management policy. As published by the various supervisors, the existence of a public or private moratorium is not considered to be an automatic significant increase in credit risk. Instead, an assessment must be made as to whether the potential deterioration is due to a temporary situation as a result of the COVID-19 situation or whether it is a permanent situation over the entire life of the transaction. At the close of June 30 2020, taking into account the date on which the pandemic spread, the operations were classified according to the Group's parameters and techniques in force prior to COVID-19. Also, as published by the various supervisors, the Group will assess the impact of the potential significant increase in credit risk as a result of the increase in moratoriums granted during the first six months of 2020.

- Liabilities and commitments for post-employment compensation and other obligations: considering the long-term nature of these commitments, the valuation and main hypothesis-setting criteria are maintained for recording and accounting for postemployment and long-term commitments except for Spain, which has updated its estimates with new mortality tables. On the other hand, eligible assets are quantified at market value and the reference discount rate to determine the value of the obligation continues to be the interest rate of corporate bonds with high credit ratings at the accounting reference date consistent with the duration of the obligations, although the high volatility of the spreads corresponding to said bonds in the last days of the first six months has been taken into account.

- Useful life of tangible and intangible assets: based on the type of Group's assets, there have been no significant changes in the estimates of useful life made at the end of 2019 due to COVID-19.

- Goodwill: The accounting standard (IAS 36) requires that a cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the goodwill may be impaired. The Group's impairment test in respect of goodwill allocated to each CGU is performed annually. Nevertheless, a review for indicators of impairment is undertaken at each quarter-end. Having considered the reasons explained below, an interim impairment test has been performed at 30 June 2020 for the Nordics (Scandinavia) CGU. The standard establishes a minimum of indicators in assessing whether there is any indication, so even though there is still high uncertainty about how the crisis is going to impact the economies of some of our subsidiaries, the Group considers the circumstances described below as indications of impairment:

- Current changes in the economic environment where a decrease of the GDP is expected in most countries and its recovery will take 2 or 3 years. The evolution forecasted by the different national and international organisms for 2020 magnitudes such as GDP, unemployment rate, credit portfolios growth, etc. are negative and the recovery of these economies, will be less steep and at a slower pace than its fall.
- The uncertainty in the macroeconomic situation also causes higher expected returns, and market premiums increase significantly. As a result of the higher cost of capital, the discount rates applied to the cash flows are higher (rates reflect the risk associated to the current environment), which result in a lower value in use.
- Additionally, the Group is already observing budget deviations in some of the subsidiaries due to the current macroeconomic outlook, which also negatively affect the future cash flows.

Considering these trigger events, as of 30 June 2020 the Group has performed its impairment test on Nordics CGU (Scandinavia) CGU. In relation with goodwill assessment (i.e. a potential reduction in its recoverable value to below its carrying amount), during the first six months of 2020 the Group recognised goodwill impairment losses amounting to 276,681 thousands of euros under the heading Impairment on nonfinancial assets, net - Intangible assets of the condensed consolidated income statement (see Note 8.a).

- Provisions and contingent liabilities: the Group's management, after its analysis, has concluded that there have been no significant changes in the estimates made at the end of the 2019 fiscal year in relation to the probability of the obligations that the Group has to meet at 30 June 2020 due to the situation produced to date by COVID-19.

- Market risk: the impact on the financial markets of the events relating to COVID-19 was significantly reduced in the second quarter of 2020, returning to conditions which, although not exempt from a certain degree of volatility, were largely normalised.

  During the last weeks of the first quarter the stock markets suffered considerable falls, government bond yields reached record lows, volatilities increased in all risk factors and credit spreads widened considerably. In addition, there was a decrease in liquidity, a widening of bid-offer spreads on some instruments and a certain loss of convergence between the different price contributors. During the second quarter, following the progressive reactivation of economic activity worldwide and the measures adopted by most central banks and financial regulators at global level, market conditions have been normalising. Most assets have recovered much of their accumulated losses, liquidity has recovered and volatility has decreased in most markets and maturities from previous highs. There is currently no significant reduction in the depth of the price sources used for the valuation of financial instruments, although there is still some widening of the price ranges and some dispersion among the various contributors.

  The initial sharp price falls that led to lower valuations of some financial assets, especially those linked to credit and equity risk, were substantially reversed in the second quarter. This certain normalization of market conditions in the last quarter has meant that no significant worsening of the observable conditions in the inputs used for valuing the financial instruments in the portfolio has been detected, nor has there been less access to price contributors and real market operations. As a result, considering the composition of the Group's portfolios, the impact on the fair value hierarchy has been reduced and most markets, underlyings and terms have maintained their classification, in accordance with our observability and significance criteria.

Given the low complexity as a general rule of our portfolios, and despite certain increases in valuation adjustments to adequately reflect their fair value in a still volatile environment, there have been no significant reclassifications between levels.

Strict/exhaustive control continues to be exercised over the performance of the markets, their liquidity and the conditions under which valuation inputs can be observed, with a view to applying the criteria established in the Group for the levelling of assets and liabilities measured at fair value. In the event of a further deterioration in market conditions and if this were to continue over time, the potential future impact on the current classification of our financial instruments measured at fair value would be assessed.

- Deferred tax assets: with respect to the main countries in which the Group has recognised deferred tax assets, the Group has estimated the recovery period for these assets taking into account the impact of COVID-19. Due to the different tax nature of the projected income and its potential effect in relation to the generation of taxable income in the coming years by some of the units in Spain, the Group has recognised tax credits amounting to 48,792 thousands of euros. In the remaining units, no further impact was recognised to the extent that the economic environment is expected to recover in the medium term to the levels prevailing prior to this event. In any case, it is important to note that, under the current legislation of these countries, tax credits for tax losses or other temporary differences do not have a statute-of-limitations date and, therefore, an increase in the recovery period would not necessarily require a write-down of these tax credits.

During the first six months ended 30 June 2020, there have been no additional significant changes in the estimates made at the end of 2019, other than those indicated in this interim financial information.

Although these estimates were made on the basis of the best information available at the date of these consolidated abridged interim financial statements, it could be that events that take place in the future might make it necessary to modify them, upwards or downwards in the coming periods, which, if necessary, would be done in accordance with the provisions of the applicable regulations in a prospective manner, recognising the changes in estimates that, if necessary, might occur in the corresponding future income statement for the periods affected.

e) Contingent assets and liabilities

Note 2-n to the Group's consolidated financial statements for the year ended 31 December 2019 includes information on the contingent assets and liabilities at that date. There were no significant changes in the Group's contingent assets and liabilities from 31 December 2019 to the date of formal preparation of these interim financial statements. During the six-month period ended 30 June 2020 there were no significant changes in the Group's contingent liabilities.

The Group did not have any material contingent assets as of 20 June 2020 or 31 December 2019.

f) Comparative information

The information for the year 2019 contained in these interim financial statements is only presented for comparison purposes with the information relating to the six-month period ended 30 June 2020.
In order to interpret the changes in the balances with respect to 31 December 2019, it is necessary to take into consideration the exchange rate effect arising from the volume of foreign currency balances held by the Group in view of its geographic diversity (see Note 45.a to the consolidated financial statements for the year ended 31 December 2019) and the impact of the appreciation/depreciation of the various currencies against the euro in the first six months of 2020, considering the exchange rates at the end of the first half of 2020: Polish zloty (-4.4%), Norwegian krone (-9.9%), Swedish krona (-0.1%), Danish krone (+0.2%), Swiss franc (+1.8%) and Chinese yuan renminbi (-1.7%); as well as the evolution of average exchange rates between comparable periods: Polish zloty (-2.6%), Norwegian krone (-8.7%), Swedish krona (-0.7%), Danish krone (+0.2%), Swiss franc (+4.3%) and Chinese yuan renminbi (-0.2%).

g) Seasonality of the Group’s transactions

In view of the business activities in which the Group companies engage, their transactions are not significantly cyclical or seasonal in nature. Therefore, no specific disclosures are included in these explanatory notes to the interim condensed consolidated financial statements for the six-month period ended 30 June 2020.

h) Materiality

In determining the note disclosures to be made on the various items composing the financial statements or other matters, the Bank's Directors and, accordingly, those of the Group, in accordance with IAS 34, took into account the materiality of each item with respect to the interim condensed consolidated financial statements corresponding to six-month period ended 30 June 2020.

i) Events after the reporting period

On 15 and 16 July 2020, Hyundai Capital Bank Europe, GmbH (a company 51% owned by Santander Consumer Bank AG) acquired 92.07% of the Sixt Leasing SE Group, represented by 18,976,123 shares with a par value of 1 euro. The total investment amounted to 341,570,214 euros. The acquisition process has taken place:

- Acquisition of 8,644,638 shares amounting 41.94% of Sixt Leasing SE from Sixt SE for an amount of 155.6 million of euros.

- Acquisition of 10,331,485 shares amounting 50.13% of Sixt Leasing SE through a public share offer for a total amount of 186.0 million of euros.

The Sixt Leasing SE Group consists of the parent company Sixt Leasing SE and 13 subsidiaries (one of which is a securitization company) listed on the Frankfurt stock exchange, although it continues to be listed due to its minority shareholding. The activity of this Group consists of the provision of integrated mobility services with 3 main lines of business

- *Fleet leasing*: this consists of the leasing of complete services, as well as the management of fleets for companies with a fleet of 20 vehicles or more. Companies can outsource their entire fleet management to the specialist service provider, Sixt Leasing, and thus fully focus on their core competencies.

- *Fleet management (through subsidiaries):* in general, fleets of more than 300 vehicles along with consulting services for optimization.

- *Online sales:* Online retailing of leasing solutions for private and commercial customers by bundling dealer offers for all common brands on one website.

To carry out this acquisition, the shareholders of Hyundai Capital Bank Europe GmbH have agreed and paid in full prior to the purchase and in July, a capital increase of 342,670,214 euros having been subscribed in accordance with their percentages of participation in the company:

- Santander Consumer Bank AG (51%): 174,761,809 euros

- Hyundai Capital Services Inc (49%): 167,908,405 euros

There have been no significant events other than those indicated above from July 1, 2020 to the date of preparation of these consolidated abridged interim financial statements.

j) Individual disclosures relating to Santander Consumer Finance, S.A.

The individual disclosures relating to Santander Consumer Finance, S.A. (the Parent of the Group) which were considered relevant for the purposes of the proper comprehension of the half-yearly condensed consolidated financial information were included in the related explanatory notes.

k) Condensed consolidated statements of cash flows

The following terms are used in the condensed 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.
- The Group classifies as cash and cash equivalents the balances recognized under Cash, cash and balances with central banks and other deposits on demand in the condensed consolidated balance sheet.
- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.
- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

l) Other events

As 30 June 2020 and the date of draw-down of the interim condensed consolidated financial statements, there have been no additional significant events which could have an impact on the financial situation of the Group.

2. Santander Consumer Finance Group

Appendices I and II to the Group's consolidated financial statements for 2019 provide relevant information on the Group companies that consolidated at 2019 year-end and on those accounted for using the equity method.

Likewise, Note 3 to the aforementioned consolidated financial statements includes a description of the most significant acquisitions and disposals of companies performed by the Group in 2019 and 2018.

The most significant acquisitions and sales during the first half of 2020 and 2019 of holdings in the capital of Group companies, as well as other relevant corporate transactions that have modified the scope of consolidation of the Group during these periods, were as follows:

First semester of 2020

Forso Nordic Group

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 two branches in Denmark and Norway and a subsidiary in Finland, Forso Finance OY. The main purpose of this group is the financing of Ford branded cars as well as other related services in the Nordic countries.
The above mentioned purchase operation, after obtaining the authorization from the European and local authorities, was executed on February 28, 2020, date of the takeover of the participation. Other documents were also signed on the same date, including the execution of a white-label agreement for exclusive financing in each of the four Nordic countries.

On February 28, 2020, the parties signed the share transfer agreement whereby Santander Consumer Bank AS acquired 100% of the stake in Forso Nordic AB, whose share capital was 92.4 million of euros, fully paid and represented by 8,405,575 shares with a par value of 10.99 euros, for an initial total of 98.4 million of euros. The acquisition was made as follows:

- Acquisition from FCSH, GmbH of its entire share capital, consisting of 4,202,788 shares, for 49.2 millions of euros
- Acquisition from Saracen HoldCo AB of its entire shareholding consisting of 4,202,787 shares for 49.2 million euros.

The details of the business acquired are therefore as follows:

Business acquired	Main activity	Acquisition date	Ownership percentage (voting rights) acquired	Consideration transferred (millions of euros)
Forso Nordic AB Group	Financing of cars, together with other services related thereto.	28/02/2020	100%	98.4

The details of the net assets of the business acquired are as follows:

	Carrying amount (millions of euros)
Loans and advances	1,075.3
Non-current assets	2.5
Current assets	166.8
Financial liabilities measured at amortised cost	(1,107.7)
Current and non-current liabilities	(25,2)
Provisions	(8,0)
Net assets	**103.7**
Consideration transferred	98.4
Badwill	**5.3**

The business of Forso Nordic AB Group is the financing of Ford cars (end customer and dealers) as well as other related services through obtaining funds via loans. This business combination aims to expand Santander Consumer Finance Group's presence in the market for consumer loans for the purchase of vehicles in Nordic countries.

At the date of issue of these consolidated abridged interim financial statements, the business combination was still provisionally recognised, since in accordance with IFRS 3 there is one year to study the allocation of the price to the net assets acquired.

At the date of issue of these consolidated abridged interim financial statements, the first adjustment to price (included in the purchase and sale agreement) following the acquisition is pending. Also, as part of the purchase agreement, during the first year there is a process of true-up of the provisions of the wholesale portfolio, whose maximum impact may be that Santander Consumer Bank AS has to pay an additional 1.2 million of euros to the seller.

The fair value of the accounts receivable acquired, mainly of a financial nature, amounts to 1,075.3 million of euros 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 30 June 2020, this company contributed a profit of 8.8 million of euros to the consolidated Group's profit (including the recording of badwill of 5.3 million of euros). If the aforementioned transaction had taken place on 1 January 2020, the results contributed at 30 June 2020 would have been approximately 10.6 million of euros (including the badwill register).

Net cash flow from the acquisition:

	Millions of euros
Cash paid	98.4
Less: cash and cash equivalents (*)	(196.5)
Total	**(98.1)**

In February 2020 and prior to the aforementioned acquisition, a capital increase of 2,000 millions of NOK (equivalent to 192.5 thousands of euros) was agreed and paid in at Santander Consumer Bank AS by its shareholder Santander Consumer Finance, S.A. The purpose of the increase was to cover increased capital requirements and to carry out the acquisition of the Forso Group.

Also, on 20 April 2020, the respective Boards of Directors of Santander Consumer Bank AS and Forso Nordic AB approved the merger by absorption plan. On May 8 2020, the Norwegian Financial Supervisory Authority approved the merger. Once the merger is approved by the Company's Shareholders' Meeting and the deadlines for non-opposition by creditors are met, it is expected that the above-mentioned merger can take place on September 1 2020.

On May 29 2020, the respective Boards of Directors of Santander Consumer Finance OY (100% Finnish subsidiary of Santander Consumer Bank AS) and Forso Finance OY (100% Finnish subsidiary of Forso Nordic AB) approved the merger plan by absorption. This merger is not subject to any conditions. It is expected that the above-mentioned merger can be completed by October 1 2020.

TIM-SCB JV S.p.A

On February 17 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 stakes 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 (the company was created on 19 February 2020) 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 exclusivity agreement will reside in the joint venture.

PSA Finance Suisse, S.A.

On June 30, 2020, Santander Consumer EFC, S.A. (a company wholly owned by Santander Consumer Finance, S.A.) acquired all the shares of PSA Finance Suisse, S.A., a company hitherto wholly owned by PSA Financial Services Spain EFC, S.A. Through this acquisition, the Consumer Group will have a 50% stake in PSA Finance Suisse, S.A.

This acquisition was made by acquiring 17,000 shares of CHF 1,000 par value each. The acquisition price was defined as the company's net book value under international accounting standards (IFRS) at the acquisition date, which was estimated at 62,325 thousands Swiss francs (equivalent to 58,516 thousands of euros). The purchase agreement includes a price adjustment mechanism once the net book value under IFRS of the actual company at the acquisition date is obtained.

The details of the business acquired are therefore as follows:

Business acquired	**Main activity**	**Acquisition date**	**Ownership percentage (voting rights) acquired**	**Consideration transferred (millions of euros)**
PSA Finance Suisse, S.A.	Financing of cars, together with other services related thereto.	30/06/2020	100%	58.5

The details of the net assets of the business acquired are as follows:

	Carrying amount (millions of euros)
Loans and advances	450.9
Non-current assets	0.6
Current assets	18.9
Financial liabilities measured at amortised cost	(362.8)
Current and non-current liabilities	(49.1)
Net assets	**58,5**
Consideration transferred	58,5

The business of PSA Finance Suisse, S.A. is the financing of Peugeot and Citröen cars (end customer and dealers) as well as other related services through the obtaining of funds via loans. This business combination is aimed at increasing Santander Consumer Finance Group's presence in the market for consumer loans for the purchase of vehicles in Switzerland.

Hyundai Capital Bank Europe, GmbH

In February 2020, the shareholders of Hyundai Capital Bank Europe GmbH agreed to and fully paid up a capital increase of 160,000 thousands of euros with the aim of maintaining regulatory capital ratios taking into account the increase in the portfolio, having been subscribed in accordance with their percentages of ownership in the company:

- Santander Consumer Bank AG (51%): 81,600 thousands of euros

- Hyundai Capital Services Inc (49%): 78,400 thousands of euros

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

2019 Year - End:

Autodescuento S.L.

On 23 December 2019, Andaluza de Inversiones, S.A. acquired an ownership interest of 93.89% in Autodescuento S.L., for a total of 18,449 thousands of 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.

Autodescuento, S.L., located in Spain, has as its corporate purpose the purchase, sale, operation, import and export of all types of vehicles and machinery, including industrial, new and semi-new, including recreational and professional boats, either by telephone or via the Internet.

The details of the business acquired are therefore as follows:

Business acquired	Main activity	Acquisition date	Ownership percentage (voting rights) acquired	Consideration transferred (millions of euros)
Autodescuento S.L.	Financing of cars, together with other services related thereto.	23/12/2019	93.89%	18.5

The details of the net assets of the business acquired are as follows:

	Carrying amount (millions of euros)
Loans and advances	0.538
Non-current assets	0.316
Current assets	0.846
Current and non-current liabilities	(0.561)
Net assets	**1.139**
Consideration transferred	18.449
Goodwill	**17.310**

Net cash flow from the acquisition:

	Carrying amount (millions of euros)
Cash paid	18.449
Less: cash and cash equivalents	(0.810)
Total	**17.639**

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 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 proven.

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 January 31 2019, increased the company's reserves by 44.1 million euros, with the commitment by Santander Consumer Bank AG to contribute 45.9 million euros, once it is a shareholder of the company.

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

On March 28 2019, and after obtaining the corresponding regulatory authorizations (European and local), the parties signed the share transfer agreement under which Santander Consumer Bank AG acquired 51% of the share capital of Hyundai Capital Bank Europe, GmbH, whose capital was 11.3 million euros, fully paid up and represented by 11,257,892 shares with a par value of 1 euro each, through the acquisition of 5,741,525 shares with a par value of 1 euro each, all with voting rights, for a total amount of 57.6 million euros. 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 of 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 of euros.
- Acquisition from Hyundai Capital Services Inc. of 1,801,263 shares for the amount of 18.0 million of euros.

The details of the business acquired are therefore as follows:

Business acquired	**Main activity**	**Acquisition date**	**Ownership percentage (voting rights) acquired**	**Consideration transferred (millions of euros)**
Hyundai Capital Bank Europe, GmbH	Financing of cars, together with other services related thereto.	28/03/2019	51%	57.6

The details of the net assets of the business acquired are as follows:

	Carrying amount (millions of euros)
Loans and advances	649.4
Non-current assets	12.3
Current assets	108.4
Financial liabilities measured at amortised cost	(560.3)
Current and non-current liabilities	(91.5)
Net assets	**118,0**
Increase of capital	(44,1)
Total Net Assets	**73.9**
Minority interests	(36.5)
Consideration Transferred	57.6
Goodwill	**20.2**

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.

The fair value of the receivables acquired, mainly of a financial nature, amounted to 649.1 millions of euros and did 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 9.4 millions of euros 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 10.6 millions of euros.

Net cash flow from the acquisition:

	Carrying amount (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 millions of 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 increased its committed reserves by 45.9 millions of euros.

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

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

Impairments of investments in subsidiaries, joint ventures and associates

As at 30 June 2020 and 2019, there has not been registered impairments based on the value of investments in subsidiaries and affiliates.

3. Dividends paid by the Bank and Earnings per share

a) Dividends paid by the Bank

In the first semester of fiscal year 2020, the Bank's Board of Directors did not agree on any distribution of interim dividends of the result of fiscal year 2020.

On 18 January 2019, the Bank's Board of Directors approved an interim dividend from profits for the year 2019 of 501,839 thousands of euros, paid on 6 February 2020. In addition, on February 28, 2019, the Bank's Board of Directors approved a dividend charged to voluntary reserves for an amount of 99,616 thousands of euros, which has been paid on March 5, 2020.

The Bank's Shareholders' Meeting, at its extraordinary meeting held on December 19, 2019, resolved to distribute a dividend of 633,408 thousands of euros, of which 187,956 thousands of euros were charged to unrestricted reserves and 445,452 thousands of euros were recorded as an interim dividend. 445,452 thousands of euros was recorded as an interim dividend. This dividend was paid on 25 February 2020.

The proposal to apply the Bank's net profit for 2019, which the Board of Directors proposed at its meeting on February 21, 2020 and which was included in Note 4 of the Notes to the Group's consolidated financial statements for 2019, was approved by the Bank's General Shareholders' Meeting on May 28 2020.

The cash remuneration paid by the Bank to its shareholders in the first six months of 2020 and 2019 was as follows:

	First half of 2020			First half of 2019		
	% of par value	Euros per share	Amount (Thousands of euros)	% of par value	Euros per share	Amount (Thousands of euros)
Ordinary shares	100%	0.337	633,408	100%	0.320	601,455
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total remuneration paid	100%	-	633,408	100%	0.320	601,455
Remuneration charged against profit or loss	100%	0.237	445,452	100%	0.267	501,839
Remuneration charged against reserves or the share premium account	100%	0.100	187,956	100%	0.053	99,616
In-kind remuneration	-	-	-	-	-	-

b) *Earning per share*

Basic earnings per share are calculated by dividing the net profit for the period attributable to the Parent by the weighted average number of ordinary shares outstanding during the period, excluding, as the case may be, the average number of treasury shares held in the period.

In calculating diluted earnings per share, the amount of profit attributable to ordinary shareholders and the weighted average number of shares outstanding, net of treasury shares, are adjusted to take into account all the dilutive effects inherent to potential ordinary shares (any share options, warrants and convertible debt instruments that might exist).

Accordingly, the detail of earnings per share at 30 June 2020 and 2019 is as follows:

	30-06-2020	30-06-19
Consolidated profit of the year attributable to the Parent (thousands of euros)	5,483	604,545
Remuneration of contingently convertible preference shares PPC (thousands of euros)	(32,687)	(32,687)
	27,204	571,858
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	-	-
Of which:		
Profit or Loss from discontinued operations (non controlling interest net) (thousands of euros)	-	-
Profit or Loss from continuing operations (PPC net) (thousands of euros)	(27,204)	571,858
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
Diluted earnings per share (euros)	(0.014)	0.3043
Of which:		
from continuing operations (euros)	*(0.014)*	*0.3043*

4. Remuneration and other benefits paid to the Bank’s Directors and senior managers

Note 5 to the Group's consolidated financial statements for the year ended 31 December 2019 includes the detail of the remuneration and other benefits paid to the Bank's Directors and senior managers in 2019.

The most salient data relating to the aforementioned remuneration and benefits for the six-month periods ended 30 June 2020 and 2019 are summarized as follows:

Remuneration paid to the Bank's Directors

The Bank’s Board of directors have received and accrued from Banco Santander, S.A., for the six months ended 30 June 2020 and 2019, the remunerations and benefits summarized below:

	Thousands of euros	
	30-06-20	30-06-19
Members of the Board of Directors:		
Type of remuneration-		
Fixed salary remuneration of executive Directors	2,225	1,988
Variable remuneration in cash of executive Directors	805	728
Directors' Allowances	-	-
Attendance fees of Directors (1)	-	-
Other (except insurance premiums)	-	24
Sub-total	**3,030**	**2,740**
Transactions with shares and/or other financial instruments	**-**	**-**
	3,030	**2,740**

(1) It contains the information on the remuneration paid to all the external directors (independent)

Other benefits of members of the board of directors:

	Thousands of euros	
	30-06-20	30-06-19
Members of the board of directors:		
Other benefits-		
Advances	-	-
Loans granted	-	-
Pension funds and plans: Endowments and/or contributions (1)	366	360
Pension funds and plans: Accumulated rights (2)	3,231	6,494
Life insurance premiums	503	268
Guarantees provided for directors	-	-

(1) These correspond to the endowments and/or contributions made during the first six months of 2020 and 2019 in respect of retirement pensions and complementary benefits for widowhood, orphan hood and permanent disability.

(2) Corresponds to the rights accrued by the directors in matters of pensions.

The total sum insured under life and other insurance policies for the Bank's Directors amounted to 18,733 thousands of euros at 30 June 2020 (30 June 2019: 20,527 thousands of euros). The cost of these insurance policies is assumed by Santander Group entities not included in the Santander Consumer Finance Group.

Remuneration of senior management

The amounts related to remunerations of senior management, at 30 June 2020 and 2019, excluding the executive directors, from other entities of the Santander Group, not integrated into the Santander Consumer Finance Group (neither the Bank nor the companies of the Santander Consumer Finance Group) are summarized below:

	Thousands of euros	
	30-06-20	30-06-19
Senior management (1):		
Total remuneration of senior management (1)	1,599	1,670

(1) The number of senior managers of the Bank, excluding executive directors, is 11 as at 30 June 2020. (10 at 30 June 2019).

The variable annual remuneration (or bonuses) received for fiscal year 2019, both for directors and the rest of senior management, were included in the information on remuneration included in the annual report for that year. Similarly, the variable remuneration attributable to the 2020 results, which will be submitted for approval by the Board of Directors at the appropriate time, will be included in the financial statements for the current year.

Funds and pension plans of senior management

	Thousands of euros	
	30-06-20	30-06-19
Senior management:		
Pension funds: Endowments and / or contributions (1)	249	106

(1) Corresponds to the allocations and/or contributions made during the first six months of 2020 and 2019 as retirement pensions. These contributions have been made by Santander Group entities not integrated in the Santander Consumer Finance Group.

5. Financial assets

a) Breakdown

The detail, by nature and category for measurement purposes, of the Group's financial assets other than the balances of "Cash, Cash Balances with Central Banks and other deposits on demand" and "Hedging Derivatives" as at 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros				
	30-06-20				
	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets designated at fair value through profit and loss	Financial assets designated at fair value through other comprehensive income	Financial assets at amortised cost
Derivatives	15,642	-	-	-	-
Equity instruments	-	94	-	22,047	-
Debt instruments	-	-	-	931,602	2,846,528
Loans and advances	-	-	-	-	96,546,703
Central Banks	-	-	-	-	*13,737*
Credit institutions	-	-	-	-	*1,038,056*
Customers	-	-	-	-	*95,494,910*
Total	**15,642**	**94**	**-**	**953,649**	**99,393,231**

	Thousands of euros				
	31-12-19				
	Non-current assets held for sale	Financial assets measured at fair value through profit or loss	Financial assets available-for-sale financial assets	Financial assets designated at fair value through other comprehensive income	Investments held -to-maturity
Derivatives	20,141	-	-	-	-
Equity instruments	-	103	-	21,709	-
Debt instruments	-	-	-	931,676	1,618,836
Loans and advances	-	-	-	-	98,565,614
Central Banks	-	-	-	-	*2,765*
Credit institutions	-	-	-	-	*264,237*
Customers	-	-	-	-	*98,298,612*
Total	**20,141**	**103**	**-**	**953,385**	**100,184,450**

Hereafter, it is included the gross exposure of financial assets by stages of impairment as of 30 June 2020 and 31 December 2019:

	Thousands of euros							
	30/06/2020				31/12/2019			
	Impairment value correction				Impairment value correction			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income	**931,784**	**-**	**-**	**931,784**	**931,923**	**-**	**-**	**931,923**
Debt instruments	931,784	-	-	931,784	931,923	-	-	931,923
Loans and advances	-	-	-	-	-	-	-	-
Central Banks	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Customers	-	-	-	-	-	-	-	-
Financial assets at amortised cost	**96,179,393**	**3,249,279**	**2,143,204**	**101,571,876**	**96,775,307**	**3,380,942**	**1,969,826**	**102,126,075**
Debt instruments	2,846,557	-	-	2,846,557	1,618,924	-	-	1,618,924
Loans and advances	93,332,836	3,249,279	2,143,204	98,725,319	95,156,383	3,380,942	1,969,826	100,507,151
Central Banks	13,737	-	-	13,737	2,765	-	-	2,765
Credit institutions	1,040,606	16	46	1,040,668	267,323	35	27	267,385
Customers	92,278,493	3,249,263	2,143,158	97,670,914	94,886,295	3,380,907	1,969,799	100,237,001
Total	**97,111,177**	**3,249,279**	**2,143,204**	**102,503,660**	**97,707,230**	**3,380,942**	**1,969,826**	**103,057,998**

Additionally, the Group has recorded an amount of 22,811,876 thousands of euros in provision of commitments and financial guarantees granted subject to impairment under IFRS 9 (24,557,573 thousands of euros on 31 December 2019), of which an amount of 22,656,916 thousands of euros are in stage 1 (24,350,163 thousands of euros on 31 December 2019) an amount of 113,498 thousands of euros in stage 2 (164,025 thousands of euros on 31 December 2019) and an amount of 41,462 thousands of euros in stage 3 (43,385 thousands of euros on 31 December 2019).

The gross amount of the insolvency fund for financial assets subject to impairment at 30 June 2020 and 31 December 2019 is included below:

	Thousands of euros							
	30/06/2020				31/12/2019			
	Impairment value correction				Impairment value correction			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value through other comprehensive income	**182**	**-**	**-**	**182**	**247**	**-**	**-**	**247**
Debt instruments	182	-	-	182	247	-	-	247
Loans and advances	-	-	-	-	-	-	-	-
Central Banks	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Customers	-	-	-	-	-	-	-	-
Financial assets at amortised cost	**526.452**	**215.536**	**1.436.657**	**2.178.645**	**415.052**	**222.475**	**1.304.098**	**1.941.625**
Debt instruments	29	-	-	29	88	-	-	88
Loans and advances	526.423	215.536	1.436.657	2.178.616	414.964	222.475	1.304.098	1.941.537
Central Banks	-	-	-	-	-	-	-	-
Credit institutions	2.578	16	18	2.612	3.100	35	13	3.148
Customers	523.845	215.520	1.436.639	2.176.004	411.864	222.440	1.304.085	1.938.389
Total	526.634	215.536	1.436.657	2.178.827	415.299	222.475	1.304.098	1.941.872

b) Valuation adjustments for impairment of loans and advances

The following is the movement that has taken place, during the six-month periods ended 30 June 2020 and 2019, in the balance of provisions that cover losses due to impairment of assets which comprise the heading balance of the financial assets at amortized cost:

	Thousands of euros	
	30-06-19	30-06-18
Balance at beginning of period	1,941,625	1,910,972
Net impairment losses charged to income for the period (*)	514,929	364,837
Of which:		
Impairment charges	*1,102,202*	*786,671*
Impairment losses reversed with a credit to income	*(587,273)*	*(421,834)*
Write-off of impaired balances against recorded impairment allowance	(312,043)	(375,903)
Exchange differences and other	34,134	4,335
Balance at end of period	**2,178,645**	**1,904,241**
Of which:		
Depending of their determination:		
Impaired assets	1,436,657	*1,265,391*
Other assets	741,988	*638,850*
Of which:		
Calculated individually	111,268	*496,327*
Calculated collectively	2,067,377	*1,407,914*

(*) These net impairment losses are recognized under “Impairment or reversal of impairment of financial assets not measured at fair value through profit and loss, net – Financial assets on amortised cost ” in the accompanying half-yearly condensed consolidated income statements.

(**) It includes, solely for the purposes of breakdown and to facilitate the comparability of the information, the adjustments made for credit risk in the estimate of the initial fair value of the financial assets acquired in business combinations and included in this category, made during the six-month period.

Previously written-off assets recovered in the first six months of 2020, including sales of written-off portfolios, amounted to 55,743 thousands of euros (first six months of 2019: 215,597 thousands of euros) and are presented as a credit against the balance of “Impairment or reversal of impairment of financial assets not measured at fair value through profit and loss, net - Financial assets on amortized cost” in the accompanying half-yearly condensed consolidated income statements. In addition, losses of 3,561 thousands of euros were recognised in the income statement as a result of renegotiation or contractual amendments (no amount as of 31 December 2019).

The following movement of the loan loss provision broken down by impairment stage of loans and advances to customers recognised under "Financial assets at amortised cost" as at 30 June 2020 has taken place:

30-06-20	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at beginning of period	**411,864**	**222,440**	**1,304,085**	**1,938,389**
Transfers between stages	(30,630)	(952)	301,535	269,953
Net exposure changes and modifications in the credit risk	125,121	4,821	115,629	245,571
Write-offs	-	-	(312,043)	(312,043)
Exchange differences and other	17,490	(10,789)	27,433	34,134
Carrying amount as of 30 June 2020	**523,845**	**215,520**	**1,436,639**	**2,176,004**

Additionally, the Group has recorded an amount of 35,451 thousands of euros of provisions for commitments and financial guarantees granted subject to impairment under IFRS 9 (Note 10) (38,928 thousands of euros on 31 December 2019), of which an amount of 27,992 thousands of euros are in stage 1 (30,498 thousands of euros on 31 December 2019), an amount of 1,860 thousands of euros in stage 2 (2,121 thousands of euros on 31 December 2019) and an amount of 5,599 thousands of euros in stage 3 (6,309 thousands of euros on 31 December 2019).

In the first half of 2020 and 2019, the Group sold the following portfolios of written-off loans:

Company	Millions of euros	
	30/06/2020	30/06/2019
	Nominal Value	Nominal Value
Santander Consumer Bank S.p.A. (Italy)	-	121
Santander Consumer Finance Benelux B.V. (Netherlands)	7	8
Santander Consumer Bank AS (Norway)	154	218
Santander Consumer Finance Oy (Finland)	-	17
Santander Consumer Bank GmbH (Austria)	-	54
Financiera El Corte Inglés, E.F.C., S.A. (Spain)	-	105
Santander Consumer, E.F.C., S.A. (Spain)	-	7
	161	**530**

The sale price of the portfolios of bad loans realized in the first semester of 2020 was 73.2 million of euros (182 million euros as of 30 June 2019).

c) *Non-performing assets*

The detail of the changes in the six-month periods ended 30 June 2020 and 2019 in the balance of financial assets classified as amortized cost and considered to be doubtful due to credit risk is as follows:

	Thousands of euros	
	30-06-20	30-06-19
Balance as at beginning of period	1,969,826	1,861,544
Net additions	496,853	376,666
Written-off assets	(312,043)	(375,903)
Exchange differences and other	(11,432)	(1,665)
Balance at the end of period	**2,143,204**	**1,860,642**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

d) *Guarantees received*

The following is a breakdown of the guarantees received value for the loans and receivables portfolio to ensure collection of financial assets classified as financial assets at amortized cost – loans and advances, identifying between real guarantees and other guarantees, as of 30 June 30 2020 and 31 December 2019.

	Thousands of euros	
	30-06-20	31-12-19
Real Guarantees value	34,092,111	21,800,414
Of which guarantee doubtful risk	*145,793*	*116,823*
Other guarantees value	230,967	117,505
Of which guarantee doubtful risk	*467*	*534*
Total value of the guarantees received (*)	**34,323,078**	**21,917,919**

(*) Maximum amount of the guarantee that can be considered, not exceeding the gross amount of the debt, except for doubtful risks which will be its fair value.

e) Fair value of financial assets not measured at fair value

Following is a comparison of the carrying amounts of the Group's financial assets measured at other than fair value and their respective fair values at 30 June 2020 and 31 December 2019:

	Thousands of euros		Thousands of euros	
	30-06-20		31-12-19	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances:	96,546,703	98,271,484	98,565,614	99,915,624
Central banks	13,737	13,737	2,765	2,765
Loans and advances to credit institutions	1,038,056	1,058,912	264,237	266,572
Loans and advances to customers	95,494,910	97,198,835	98,298,612	99,646,287
Debt instruments	2,846,528	2,856,455	1,618,836	1,618,777
ASSETS	**99,393,231**	**101,127,939**	**100,184,450**	**101,534,401**

The main valuation methods and inputs used in the estimates of the fair values of the financial assets in the foregoing table are detailed in Note 44.c to the consolidated financial statements for 2019 and Note 16 of these financial statements.

6. Non-current assets held for sale classified elements

The detail, by nature, of the Group's non-current assets held for sale at 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros	
	30-06-20	31-12-19
Tangible assets	**8,942**	**5,872**
Of which:		
Forecolosed assets .	8,110	5,202
Of which property assets in Spain.	*2,740*	3,059
Other assets .	*832*	670

As of June 30 2020, the coverage of non-current assets held for sale amounted 72% (80% in December 2019). The provisions made in June 2020 and June 2019 amounted to 2,528 and 3,868 thousands of euros, respectively, and the recoveries made in those years amounted to 2,022 thousands of euros and 2,397 thousands of euros, respectively.

The following table shows the breakdown at 30 June 2020 and 31 December 2019 of the foreclosed assets for the Spanish business:

Thousands of euros	30-06-2020 Gross carrying amount	30-06-2020 Accumulated impairment charges	31-12-2019 Gross carrying amount	31-12-2019 Accumulates impairment charges
Real estate assets arising from financing provided to construction and property development companies	-	-	-	-
Of which:	-	-	-	-
Completed Buildings	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
Land	-	-	-	-
Development Land	-	-	-	-
Other land	-	-	-	-
Real estate assets from home purchase mortgage loans to households	19,105	16,535	22,051	*19,020*
Other real estate assets foreclosed or received in lieu of debt repayment	1,232	1,062	117	*89*
Total property assets	**20,337**	**17,597**	**22,168**	**19,109**

7. Tangible Assets

a) Changes in the period

In the first six months of 2020, the Group acquired tangible assets for 37,840 thousands of euros (first six months of 2019: 142,326 thousands of euros). Likewise, in the first six months of 2020, tangible asset items were disposed of with a carrying amount of 29,263 thousands of euros (first six months of 2019: 40,429 thousands of euros). In the first semester of 2020 and 2019, those sales generated losses of 199 thousands of euros and 227 thousands of euros, respectively, that are included in “Gain or losses on non-financial assets and investments, net” in the consolidated income statement for the six-month period ended. Additionally, during the first semester of 2020 there was impairment losses of tangible assets for the amount of 1,514 thousands of euros (30 June 2019: 714 thousands of euros euros) that are included in "Impairment of value or reversal or Impairment of the value of non-financial assets - Tangible assets "

b) Property, plant and equipment purchase commitments

At 30 June 2020 and 2019, the Group did not have any significant commitments to purchase property, plant and equipment items.

8. Intangible assets

a) Goodwill

The detail of Intangible Assets - Goodwill at 30 June 2020 and 31 December 2019, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of euros	
	30-06-20	31-12-19
Germany	1,230,326	1,229,708
Austria	98,074	98,074
Nordics (Scandinavia)	210,646	496,273
Netherlands	35,550	35,550
Spain / Portugal	53,044	53,253
	1,627,640	**1,912,858**

As mentioned in Note 1.d., the accounting standard (IAS 36) requires that a cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. In the second semester of 2020, having considered the updated economic and business environment resulting from COVID-19, the current market conditions and the existing economic uncertainty, an interim impairment test was performed as of 30 June 2020 for certain CGUs. As a result, the Group recognised an impairment of goodwill of 276,681 thousands of euro for the Nordics (Scandinavia) SGU. In addition, during the first six months of 2020, goodwill decreased by 8,946 thousands of euro due to exchange differences. Impairment resulted from a combination of factors, including those related to COVID-19, and mainly the updated macroeconomic outlook which caused the Group to project lower earnings in some units but also reduce perpetual growth rate assumptions and increased discount rates used to estimate the value in use of such CGUs. Such impairment was recorded during the first six months of 2020 under the heading Impairment or reversal of impairment on non-financial assets, net -Intangible assets of the consolidated profit and loss account.

The changes in the balance of this heading in the first six months of 2020 and 2019 were as follows :

	Thousands of euros	
	30-06-2020	30-06-2019
Balance at the beginning of the year	1,912,858	1,881,898
Acquisitions	618	21,635
Additions for the year	-	-
Impairment	(276,681)	-
Exchange rate differences and others	(9,155)	(7,891)
Balance at the end of the year	**1,627,640**	**1,895,642**

Following is a detail of the main assumptions which has been taken into account for determine the recoverable amount as of 30 June 2020 of Nordics (Scandinavia) CGU which were valued using the discounted cash flow method and those used in 2019 year-end for comparison purposes:

	30-06-2020			31-12-2019		
	Projected Period	Discount Rate (*)	Growth Rate to Nominal Perpetuity	Projected Period	Discount Rate (*)	Growth Rate to Nominal Perpetuity
Nordics (Scandinavia)	5 years	10.4%	1,60%	5 years	8.6%	2.5%

(*) After-tax discount rate in order to be consistent with the profit projections used.

For other significant CGUs where goodwill is not impaired as of 30 June 2020, the Group performs a sensitivity analysis, given the degree of uncertainty of certain assumptions, using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +50 basis points and the perpetual growth rate by -50 basis points. Such sensitivity analysis was performed for other significant CGUs and considering reasonable changes in these key assumptions the value in use of all the cash-generating units still exceeds their recoverable amount.

Note 14 to the consolidated annual accounts for the year ended 31 December 2019 includes detailed information on the procedures followed by the Group to analyse the potential impairment of the goodwill recognised with respect to its recoverable amount and to recognise the related impairment losses, where appropriate.

b) Other intangible assets

In the first half of 2020, impairment losses due to obsolescence of intangible assets have been recognized amounting to 10,851 thousands of euros. These losses are recognized under "Impairment on non-financial assets, net – Intangible assets" in the condensed consolidated income statement. In the first six months of fiscal year 2019, there were no impairment due to intangible assets.

9. Financial Liabilities

a) Breakdown

The detail, by nature and category for measurement purposes, of the Group's financial liabilities other than the balances of “Hedging Derivatives” in the accompanying condensed consolidated balance sheets at 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros			Thousands of euros		
	30-06-20			31-12-19		
	Financial Liabilities Held for Trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost	Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss	Financial liabilities at amortised cost
Derivatives	19,168	-	-	21,221	-	-
Short Positions	-	-	-	-	-	-
Deposits:	-	-	59,973,545	-	-	57,359,747
Central Banks	-	-	*11,529,697*	-	-	*7,859,636*
Credit institutions	-	-	*12,275,622*	-	-	*12,218,597*
Customer	-	-	*36,168,226*	-	-	*37,281,514*
Debt securities	-	-	36,341,648	-	-	38,276,995
Other financial liabilities	-	-	1,375,518	-	-	2,000,239
Total	**19,168**	**-**	**97,690,711**	**21,221**	**-**	**97,636,981**

b) Information on issues, repurchases or refunds of debt securities issued

The composition of the balance of debt securities issued based on their nature is:

	Thousands of euros	
	30-06-20	31-12-19
Bonds and debentures outstanding	28,779,526	29,728,809
Mortgage notes	450,102	450,084
Promissory notes and other securities	6,911,134	8,098,102
Subordinated bonds	200,886	-
Total debt instruments issued	**36,341,648**	**38,276,995**

The table below contains the outstanding balance of debt securities that had been issued by the Bank or any other entity of the Group, excluding promissory notes as of June 30, 2020 and 2019. Likewise, a detail of the movement experienced during the first six months of 2020 and 2019 is shown:

	Thousands of euros					
	30-06-20					
	Opening balance at 1-01-20	Perimeter	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-2020
Bonds and debentures outstanding	29,728,809	-	4,167,000	(5,081,349)	(34,862)	28,779,526
Total Bonds and debentures outstanding	**29,728,809**	**-**	**4,167,000**	**(5,081,349)**	**(34,862)**	**28,779,526**

	Thousands of euros					
	30-06-19					
	Opening balance at 1-01-19	Perimeter	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-2019
Bonds and debentures outstanding	25,339,466	-	6,476,467	(3,887,289)	26,959	27,955,603
Total bonds and debentures outstanding	25,339,466	-	6,476,467	(3,887,289)	26,959	27,955,603

c) Other issues guaranteed by the Group

As of June 30, 2020 and 2019, there were no debt securities issued by associated entities or by third parties (outside the Group) that were guaranteed by the Bank or by any other entity of the Group.

d) Fair value of financial liabilities not measured at fair value

Following is a comparison of the carrying amounts of the Group's financial liabilities measured at other than fair value and their respective fair values at 30 June 2020 and 31 December 2019:

	Thousands of euros			
	30-06-20		31-12-19	
	Carrying amount	Fair value	Carrying amount	Fair value
Short positions				
Deposits:	59,973,545	59,945,585	57,359,747	57,526,644
Central Banks	11,529,697	11,430,301	7,859,636	7,863,623
Credit institutions	12,275,622	12,254,525	12,218,597	12,250,661
Customer	36,168,226	36,260,759	37,281,514	37,412,360
Debt instruments	36,341,648	36,185,622	38,276,995	38,674,940
Liabilities	**96,315,193**	**96,131,207**	**95,636,742**	**96,201,584**

Other financial liabilities amounting to 1,375,518 thousands of euros and 2,000,239 thousands of euros are also recognized in June 2020 and December 2019, respectively.

The main valuation methods and inputs used to estimate the fair value of the Group's financial liabilities are detailed in Note 44.c of the 2019 consolidated financial statements and Note 16 of these interim financial statements.

10. Provisions

The detail of "Provisions" in the accompanying condensed consolidated balance sheets as at 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros	
	30-06-20	31-12-19
Provisions for pensions and other post-retirement obligations	583,216	603,472
Provisions and other long-term employee remuneration	43,763	48,882
Provisions for taxes and other legal contingencies	27,555	80,932
Commitments assumed and guarantees conferred	35,451	38,928
Other provisions	169,612	133,384
	859,597	905,598

"Provisions for taxes and other legal contingencies" and "Other provisions" in the prior table, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings and those for claims of handling fees on consumer loan agreements in Germany, Spain, Italy and Nordic Countries have been estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, are based on the legal proceedings in progress. Also, as of 30 June 2020, under the heading "Other provisions", the amount of the provisions for the restructuring expenses of the Group's businesses, mainly in Germany, and Nordic Countries, which are pending to be incurred, is included.

As at 30 June 2020, the balances recognized under the heading "Provisions" in the accompanying condensed consolidated income statement, mainly includes provisions recorded by Santander Consumer Bank, AG (Germany) amounting to 17,813 thousands of euros, Credipar amounting to 5,500 thousands of euros and Santander Consumer Bank, A.S. amounting to 7,579 thousands of euros, in connection with the restructuring processes in these countries (at 30 June 2019, this amount included mainly the provisions made by Santander Consumer Bank, AG amounting to 9,739 thousands of euros as well as the reversals of provisions made by Santander Consumer Finance, S.A. amounting to 7,429 thousands of euros and Santander Consumer, E.F.C, S.A. amounting to 7,052 thousands of euros).

As regards other legal proceedings affecting the Group during the first six months of 2020, there have been no significant developments with respect to the information included in Note 21 to the 2019 consolidated financial statements.

Note 21 to the Group's consolidated financial statements for 2019 describes the main tax risks affecting the Group at that year-end.

There were no significant changes in these risks in the first half of 2020 and no litigation or tax audits were initiated against the Group that might have a material effect on the accompanying interim condensed consolidated financial statements for that period.

The amount of the payments made by the Group arising from other litigations in the first six months of 2020 and 2019 is not material with respect to these interim condensed consolidated financial statements.

11. Shareholder’s equity

In the six-month periods ended 30 June 2020 and 2019 there were no other quantitative or qualitative changes in the Group's equity other than those indicated in the accompanying consolidated statements of changes in total equity.

a) Share Capital

As of 30 June 2020 and 31 December 2019, the Bank's share capital consisted of 1,879,546,172 fully subscribed and paid registered shares of 3 euros par value each, all with the same voting and dividend rights.

As of June 2020 and 31 December 2019, Banco Santander, S.A. held 1,879,546,152 shares and Cántabro Catalana de Inversiones, S.A. 20 shares.

b) Breakdown of other comprehensive income - Items not reclassified to profit or loss and Items that may be reclassified to profit or loss

	Thousands of euros	
	30-06-2020	31-12-2019
Other comprehensive income accumulated		
Items not reclassified to profit or loss	**(148,566)**	**(167,170)**
Actuarial gains or losses on defined benefit pension plans	(156,947)	(173,463)
Non-current assets held for sale	-	-
Share in other income and expenses recognised in investments, joint venture and associates	(42)	(12)
Other valuation adjustments	-	-
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	8,423	6,305
Items that may be reclassified to profit or loss	**(512,505)**	**(362,030)**
Hedge of net investments in foreign operations (effective portion)	84,014	(9,284)
Exchange of differences	(558,047)	(336,140)
Hedging derivatives. Cash flow hedges (effective portion)	(8,263)	(5,907)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	927	1,804
Hedging instruments (items not designated)	-	-
Non-current assets held for sale	-	-
Share in other income and expenses recognised in investments, joint venture and associates	(31,136)	(12,503)

c) Other comprehensive income - Items not reclassified to profit or loss - Actuarial gains or losses on defined benefit pension plans

The balance of Other comprehensive income - Items not reclassified to profit or loss - Actuarial gains or losses on defined benefit pension plans include the actuarial gains or losses generated in the period and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling. Its variation is shown in the condensed consolidated statement of recognized income and expense.

During the first six months of 2020 actuarial losses (net of actuarial gains) on defined benefit pension plans amounts to 20,668 thousands of euros, mainly due to the increase of 59,500 thousands of euros in accumulated actuarial losses corresponding to the Group's businesses in Germany, mainly due to the variation in the discount rate (decrease from 1.46% to 1.65%).

d) Other comprehensive income – Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations (effective portion) and exchange differences

Other comprehensive income - Items that may be reclassified to profit or loss - Hedges of net investments in foreign operations (effective portion) includes the net amount of the changes in value of hedging instruments in hedges of net investments in foreign operations, in respect of the portion of these changes considered to be effective hedges.

Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences presents the net amount of exchange differences arising from non-monetary items whose fair value is adjusted with a balancing entry in equity and from the translation into euros of the balances of consolidated entities whose functional currency is not the euro.

The net variation of both headings recognized during the first half of 2020 included in the consolidated statement of recognized income and expense reflects the effect generated by the general depreciation of exchange rates (Note 1.f).

12. Segment information

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 and Portugal, Italy, Germany, Scandinavia, France and Other. Note 45 to the Group's consolidated financial statements for the year ended 31 December 2019 includes the corresponding segment information for 2019 and 2018.

Hereafter, the detail by the geographical areas of the balance of Interest income for the six-month periods ended 30 June 2020 and 2019 is as follows:

Geographical area	Interest and Similar Income by Geographical Area (Thousands of euros)			
	Individual		Consolidated	
	30-06-20	30-06-19	30-06-20	30-06-19
Spain	90,817	87,744	390,191	384,518
Abroad				
European Union	28,283	30,696	1,244,789	1,200,055
OCDE countries	5,913	5,943	360,440	371,513
Other countries	3,928	5,742	-	-
	38,124	42,381	1,605,229	1,571,568
Total	**128,941**	**130,125**	**1,995,420**	**1,956,086**

Following is the breakdown of revenue by the geographical segments used by the Group. For the purposes of the table below, revenue is deemed to be that recognized under “Interest income”, “Dividend income”, “Commission income”, “Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net”; “Gain or losses on financial assets and liabilities held for trading, net”; “Gain or losses on non-negotiable financial assets obligatorily valued at fair value with changes in results”; “Gain or losses and financial liabilities measured at fair value through profit or loss, net”; “Gain or losses from hedge accounting net”; and “Other operating income” in the accompanying consolidated income statements for the six-month periods ended 30 June 2020 and 2019.

Segments	Revenue (Thousands of euros)					
	Revenue from External Customers		Inter-segment Revenue		Total Revenue	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019	30/06/2020	30/06/2019
Spain and Portugal	481,386	498,080	112,782	130,446	594,168	628,526
Italy	246,365	260,830	1,652	864	248,017	261,694
Germany	827,701	831,869	219,852	200,022	1,047,553	1,031,891
Scandinavia	432,342	448,122	30,698	39,861	463,040	487,983
France	334,361	308,209	211,175	223,338	545,536	531,547
Other	228,100	238,577	21,722	52,157	249,822	290,734
Inter-segment revenue adjustments and eliminations	-	-	(597,881)	(646,688)	(597,881)	(646,688)
Total	2,550,255	2,585,687	-	-	2,550,255	2,585,687

Likewise, following is the reconciliation of the Group's consolidated profit before tax for the six-month periods ended 30 June 2020 and 2019, broken down by business segment, to the profit before tax per the condensed consolidated income statements for these periods:

Segments	Consolidated profit (Thousands of euros)	
	30-06-20	30-06-19
Spain and Portugal	(61,003)	85,300
France	100,702	109,819
Italy	62,577	84,434
Germany	138,114	164,532
Scandinavia	(178,559)	159,242
Other	67,912	132,476
Total profit (loss) of the segments reported	129,743	735,803
(+/-) Unallocated profit/loss	-	-
(+/-) Elimination of inter-segment profit/loss	-	-
(+/-) Other profit/loss	-	-
(+/-) Income tax and/or profit from discontinued operations	254,503	305,206
Profit before tax	**384,246**	**1,041,009**

13. *Related parties*

The Group's related parties are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's “key management personnel” (the members of its Board of Directors and its senior managers, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties in the first six months of 2020 and 2019, distinguishing between significant shareholders, members of the Bank's Board of Directors, the Bank's executive vice presidents, Group entities and other related parties.

Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognized:

	Thousands of euros				
	30-06-20				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
Expenses:					
Finance costs	31,694	-	-	1,365	33,059
Leases	-	-	-	-	-
Services received	-	-	-	-	-
Purchases of goods	-	-	-	-	-
Other expenses	11,411	-	1,521	66,581	79,513
	43,105	**-**	**1,521**	**67,946**	**112,572**
Income:					
Finance income	-	-	1,894	3,928	5,822
Dividends received	-	-	-	-	-
Services rendered	-	-	220	3,242	3,462
Sale of goods (finished or in progress)	-	-	-	-	-
Other income	145,715	-	64,003	12,997	222,715
	145,715	**-**	**66,117**	**20,167**	**231,999**

(*) This includes basically the income and expenses relating to Santander Group companies that do not belong to the Santander Consumer Finance Group and to other related parties

Other transactions	Thousands of euros 30/06/2020 Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Financing agreements: loans and capital contributions (lender)	828,164	-	(195,077)	(22,621)	610,466
Financing agreements: loans and capital contributions (borrower)	(71,366)	8	(28,959)	(84,729)	(185,054)
Guarantees provided	(4,146)	-	(77,965)	587	(81,524)
Guarantees received	-	-	-	-	-
Obligations acquired	-	-	-	-	-
Dividends and other distributed profit	-	-	-	-	-
Other transactions	798,521	628	(20,196)	(72,972)	705,354

(*) This includes basically the income and expenses relating to Santander Group companies that do not belong to the Santander Consumer Finance Group and to other related parties

Period end closing balances	Thousands of euros 30-06-20 Significant shareholders	Directors and executives	Individuals, Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	-	-	-	-	-
Loans and credits granted	906,253	-	48,126	199,627	1,154,006
Other collection rights	771,329	-	5,610	18,515	795,454
	1,677,582	-	53,736	218,142	1,949,460
Credit balances:					
Suppliers and creditors granted	-	-	-	-	-
Loans and credits received	8,469,674	-	65,279	66,415	8,601,368
Other payment obligations	2,324,983	-	41,934	264,802	2,631,719
	10,794,657	-	107,213	331,217	11,233,087

	Thousands of euros				
	30-06-19				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
Expenses:					
Finance costs	19,195	-	-	600	19,795
Leases	-	-	-	-	-
Services received	-	-	-	-	-
Purchases of goods	-	-	-	-	-
Other expenses	39,322	-	1,561	71,244	112,127
	58,517	**-**	**1,561**	**71,844**	**131,922**
Income:					
Finance income	5,132	-	2,392	7,026	14,550
Dividends received	-	-	-	-	-
Services rendered	-	-	-	-	-
Sale of goods (finished or in progress)	-	-	-	-	-
Other income	798	-	417	1,961	3,176
	5,930	**-**	**2,809**	**8,987**	**17,726**

(*) This includes basically the transactions performed with Santander Group companies that do not belong to the Santander Consumer Finance Group and with other related parties.

	Thousands of euros				
	30/06/2019				
Other transactions	Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Financing agreements: loans and capital contributions (lender)	(62,315)	-	69,721	18,615	26,021
Financing agreements: loans and capital contributions (borrower)	(1,188,566)	5	(14,061)	(50,028)	(1,252,655)
Guarantees provided	3,538	-	5,459	4,992	13,989
Guarantees received	-	-	-	-	-
Obligations acquired	(30,637)	-	3,042	-	(27,595)
Dividends and other distributed profit	-	-	-	-	-
Other transactions	-	542	-	-	-

(*) This includes basically the income and expenses relating to Santander Group companies that do not belong to the Santander Consumer Finance Group and to other related parties.

Period end closing balances	Thousands of euros				
	30-06-19				
	Significant shareholders	Directors and executives	Individuals, Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	-	-	-	-	-
Loans and credits granted	78,089		243,203	222,248	543,540
Other collection rights	657,502		6,589	16,855	680,946
	735,591	**-**	**249,792**	**239,103**	**1,224,486**
Credit balances:					
Suppliers and creditors granted			-	-	-
Loans and credits received	8,541,040		94,238	151,144	8,786,422
Other payment obligations	3,009,677		22,717	190,170	3,222,564
	11,550,717	**-**	**116,955**	**341,314**	**12,008,986**

14. Off-balance-sheet exposures

The off-balance-sheet exposures related to balances representing financial guarantees and other commitment provided (revocable and non revocable).

Granted guarantees includes financial guarantees contracts such as financial bank guarantees, credit derivatives, and risks arising from derivatives granted to third parties; non financial guarantees include other guarantees and irrevocable documentary credits.

Contingent commitments provided includes all off-balance-sheet exposures, which are not classified as guarantees provided, including drawable by third parties.

	Thousands of Euros	
	30/06/2020	31/12/2019
Loan commitments granted	**21,832,552**	**23,523,284**
Of which doubtful	37,686	36,766
Financial guarantees granted	**551,456**	**614,943**
Of which doubtful	-	-
Bank sureties	545,564	607,243
Credit derivatives sold	5,892	7,700
Other commitments granted	**427,868**	**419,346**
Of which doubtful	3,776	6,619
Other granted guarantees	314,590	315,252
Other	113,278	104,094

15. Average headcount and number of offices

The average number of employees at the Group and at the Bank, by gender, in the six-month periods ended 30 June 2020 and 2019 is as follows:

	Bank		Group	
	30-06-20	30-06-19	30-06-20	30-06-19
Men	2	2	4,663	4,671
Women	1	1	4,728	4,850
	3	**3**	**9,391**	**9,521**

The average number of offices at 30 June 2020 and 2019 are as follows:

Number of branches	Group	
	30-06-20	30-06-19
Spain	49	51
Foreign	216	221
	265	**272**

16. Other disclosures:

a) Valuation techniques for financial assets and liabilities

The following table shows a summary of the fair values, at 30 June 2020 and 31 December 2019, 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:

	Thousands of euros					
	30-06-20			31-12-19		
	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	-	15,642	**15,642**	-	20,141	**20,141**
Non-trading financial assets mandatorily at fair value through profit or loss	-	94	**94**	-	103	**103**
Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	932,537	21,112	**953,649**	932,589	20,796	**953,385**
Hedging derivatives (assets)	-	129,746	**129,746**	-	59,791	**59,791**
Financial liabilities held for trading	-	19,168	**19,168**	-	21,221	**21,221**
Financial liabilities designated at fair value through profit and loss	-	-	-	-	-	-
Hedging derivatives (liabilities)	-	84,724	**84,724**	-	97,410	**97,410**

(*) Substantially all of the main variables (inputs) used by the models are obtained from observable market data (Level 2, pursuant to IFRS 13, Fair Value Measurement).

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

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In 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 recognized at fair value in the consolidated balance sheet, calculated using internal models, are interest rate swaps (IRSs) and cross currency swaps, which are measured using the present value method. This valuation method is also used to calculate the fair value of certain financial instruments measured at amortised cost in the 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 the first half of 2020. Also, there were no changes in the valuation technique used to measure financial instruments.

Santander Group (which the Group belongs) has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, monitoring of pricing models and market data, computation of risk metrics, new transaction approval policies, market risk control 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 most important products and families of derivatives, and the related valuation techniques and inputs, by asset class, are detailed:

Fixed income

The range of fixed income assets includes simple instruments, such as interest rate and cross-currency swaps, which are measured using estimated cash flow projections that are then discounted to present value by factoring in the basis spread (swap and cross currency), depending on the frequency of the payments and currency in which each leg of the dividend is denominated.

The inputs used in these valuation models are market-observable data such as deposit rates, futures, cross-currency swap rates and basis spreads. These inputs can be used to calculate different interest rate curves, depending on the frequency of the related payments, as well as discount curves for each currency.

Exchange rates

The most important products within this asset class are forward and futures contracts and include vanilla and over-the-counter (OTC) derivatives written over exchange rates.

The inputs used in the exchange rate valuation models include interest rate curves for each currency and spot exchange rates.

Valuation adjustment for counterparty or default risk
The *Credit Valuation Adjustment* (CVA) is a haircut applied to OTC derivatives to factor in the risk associated with the credit exposure assumed by each counterparty.

The CVA is calculated by factoring in the potential future exposure to each counterparty at each delivery or settlement date. The CVA for a given counterparty is equal to the sum of CVAs for all term dates. The following inputs are used for calculation purposes:

- Expected future exposure: including, for each transaction, the current market value (MtM) as well as the potential future exposure (add-on profile) for each term. The calculation also takes into consideration credit mitigation arrangements such as collateral and netting agreements as well as a time decay factor for derivatives with interim payments.

- Severity: final loss assumed in the event of a credit event/default by the counterparty expressed in percentage terms.

- Probability of default: when market data are not available (listed spread curve derived from CDSs, etc.), ratings-based probabilities are used (preferably internal ratings models).

- Discount factor curve.

The Debt Valuation Adjustment (DVA) is similar to the CVA but reflects the Group's own credit risk, assumed by its counterparties in respect of OTC derivatives.

Fair value of financial instruments valued using internal models

The fair value of financial instruments derived from previous internal models, takes, between other issues, the contract terms and the market data, including interest rates, credit risk, exchange rates and prepayments. The valuation models are not significantly subjective, because these methodologies can be adjusted and calibrated, if, through the internal calculation of fair value and subsequent comparison with the related actively traded price. Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 30 June 2020 and 31 December 2019:

,

	Thousands of euros		
	Fair values Calculated Using Internal Models 30-06-20 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Non-current assets held for sale	**15,642**		
Trading derivatives	15,642		
Swaps	*15,366*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity.
Others	*276*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices.
Hedging Derivatives	**129,746**		
Swaps	*122,776*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	*6,970*	Present Value Method	Interest rate curves, Volatility Surface, FX market prices
Non-trading Financial Assets mandatorily at fair value though profit and loss	**94**		
Equity instruments	94	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Debt Securities	-		
Loans and advances	-		
Financial assets at fair value through other comprehensive income	**21,052**		
Equity instruments (*)	*21,052*	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Debt securities	-		
Loans and advances	-		
LIABILITIES:			
Financial liabilities held for trading	19,168		
Trading Derivatives	19,168		
Swaps	*15,581*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	*3,587*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
Hedging Derivatives	84,724		
Swaps	*43,330*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*41,394*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices

(*) * This heading also includes level 3 financial instruments amounting to 60 thousands of euros at June 2020 and December 2019

	Thousands of euros		
	Fair values Calculated Using Internal Models 30-06-19 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Non-current assets held for sale	**20,141**		
Trading derivatives	20,141		
Swaps	*20,141*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity.
Others	-	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices.
Hedging Derivatives	**59,791**		
Swaps	*48,841*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	*10,950*	Present Value Method	Interest rate curves, Volatility Surface, FX market prices
Non-trading Financial Assets mandatorily at fair value though profit and loss	**103**		
Equity instruments	103	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Debt Securities	-		
Loans and advances	-		
Financial assets at fair value through other comprehensive income	**20,736**		
Equity instruments	*20,736*	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Debt securities	-		
Loans and advances	-		
TOTAL ASSETS	**100.771**		
LIABILITIES:			
Financial liabilities held for trading	**21,221**		
Trading Derivatives	21,221		
Swaps	*20,943*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	*278*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
Hedging Derivatives	**97,410**		
Swaps	*84,223*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*13,187*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
TOTAL LIABILITIES	**118.631**		

b) *Sovereign risk with peripheral European countries*

The detail at 30 June 2020 and 31 December 2019, by type of financial instrument, of the Group credit institutions' sovereign risk exposure to Europe's peripheral countries and of the short positions held with them, taking into consideration the scope established by the European Banking Authority (EBA) in the analyses performed on the capital needs of European credit institutions (see Note 47 to the consolidated financial statements for 2019), is as follows:

Sovereign Risks of issuers/Borrower at 30 June 2020(*)									
	Thousands of euros								
	Debt instruments							Derivatives (***)	
	Non-Currents assets held for sale and Financial Assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Financial assets held for trading designated at fair value through profit and loss	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	-	-	927,899	786,290	-	200	1,714,389	-	-
Portugal	-	-	-	-	-	-	-	-	-
Italy	-	-	-	1,455,294	-	15,179	1,470,473	-	-
Greece	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-	-

(*) Information prepared using EBA criteria. There are other off-balance sheet exposures other than derivatives - contingent commitments and exposures - in the amount of 2 thousands of euros with Spain.
(**) Presented without taking into account the valuation adjustments recognized (211 thousands of 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 2019 (*)									
	Thousands of euros								
	Debt instruments							Derivatives (***)	
	Non-current assets held for sale and Financial assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Financial assets held for trading designated at fair value through profit and loss	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	-	-	926,635	-	-	-	926,635	-	-
Portugal	-	-	-	-	-	7	7	-	-
Italy	-	-	-	441,589	-	15,383	456,972	-	-
Greece	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-	-

(*) Information prepared using EBA criteria. There are other off-balance sheet exposures other than derivatives - contingent commitments and exposures - in the amount of 6 thousands of euros (with Spain)
(**) Presented without taking into account the valuation adjustments recognized (219 thousands of 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 30 June 2020 and 31 December 2019 is as follows:

Exposure to other counterparties by country of issuer/borrower at 30 June 2020 (*)									
	Thousands of euros								
			Debt Securities					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Non-current assets held for sale and Financial assets designated at FVTPL	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	Other than CDSs	CDSs
Spain	602,135	-	-	-	5	14,767,595	15,369,735	(9,706)	-
Portugal	8,024	-	-	-	-	1,367,929	1,375,953	-	-
Italy	180,195	-	-	-	-	9,056,167	9,236,362	-	-
Greece	-	-	-	-	-	1,461	1,461	-	-
Ireland	-	-	-	-	5,900	28	5,928	-	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 11,112,536 thousands of euros, 237,383 thousands of euros and 514,418 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(**) Presented excluding valuation adjustments and impairment losses recognized (700,259 thousands of euros).

(***) Other than CDS" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDS" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2019 (*)									
	Thousands of euros								
			Debt Securities					Derivatives (***)	
	Balances with central banks	Reverse repurchase agreements	Non-current assets held for sale and Financial assets designated at FVTPL	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	Total net direct exposure	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	-	-

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 12,575,345 thousands of euros, 185,020 thousands of euros and 479,426 thousands of euros to counterparties in Spain, Portugal and Italy respectively.

(**) Presented excluding valuation adjustments and impairment losses recognized (556,979 thousands of euros).

(***) "Other than CDS" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDS" refers to the exposure to CDS based on the location of the underlying.

As of 30 June 2020 and 31 December 2019 the Group was not part of any credit default swaps arrangement (CDS).

c) Forbearance and restructured transactions

The following forms are use with the meanings specified below:

- Forbearance transaction: transaction granted or used for reasons relating to -current or foreseeable- financial difficulties the borrower may have in repaying one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of cancelled or refinanced transactions to repay the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

For maximum guarantees amount, we will consider as follows:

- Real guarantees: the appraisal amount or valuation amount of the real guarantees received; for each transactions will be as maximum the covered amount of exposure.

- Personal guarantees, maximum amount guarantors will have to pay if the guarantee is implemented.

	30-06-2020 (thousands of euros)													
	Total							Of which: doubtful						
	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk	Without collateral		With collateral				Accumulated Impairment or losses at 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 operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees		Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	3	22	-	-	-	-	1	1	6	-	-	-	-	1
Other financial institutions and: individual shareholder)	78	1,139	-	-	-	-	238	39	325	-	-	-	-	221
Non-financial institutions and individual shareholders	9,395	130,918	84	28,695	2,059	15,859	39,625	4,617	46,770	55	11,572	1,011	5,554	35,877
Of which: Financing for constructions and property development	24	260	-	-	-	-	121	15	144	-	-	-	-	102
Rest of households	146,545	449,357	736	54,436	26,565	2,012	188,982	88,821	213,014	433	32,257	9,507	277	168,331
Total	**156,021**	**581,436**	**820**	**83,131**	**28,624**	**17,871**	**228,847**	**93,478**	**260,116**	**488**	**43,829**	**10,519**	**5,830**	**204,431**
ADDITIONAL INFORMATION														
Financing classified as non-current assets and included in disposal groups as classified as held for sale	-	1,781	-	-	-	-	-	-	1,246	-	-	-	-	-

	30-06-2019 (thousands of euros)													
	Total							Of which: doubtful						
	Without collateral		With collateral				Accumulated Impairment or losses at fair value due to credit risk	Without collateral		With collateral				Accumulated Impairment or losses at 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 operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees		Number of operations	Gross amount	Number of operations	Gross amount	Mortgage guarantee	Other guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	2	12	-	-	-	-	4	2	12	-	-	-	-	4
Other financial institutions and: individual shareholder)	56	542	-	-	-	-	175	33	245	-	-	-	-	156
Non-financial institutions and individual shareholders	5,797	67,161	76	6,633	2,681	11	33,718	3,679	39,222	63	4,813	1,224	-	31,413
Of which: Financing for constructions and property development	18	146	-	-	-	-	67	14	88	-	-	-	-	57
Rest of households	82,323	391,600	679	58,174	31,335	41	187,653	44,304	196,400	470	33,770	9,984	10	161,365
Total	**88,178**	**459,315**	**755**	**64,807**	**34,016**	**52**	**221,550**	**48,018**	**235,879**	**533**	**38,583**	**11,208**	**10**	**192,938**
ADDITIONAL INFORMATION	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing classified as non-current assets and included in disposal groups as classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The transactions presented in the table above are classified at 30 June 2020 and 2019 in keeping with their characteristics, as follows:

- Doubtful: transactions that are originally classified as doubtful exposures as per policy criteria (in keeping with Bank of Spain Circular 4/2004, as amended by Circular 4/2016 and Circular 4/2017) and are still in the process of requalifying as standard or performing and those that while classified as standard exposures or standard exposures under special monitoring have presented fresh financial difficulties during the life of the transaction. More specifically, refinancing, refinanced and restructured transactions are classified as doubtful exposures when they are underpinned by a payment schedule considered inadequate, include contractual terms that have the effect of delaying the transaction's repayment or present amounts that have been written off based on the consideration that they will not be recovered.

- Performing exposures under special monitoring: those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, modified by Circular 4/2016 and Circular 4/2017) and those reclassified from doubtful exposures having met the following criteria: (i) one year has elapsed since the date of refinancing/restructuring; (ii) the borrower is current on all accrued principal and interest payments; and (iii) the Group does have other exposures to the same borrower with amounts in arrears by more than 90 days at the date of reclassification to standard exposures under special monitoring.

- Normal (performing): those that are recognized initially in this category as per policy criteria (in keeping with Bank of Spain Circular 4/2004, modified by Circular 4/2016 and Circular 4/2017) and those reclassified from doubtful or standard under special monitoring for which the probation period has elapsed and all of the following conditions have been met: (i) it is considered highly probable that the borrower will uphold its obligations in time and manner; (ii) at least two years have elapsed since the date on which the refinancing/restructuring transaction closed; (iii) the borrower has paid all principal and interest instalments accrued since the date on which the refinancing/restructuring transaction closed; (iv) and at the end of probation period, the Group has no other exposures to the borrower with amounts in arrears by more than 30 days.

The table below shows the changes of these balances during the first semester of 2020 and 2019:

	Thousands of euros	
Carrying amount	30-06-20	30-06-19
Opening balances	288,086	354,663
(+) Refinancing and Restructured balances	284,529	111,872
(-) Debt repayment	(87,896)	(132,907)
(-) Foreclosures	-	-
(-) Balance derecognition (Written-off reclassification)	(26,367)	(16,873)
(+)/(-) Other changes	(22,632)	(14,183)
Final Balances	**435,720**	**302,572**

d) Real estate business– Spain

<u>Portfolio of home purchase loans to families</u>

On 30 June 2020 and on 31 December 2019 no home purchase loans in Spain have been granted to families. The breakdown of the book at 30 June 2020 and 31 December 2019 is as follows:

	Thousands of euros			
	30-06-2020		31-12-2019	
	Gross Amount	*Of which: Non performing*	Gross Amount	*Of which: Non performing*
Home purchase loans to families				
- *Without mortgage guarantee*	-	-	-	-
- *With mortgage guarantee*	1,605,201	68,339	1,835,264	67,872
	1,605,201	68,339	1,835,264	67,872

The risk profile of the home purchase mortgage loan portfolio in Spain remained at a medium-low level, with limited prospects of additional impairment:

- All mortgage transactions include principal repayments from the very first day.
- Early repayment is common practice and, accordingly, the average life of the transactions is far shorter than their contractual term.
- Debtors provide all their assets as security, not just the home.
- High quality of collateral, since the portfolio consists almost exclusively of principal-residence loans.

On 30 June 2019, 66.67% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal). On 31 December 2019, 62.23% of the portfolio has an LTV of less than 80% (calculated as the ratio of total exposure to the amount of the latest available appraisal).

	30-06-2020					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					
In millions of euros	Less than or equal to 40%	More than 40% or less than 60%	More than 60% and less than 80%	More than 80% and less or equal to 100%	More than 100%	TOTAL
Gross Amount	339	416	315	205	330	**1,605**
- Of which: Non Performing	4	8	13	9	34	**68**

	31-12-2019					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					
In millions of euros	Less than or equal to 40%	More than 40% or less than 60%	More than 60% and less than 80%	More than 80% and less or equal to 100%	More than 100%	TOTAL
Gross Amount	340	427	337	208	367	**1,679**
- Of which: Non Performing	4	7	13	8	36	**68**

e) Non-audit services

Between 1 January and 30 June 2020, the Group's auditor, PricewaterhouseCoopers Auditores, S.L., provided the Group with certain non-audit services, specifically assurance services and other reviews required to auditor and review services for the purpose of issuing comfort letters in the amount of 400 thousands of euros.

17. Solvency information

The breakdown of the Group's capital and leverage ratios at 30 June 2020 and 31 December 2019 is provided below:

Capital ratio

	Millions of euros	
	30-06-2020	31-12-2019
Capital ratio		
Ordinary common equity Tier 1 (Millions of euros)	9,287	9,023
Additional capital common equity Tier 1 (Millions of euros)	1,222	1,128
Ordinary common equity Tier 2 (Millions of euros)	1,011	809
Risk weighted assets (Millions of euros)	69,570	71,957
Ordinary common equity Tier 1 ratio (CET 1)	13.35%	12.54%
Additional capital Tier 1 ratio (AT 1)	1.76%	1.57%
Capital Tier 1 ratio (TIER 1)	15.11%	14.11%
Capital Tier 2 ratio (TIER 2)	1.45%	1.12%
Total Capital Ratio	**16.56%**	**15.23%**

Leverage

	Millions of euros	
	30-06-2020	31-12-2019
Leverage		
Tier 1 capital (Millions of euros)	10,509	10,151
Exposure (Millions of euros)	119,715	119,751
Leverage ratio	**8.78%**	**8.48%**

Interim Consolidated Management Report for the six month-period ended 30 June 2020

GENERAL BACKGROUND

Activity in the second quarter was marked by the lockdown measures aimed at containing the pandemic and economic policy measures to contain the consequences of the downturn of activity. In general, the sharpest drop in activity in most economies will occur in this quarter. However, the intense response of monetary and fiscal policies has contained the deterioration of the markets and generated expectations of a revitalization of activity, now that the lockdown measures are gradually being lifted. Uncertainty regarding the possibility of a resurgence of the pandemic in those places where the first wave has been overcome is still high, although the data regarding the activity after lockdown are relatively encouraging, but uneven by country and sector.
The trends in the main macroeconomic variables are summarised below by country:

- Eurozone (GDP: -3.1% year-on-year in the first quarter of 2020) Economic activity collapsed in March-April as a result of the coronavirus. Confidence indices and retail sales started to improve in May, however the labour market is lagging behind. Inflation fell to 0.3% year-on-year due to the drop in oil prices.

- Spain (GDP: -4.1% year-on-year in the first quarter of 2020). GDP contracted in the first quarter due to the lockdown measures caused by the coronavirus and a further fall is expected in 2Q20. Since May there has been a gradual recovery, although recovering the lost activity will take time. In June, inflation was negative (-0.3% year-on-year).

- Poland (GDP: +2% year-on-year in Q1 2020). The economy in 1Q20 fell 0.4% quarter-on-quarter, reflecting the first effects of the measures aimed at alleviating the epidemic. Economic data for May shows the first signs of recovery, leaving the worst of the crisis in April. Inflation rebounded to 3.3% for services and the National Bank of Poland lowered its official rate twice since March to the current 0.1%.

- Portugal (GDP: -2.3% year-on-year in the first quarter of 2020). The sharp drop since March by COVID-19 will take 2Q20 GDP to a much larger drop than the previous quarter, although most indicators for May point to a moderate recovery. Unemployment rate was stable in 1Q20 (6.7%) and inflation began to be positive (0.1% vs. -0.7% in May).

- United Kingdom (GDP: -1.7% year-on-year in the first quarter of 2020). After the drop in GDP in 1Q20, it is expected that in Q2 the valley of this crisis is registered, due to the almost complete paralysis of activity in April (month in which the GDP fell 20.4%). Inflation reflected weak demand, standing at 0.6% in June. The official interest rate has been at 0.1% since March.

BUSINESS DEVELOPMENT

Results

Santander Consumer Finance's profit after tax was 130 million euros in the first half of 2020, 82.4% lower than in the same period of 2019, while attributable profit was 5.5 million euros, 99% lower than in 2019 because of an extraordinary impairment of goodwill of 277 million euros from the cash generating unit (CGU) of Nordics (Scandinavia) and negative tax bases in Spain of 48.8 million euros; in addition to COVID19 impact:

With respect to the results, it should be noted:

- Net interest income increased by 2%, compensating for the fall in income due to the lower volume of new production during the pandemic.
- Costs decreased by 4%, (at a higher rate than revenue growth), so the efficiency ratio improved to 43.1% compared to 43.8% in the previous year.
- Provisions were increased compared to June 2019 in order to qualitatively adjust the expected loss models, which incorporate information reflecting the prospective macroeconomic environment.
- Two extraordinary impacts have registered in this half year: the impairment of goodwill assigned to the Nordics CGU amounting 277 million; and the amortization of tax losses in Santander Consumer, EFC amounting 49 million euros.

Excluding these impacts, Santander Consumer Finance's profit after tax would have been 456 million euros, 38% lower than in the first half of 2019, while attributable profit would have been 331.5 million euros, 45% lower than in 2019, mainly due to the increase in credit provisions mentioned above.

Strategy

Santander Consumer Finance continues to focus on a solid business model backed by

- A broad geographical diversification with great commercial strength in key products
- A better efficiency ratio than its main comparable competitors and;
- A risk management and recovery system that allows you to maintain a strong credit quality

Management continues to focus on:

- Improving capital efficiency, in a competitive environment characterised by the emergence of new competitors, surplus liquidity in the markets and slow GDP growth.
- Increasing vehicle and consumer finance and expanding agreements with the main distributors/brands.
- Developing innovative products and digitizing customer service processes.
- Further progress on the development of open e-commerce platforms in businesses.
- Simplification, digitization and transformation projects to maximize efficiency in all geographies.

Activity

Most of the markets where SCF operates have been significantly impacted by Covid19, with a drop in new production starting in mid-March with the gradual closure in most European countries. The lowest level was reached in April and since that date a gradual recovery to pre-crisis levels has been taking place.

The group's total assets at 30 June 2020 stood at 114,405 million euros (in line with December 2019).

Loans to customers fell by 2.8% during the period, due to the pandemic affecting mainly car loans and direct loans.

On the liabilities side, compared to December 2019, there was a 3% drop in customer deposits, while deposits at central banks increased by 47%.

At the end of June 2020, customer deposits, medium- and long-term securitisations and issues placed in the market covered 76% of net customer loans.

IMPLICATIONS OF THE COVID-19 PANDEMIC

The spread of COVID-19, which has led to a worldwide health crisis of unprecedented scale, has had a very significant impact during this half-year on both economic activity globally and the financial sector.
Since December 2019, a new strain of coronavirus, or COVID-19, has gradually spread across the globe, beginning in Asia and subsequently expanding into Europe, the United States and Latin America, among others. The outbreak has been declared a public health emergency internationally, with the World Health Organization having declared it a global pandemic.

Countries all around the world have responded to the COVID-19 pandemic by adopting a variety of measures in an attempt to curb its expansion and impact, including mass quarantining, other containment measures, travel restrictions, restrictions on public gatherings, and the temporary suspension of a great many economic activities. These measures have given rise to a considerable decline in the level of economic activity globally, with falls in production and in demand. As a result, the largest countries have seen significant decreases in GDP, increased unemployment, sharp drops and high volatility in securities markets, volatility in exchange rates, etc.

These measures have had an adverse impact on businesses, market participants, our counterparties and customers, and may continue to do so in the coming quarters.

Many governments and regulatory authorities, including central banks, have taken steps to ease the pandemic's impact on the economy and counteract the disruption caused in the market. Fiscal and monetary stimulus measures have been adopted, interest rates have been cut, and steps have taken to favour the partial or total deferral (grace periods) of payments of principal and/or interest due on loans. At the same time, there has been a flexibilization of certain regulatory requirements applicable to financial institutions in relation to their capital, liquidity and risks.

At this point in time, it is difficult to predict how effective these and other measures adopted to mitigate the economic effects of the pandemic will be.

Within this global context, the current COVID-19 pandemic has impacted our business in this half-year, and its continuation, or any future outbreak of the disease, could have a material adverse impact on our activity, financial position, liquidity and results.

From the outset of the crisis and with some foresight, we started implementing, throughout the whole organization and in all the territories in which we are present, specific measures aimed at our employees, customers, shareholders and investors, to protect health and mitigate the economic and social impact of COVID-19.

The consumer group has contingency plans which include stress situation simulations, which have ensured that we have the preparation and knowledge required to address the current situation.
Within the Special Situations Integral Framework, the most senior Special Situations Corporate Committees were activated in February to ensure that we reacted swiftly and responded to the pandemic in the different territories in a coordinated manner. Within them, the Local Committees were activated depending on the extent of the pandemic's spread and the responses by local Governments. The Contingency Plans were established through these bodies, involving the Local Senior Management (Country Heads, Local Directors of Special Situations Management, Directors of Local Areas, etc.).

The Contingency Plans have ensured the operational continuity of business activities in all units, by identifying their critical businesses and, among other steps, segregating teams and technological infrastructures, establishing shift rotas for key personnel and their deputies, and boosting - through Technology and Operations - the capacity of systems and lines. In this respect, the band width and remote connection capacity were increased - taking the maximum number of users supported from 20,000 to over 30,000, and the equipment necessary to adapt the organization to its new remote working scenario was provided.

As a result, no unit saw its operational continuity jeopardised, and no incidents of importance were recorded. In turn, we have continued to provide the best possible customer care.

A variety of steps have been taken for the protection of employees, including, most notably, information campaigns regarding the hygiene standards to be adhered to, restrictions placed from the outset on trips and face-to-face meetings, and the introduction of teleworking on a mass scale in all territories, as a result of which up to 85% of the workforce (over 8,800 employees) came to be working remotely, while in some territories the percentage of central services professionals working in this manner reached almost 100%.
The return of employees to their usual places of work began around the end of May and has been gradual. In all units, this has been undertaken in accordance with the Corporation's guidelines and communications, while allowing latitude for adjustment to local government plans for the lifting of the lockdown.
The Group reassesses the situation in light of the evolution of the pandemic and adopts measures in accordance with customers' needs, which are specific to each country and each particular market.
Numerous measures have been adopted to support customers and bolster their economic resilience throughout the health crisis and help address its consequences. These include, most notably, the following:

- Provide liquidity and credit facilities
- As is reflected in the report sent to the regulator, within the confines of the perimeter agreed with the ECB, moratoriums amounting to 5,472 million euros (4.8% of the total SCF portfolio) have been formalized, of which 4,924 million euros have been classed as current risk. This total breaks down as follows:
    - 1,950 million euros deriving from government programs (1.7% of the total SCF portfolio).
    - 3,521 million euros deriving from non-governmental programs (3.1% of the total SCF portfolio).

At June 30, the Payment Holidays default rate (more than 90 days) stood at 0.78%.

In terms of the impact on the business of the Consumer group, a sharp drop in retail business was recorded in the first few weeks following the declaration of the pandemic, as in the rest of the sector, linked to a great extent to the different lockdown measures imposed in different countries, which resulted in falls in applications and production, primarily in consumer finance and mortgages.

This led, in all countries, to a drop in the number of applications for credit, which for some activities and in some countries was reduced almost to zero, impacted by the cessation of business in bricks-and-mortar stores, as in the case of car dealerships. These figures have subsequently begun to recover, in line with a relaxation of lockdown levels and the restrictions on the opening of commercial premises.

Business activities have been influenced to a great extent by their pre-pandemic level of digitalization. On-line retail sale activities (primarily consumer products in the electronics sector) have remained stable, the sectors most affected being those which traditionally require there to be some contact between the consumer product in question - such as cars - and the actual customer.

The severity of the situation and time for which businesses have remained closed have differed in the territories falling within the perimeter of Santander Consumer, the countries most impacted being Spain and Italy and, to a lesser extent, the Nordic countries. Germany, the principal territory within this perimeter, has seen a sharp decline in business, although not of the severity seen in southern European countries.

It should be noted, for example, that our consumer finance business in China, which was the first territory to be affected by the pandemic, fell to levels of between 10% and 15% of normal production. It has subsequently shown a gradual recovery, having reached pre-pandemic levels as from May, its production for that month being 17% up on the budgeted figure.

Similarly, in Europe, Germany's production is down by 6% on the same period in the previous year, that of Italy being down by 28%, and Spain by 40%.

As regards liquidity, specifically, when the health crisis began, there was uncertainty and initial concern in markets and among banks and regulators over the possible materialization of stress situations.
In the first days/weeks of March, long-term securities markets were closed, there was tension in short-term markets (money markets) - reflected in the high volatility of prices and exchange rates - and spreads began to increase, reflecting the uncertainty regarding the authorities' fiscal and monetary policies.

Against this backdrop, the priority established in the SCF Subgroup was to ensure that the liquidity position of the parent company SCF, S.A. and the various subsidiaries remained sound, and a series of measures and management steps were taken for this purpose.

Governments and central banks also acted fast to increase the liquidity available in the market. The following are just some of the measures adopted: The PELTROs (Pandemic Emergency Longer-Term Refinancing Operations) announced in April, the modification of the conditions of the third TLTROs program, the temporary dropping of LCR ratio requirements to below 100%, and the extension of the dollar liquidity facilities offered by the Fed. All this served to calm the markets and avoid episodes of stress.

The measures adopted by the SCF Subgroup included the immediate reinforcement of the daily monitoring of the liquidity situation. This data has been presented on a regular basis to monitoring committees, forming an essential part of their meetings, and in meetings of the executive committee and the group's board of directors held since that time.

Although the liquidity buffers in place in most of the units were sufficient to cover a horizon of 60 days or more in an aggressive scenario, the SCF Subgroup also adopted a series of mitigation measures which included the following:

- The generation of collateral in all units to be able to maximize access to central bank facilities.
- Increase the amount requested from the ECB under the TLTRO programme, which reached 11.500 million euros in June 2020 (7.900 million in December 2019). Use was also made of facilities made available by the Norwegian Central Bank (Norges Bank) via its F-Loan line, through which 1.000 million Norwegian kroner were obtained.

With all these measures in place, the liquidity position has remained sound throughout, with no major additional liquidity needs having arisen as a result of developments in deposits, drawdowns under wholesale lines or the commercial portfolio.

Liquidity metrics have remained above the corresponding internal limits and in compliance with regulatory levels. At the June close, the consolidated LCR (Liquidity coverage ratio) of the SCF Subgroup was 297% and the NSFR (Net Stable Funding Ratio) for the same perimeter as at March 2020 was 111% (BIS III criteria).

At the June close, the consolidated and individual NSFRs of each of the units will reach the regulatory limit of 100% as well as the risk appetite established by the SCF Subgroup internally. It should also be pointed out that the main units in the Euro area have reinforced this structural liquidity ratio by obtaining funding through TLTRO III which matures in 2021.

As regards its issuance plans, the SCF Subgroup stepped up operations in the first quarter, in which the issues made were primarily of senior debt amounting to 2.900 million, which accounted for approximately half of the plan for instruments of this type for the entire year. In the second quarter, the SCF Subgroup has reduced its issuance levels in view of the difficult market conditions and has issued securitizations only. The total volume of all issues made by the SCF Subgroup through to June 2020 stands at 4.167 million euros.

The SCF Subgroup's access to wholesale funding markets and the cost of issuances depend in part on the ratings assigned by rating agencies.

During the first half of the year, the three main rating agencies have reviewed their ratings. Fitch has left its ratings unchanged (long-term at A- and short-term at F2), as has Standard & Poor's (long-term at A- and short-term at A-2); in both cases, the outlook has gone from stable to negative due to the economic consequences that the coronavirus crisis could have on the long-term rating. Moody's has kept both its ratings - A2 for long-term and P1 for short-term - and stable outlook unchanged.

From now through to the year end, liquidity needs will be financed, depending on the market conditions, with a combination of new issuances, intra-group financing and access to central bank facilities.
As regards capital management, SCF has continued to generate capital in the second quarter. Specifically, its fully loaded CET1 ratio (applying the transitional provision under IFRS 9) has generated 81 basis points, which is the net result of:

- The positive impact of the bringing forward of the measures envisaged in the European capital requirement regulations (CRR2 quick fix), which has resulted in an increase of 15 basis points.
- A reduction of 4 basis points due to the fall in profit net of dividends.
- In addition, there have been the effects of some non-recurring events - such as a corporate transaction - occurring in this half year, which have resulted in a net increase of 14 basis points. Similarly, there has been a decrease in deductions in respect of intangible assets, which has had a positive impact of 42 basis points.

In short, the group has ended the half-year with a total phased-in capital ratio of 16.56% and a CET1 ratio (phased-in and fully loaded) of 13.35%. It therefore meets amply the minimum ratios required by the European Central Bank on a consolidated basis, i.e. a total capital ratio of 13.40% and 9.90% for CET1.

As regards risk management, to help mitigate the possible economic and financial impact of the crisis, various lines of work have been initiated to reconcile the support provided to our customers with the need to preserve the Bank's strength and solvency:

- Identification of vulnerable customers, groups and sectors which are or could be impacted by the effects of the pandemic.
- Continuous monitoring of their situation and needs deriving from the pandemic and of developments in the market.
- The analysis of scenarios to assess possible impacts and define plans of action where necessary.
- Assessment of the risk control framework, risk appetite, and management limits, and the policies in place to ensure that they are adequate in the current circumstances.
- Reinforcement of the recovery teams in all the territories in which we operate.
-

Both the board of directors and senior management have been kept up-to-date on a regular basis, with continuous reporting of key risk indicators to facilitate the decision-making process.

Provisions for bad debts in the first half of 2020 amounted to 514.9 million euros, which is considerably more than in the previous half-year, primarily due to the additional provisions recorded to address the possible consequences of the pandemic:

- Initial signs of impairment in portfolios due to the impact of COVID-19. So far, this impairment has not materialized to a significant degree, due to the mitigating effect of the support measures implemented.

- Additional provisions recorded on the prospective basis referred to in IFRS 9 (forward looking), based on a long-term approach, acknowledged by the International Accounting Standards Board (IASB) and other regulatory and supervisory bodies, in relation to possible macroeconomic scenarios in the context of COVID-19.
- Collective and individual assessment to reflect expected loan losses on assets for which the credit risk is increasing.
- Growth of loans so far this year, driven by economic support programs.

As a result, credit cost - calculated as appropriations to provisions divided by the portfolio of loans to Consumer Group customers - amounts to 1.08%, up 34 basis points on the figure for the first half of 2019.

The non-performing loan ratio, calculated as financial assets at amortized cost (customers) in Stage 3 and contingent risks recognized in the consolidated balance sheets as at June 30 of this year divided by the total balance of financial assets at amortised cost (customers and contingent risks), amounts to 2.23%, up 29 basis points on the figure recorded 12 months ago (1.94%), due to the increase in volumes of credit and the mitigation measures implemented.

The loan-loss provision amounts to 2,179 million euros, with coverage at a level of 101.40%, calculated based on accounting provisions in respect of all assets impaired on the basis of credit risk (doubtful assets), irrespective of whether they are classed as simply non-performing, pre-litigious, litigious, or doubtful but not pre-litigious. This reflects an increase of one hundred and eighty-one basis points compared with the situation in June 2019, due to the provisions recorded.

Regarding developments in exposure and coverage by stages based on IFRS 9, the increase observed in stage 2 in the second quarter is in line with the collective and individual assessments mentioned above, the purpose of which is to quantify assets in which the credit risk is estimated to have increased. Santander Consumer is adhering strictly to regulatory and supervisory guidelines which stress the importance of adapting its accounting and prudential policies and applying them responsibly to the containment measures of a temporary and exceptional nature.

The development of exposure and coverage in stage 1 is explained by the growth in loans observed in the period. As regards stage 3, alignment with the regulatory and supervisory guidelines issued in order to address the effects of the pandemic helps explain the performance over the period.
In terms of market risk, following the surge in volatility caused by the COVID-19 crisis during the first quarter, the situation has stabilized in the second quarter, which has ended with figures which are low in relation to the Group's balance sheet and activity.

In relation to operational risk, the group has implemented additional controls to maintain its risk at the levels seen prior to COVID-19, in addition to reinforcing existing measures. The following aspects have been closely monitored:

- Business continuity plans to support our employees, customers and businesses.
- The pandemic scenario and remote working situation have a direct impact on cyber-threats and associated risks. We are also reinforcing control mechanisms to increase the support given to the control environment (patching, navigation control, data protection controls, etc.)
- Increase in technological support to ensure that customers are adequately attended to and services are provided correctly, especially through the online banking channel and call centres.
- The risk in the processing of transactions has increased due to the volume of new loans and multiple changes in existing portfolios deriving from public aid programs and internal policies. Additional controls have been implemented to minimize incidents.
- Ongoing monitoring of other sources of risk, such as external suppliers, fraud, conduct, and the prevention of money laundering.

Regarding the evolution seen in the second quarter, loss levels by Basel categories, in relative terms, are in line with those recorded for the second quarter of 2019 and similar to those seen in the previous quarter.

There have been no major events related to the COVID-19 situation.

In terms of results, the impact of the health crisis is visible throughout the income statement. Firstly, there is the impact of currency depreciation in the Norwegian market.

The impact of exchange rates can be quantified at approximately minus 10 million of euros in income and expenses compared with the first half of the previous year.

Eliminating this effect, the main impacts are:

- Net interest income has been affected by the reduction in volumes, although this impact has been offset by a reduction in interest rates by the different central banks in the last few months. As a result, a comparison of half-yearly figures indicates that net interest income has improved slightly despite the crisis.
- Commissions have been affected by the lower levels of activity, as is seen, primarily, in commissions relating to insurance.
- As for operating costs, efforts to drive forward the efficiency plan defined for 2020 have continued this year, although there has been deceleration in the materialization of some synergies envisaged in the optimization plans in progress due to the impact of the Pandemic. Since the very start of the pandemic, there have nevertheless been some areas in which savings have been made, e.g. the savings deriving from the elimination of trips, in addition to which measures are being implemented to make savings in relation to space management, consulting expenses, marketing, and projects, as well as savings associated with the variable remuneration of the workforce. It is estimated that the initiatives adopted, overall, will have a global impact of 100 million euros in 2020.
- Appropriations to loan loss provisions, as mentioned in the risks section, have been higher than in previous periods, and this is reflected in the increase in credit cost mentioned above.

Finally, looking towards the future, Santander Consumer was in an extremely strong position when the health crisis began: a solid profit before provisions (1.2 thousand million euros in the first half of 2019), a well-diversified portfolio with high-level guarantees, and capital and liquidity positions which were adequate given the business in which we engage. All these factors are key levers when it comes to managing an economic recession.

Our priority over the last few months has been, and it continues to be, the protection of all our stakeholders, because our understanding is that this is the best way of speeding up the recovery and ending the crisis as soon as possible to be able to give our shareholders an adequate return.

We are confident that our strengths and business model will be able to mitigate the impact of COVID-19 in Santander Consumer: we have the scale necessary, a broad customer base, and are well diversified geographically and in terms of business activities.

We also maintain the pillars forming the foundation of the group's strategy: improvement of our operational performance, optimization through the allocation of capital to the regions and businesses which generate the greatest profit, and acceleration of the group's transformation through increased digitalization.

On the other hand, steps are being taken in the management of costs to mitigate the negative impacts of COVID-19:

- Adjust variable remuneration to reflect expectations regarding the evolution of the business.
- Postpone investments and optimize the projects portfolio for 2020 and, as a result, optimize consulting expenses.
- Reduce travel expenses.
- Optimize marketing expenses.
- Digitalization of processes used in the contracting and recording of operations.

It is nevertheless still too early, in our opinion, to be able to draw any conclusion regarding the macro-economic and financial effects of the current health crisis and thus the impact they are likely to have on the Group's medium-term objectives. The Group's intention is nevertheless to review these effects once the situation has stabilized and announce its findings to the market.

RISK MANAGEMENT

For Santander Consumer Finance, outstanding risk management is one of the main pillars of its strategy, as it is a necessary condition for the creation of controlled value for shareholders.

In a financial group of these characteristics, with a strong international presence in consumer finance markets, identification of risk variables and their measurement and control will enable suitable expansion of the business in accordance with the standards defined by the Santander Group.

The priority of risk quality has been and continues to be the differential feature of the culture and management style of the Santander Group, and this is how it is viewed by the markets, which associate it with a clear competitive advantage.

Credit risk

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 SCF 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.

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, SCF uses rating models for classifying customer solvency. 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.

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.

The SCF Group is geographically diversified, with a presence in fifteen countries, concentrated in our core markets. The Group's profile is mainly retail (89% consumer credit and 11% dealer stock finance), with the main activity being funding vehicle purchases.

The exposure to credit risk of our portfolio is detailed in the following table (figures in millions of euros):

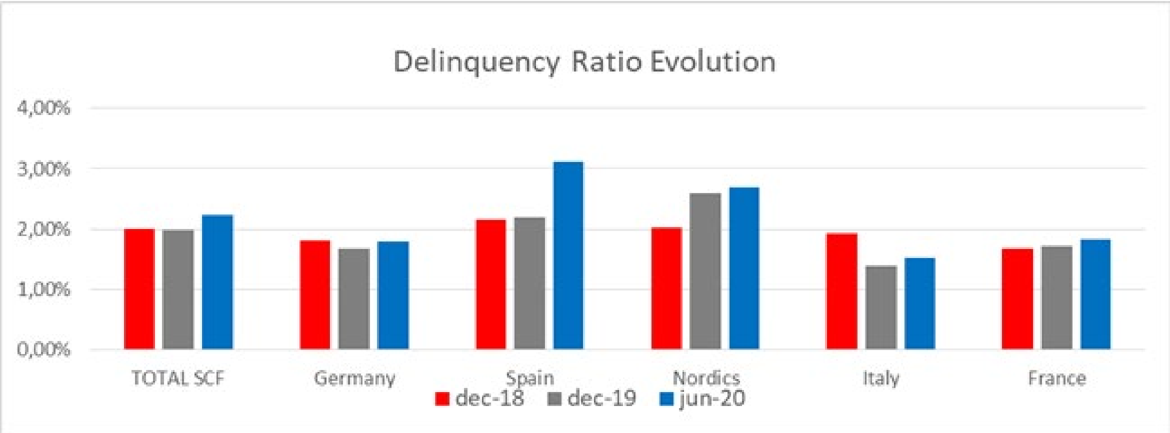
SCF Group - Gross credit risk exposure			
	June 2020 (millions of euros)	Change on December 2019	% portfolio
Spain and Portugal	16,150	(8,49)%	16,54%
Italy	9,055	(2,86)%	9,27%
France	13,660	(3,53)%	13,99%
Germany and Austria	38,270	(0,77)%	39,18%
Scandinavia	17,037	1,64%	17,44%
Others	3,499	(7,40)%	3,58%
SCF Group	**97,671**	**(2,56)%**	**100.00%**

Exposure to credit risk has fallen by 2.39% so far this year. This decline is due to the reduction in New Business caused by COVID-19.

Germany continues to concentrate the largest percentage of the portfolio with 39.18% with its respective JVs and Austria. The units in Spain and Portugal now represent 17.44% of total SCF credit risk, followed closely by Spain and Portugal with 16.54%.

According to EBA's indications, the temporary difficulties arising from Covid-19 should not automatically result in the client/loan being moved to Stage 2 of IFRS9 or NPL. To address these temporary liquidity shocks of the SCF client, payment holidays were granted by responding reactively to updated client requests and with a selective approach for clients in arrears. SCF launched a preventative action plan to manage incoming payment holiday maturities to normalize customer payments while continuing to provide temporary support to certain customers. SCF provided general guidelines on how to deal with assets affected by the Covid 19 crisis that will be implemented in all entities under its administration, in accordance with EBA and Santander Group criteria.

SCF has a resilient business model, which shows stability throughout the cycle with steady profit growth. SCF's geographical diversification results in a strong capacity to balance adverse economic cycles between countries. Strong asset quality, a track record of best-in-class risk ratios with a solid capital position. Risk profile maintained based on premium assets (self new) and diversification (high rated countries). In the first half of 2020, a slight increase in the NPL ratio mainly due to the reduction of new business and outstanding due to the blocking of commercial activity in the countries produced by the Covid crisis and a particular performance in the non-self-owned portfolio of SC Spain and the Nordic countries. The credit policies of these two entities have already been reviewed. On the other hand, new business will return to normal once the lockdown is over.



Risks and its management are viewed in SCF as global in its conception and local in its execution. The risk function follows general principles and organisational criteria shared across Group entities.

To ensure its proper performance, SCF has established a series of policies, procedures and management tools that, sharing a common basic model, are adapted to the characteristics of local markets and businesses.

This risk is managed through the following stages:

a) Global risk management.

Design, inventory and maintenance of general risk policies and metrics. Coordination with SC/SAN central areas. Coordination with sales areas.

b) Risk approval.

SCF has a risk function that is specialised by customer segmentation. Customers are pre-classified in order to quickly respond to business needs. There is design, inventory and maintenance of automatic decision-making systems, and manual approval according to an authority scale.

c) Systems for control and monitoring of non-standard risks.

Aware of the importance of keeping close oversight of loans granted, during monitoring exposure is assessed constantly, portfolios are managed actively, and if signs are observed of potential worsening of risks, early action is taken to mitigate risks and reduce exposure with the ultimate goal of minimising potential loss and optimising the return-to-risk ratio.

d) Collection and recoveries

Recoveries management is based on overall responsibility throughout the recovery cycle, in turn based on anticipation, efficiency and specialised treatment of debt. Specific management strategies are defined for each product, stage of irregularity and volume of risk by using the most suitable resources in each situation in order to obtain the best results.

By the type of our risks, recovered assets are limited to the repossession of vehicles, which are accounted for at market value. Because these assets are auctioned off on a monthly basis, they are generally on the balance sheet for a very short time, if at all.

Market, structural and liquidity risk

1. <u>Scope and definitions</u>

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, on which the Entity is the counterparty, and sales and purchases and positioning mainly in fixed income, equity and foreign currency products.
  Santander Consumer Finance 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 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:

- 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 the 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 on the management of the Group's assets and liabilities measured at amortised cost.
- Liquidity: Risk of not meeting payment obligations on time or of doing so at an excessive cost, as well as the ability to finance the growth of its asset volume. 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.

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 issuers 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.
- Prepayment or cancellation risk: Identifies the possibility of early cancellation without negotiation in operations in which the contractual relationship explicitly or implicitly permits such cancellation, generating cash flows that should be reinvested at a potentially lower interest rate.

There are other variables that only impact the market risk (and not the 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 regarding equity instruments can have an adverse effect on the value of a financial instrument, a portfolio or the Group as a whole.
- Raw materials 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:

- Financing 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 for 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>Roles and responsibilities</u>

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.

2.1. 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.

2.2. 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.

2.3. 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.

3. <u>Measurement and methodologies</u>

1.1 Structural interest rate risk

The Group analyses the sensitivity of net interest income and of the value 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.

1.2 Liquidity risk.

Management of structural liquidity aims to fund the recurring activity of the Santander Consumer 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 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 with 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.

- *Liquidity Contingency 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 based on and must be designed in line with two key elements: liquidity stress tests and an early warning 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.

1.4. Structural change risk

Structural change risk is managed centrally, as part of the general corporate procedures of the Santander Group.

4. Limits

Within the framework of the annual limits plan, limits are established for structural balance sheet risks, based on the risk appetite of Santander Consumer Finance.

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 a breach of one of these limits or their sub-limits, the market risk, structural risk and liquidity risk function will notify the breach, explaining the reasons for it and requesting an action plan from those responsible of risk management.

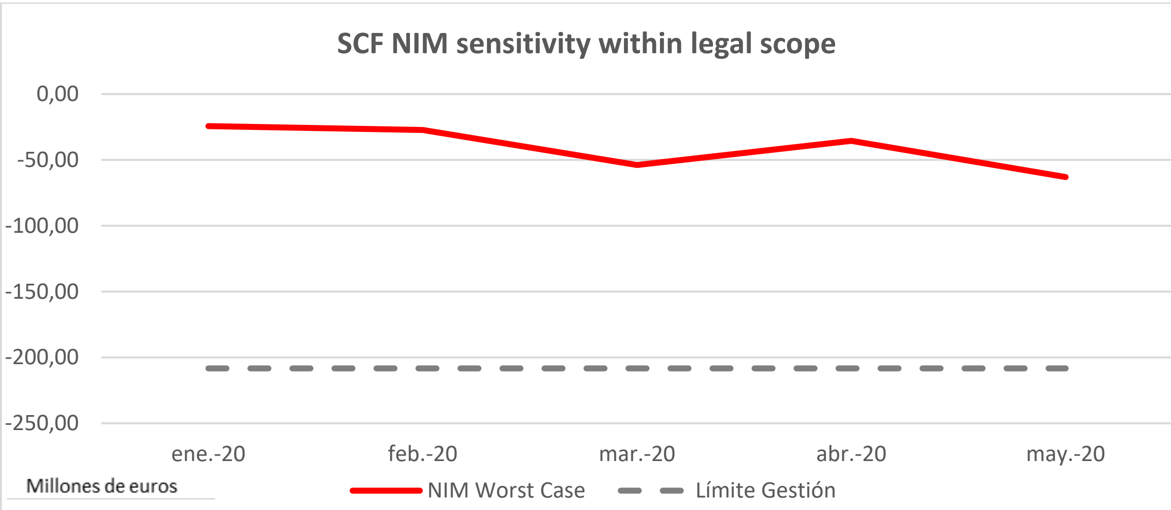
The main management limits for structural risk within the consolidated Santander Consumer Finance Group are as follows:

- One-year net interest income sensitivity limit.
- Value of equity 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. Scenarios of decreases envisage negative interest rates with a floor, which is -0.75% for the euro. In the first half of 2020, 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.

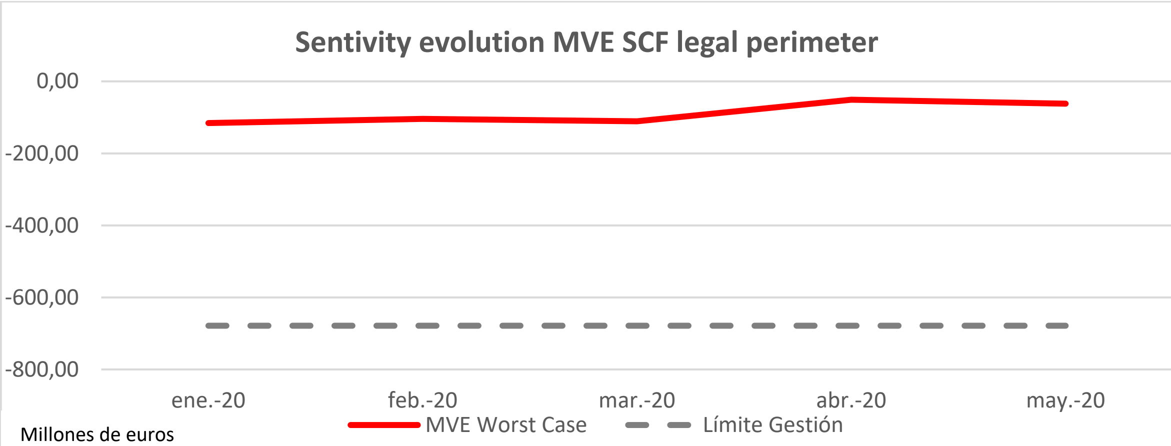
At the end of May 2020 (the most recent figure available to prepare this report), the net interest margin risk over one year, measured as its sensibility if a parallel increase of 100 basic points occurs, is 63,02 million euros.

The evolution of the sensitivity of the net interest margin throughout 2020 is shown in the chart below:



During the same period, the sensitivity of the asset value was -61.88 million euros to a parallel rise of 100 basis points.

The changes in and sensitivity of the asset value in 2020 are shown 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 May 2020, 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 103% throughout the year.

5. 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) in 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, the management of ALCO portfolios and the minimum liquidity buffer.
- Compliance with risk limits and with risk appetite.

Operational risk

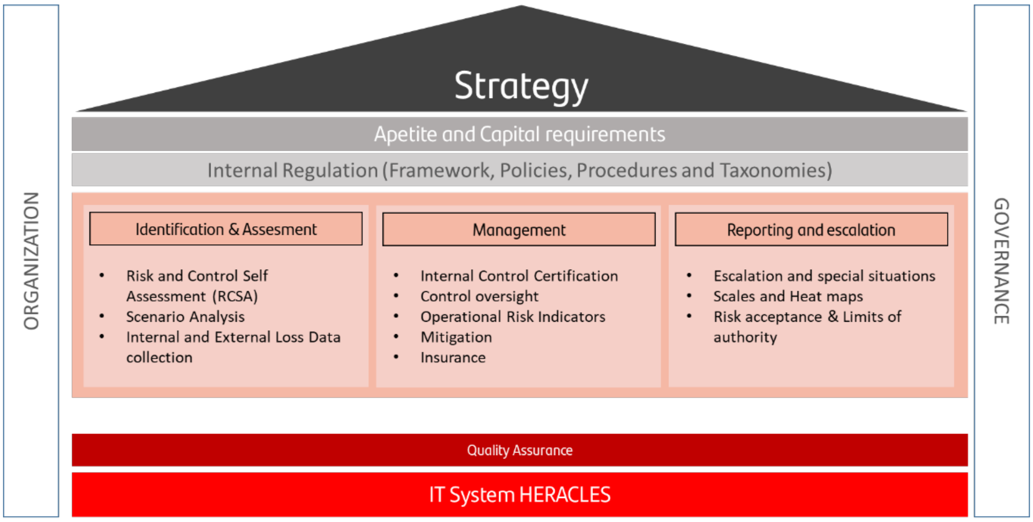
a) Definition and objectives

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.

To improve and promote adequate operational risk management, Santander Consumer Finance has developed an advanced loss distribution (LDA) model based on the internal event database and other elements such as the external loss database of our banking peers (ORX consortium database) and scenario analysis. This approach is accepted by the industry and regulators.



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.

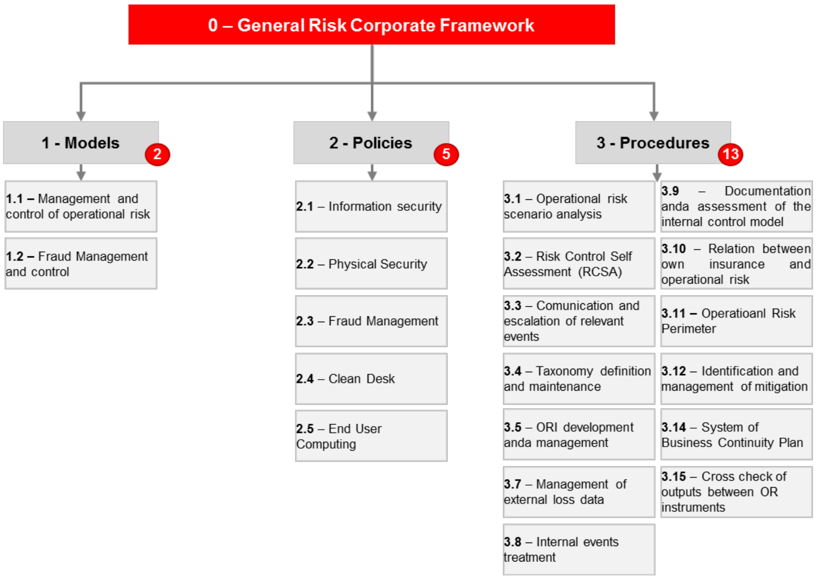
The following is required for each of the key processes indicated above:

- The existence of a system whereby operational risk exposures can be reported and controlled, as part of the Group's daily management efforts.

  To this end, in 2016 the Group implemented a single tool for the management and control of operational, compliance and internal control risk, called HERACLES. HERACLES is considered the Golden Source for risk data aggregation (RDA).

- 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 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 the 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.

Given the complexity and heterogeneous nature of Operational Risk within a large scale organization with several business lines, proper risk management is carried out in two ways:

(1) Management of Operational Risk: each business unit and support function of Santander Group is responsible for the Operational Risks that arise in its scope, as well as for their management. This particularly affects the heads of the business units and support functions, but also the coordinator (or RO team) in the 1LoD.

(2) Management of specialized operational risk controls: There are some functions that typically manage specialized controls for certain risks where they have greater visibility and specialization. These functions have an overall view of the exposure to specific Operational Risks in all areas. We can also refer to them as Subject Matter Experts or SME.

RO Managers:

Operational Risk Management is the responsibility of all staff in their respective areas of activity. Consequently, the Head of each division or area has the final responsibility for the Operational Risk in his scope.

RO Coordinators:

RO Coordinators actively participate in Operational Risk management and support RO managers in their own RO management and control areas. Each coordinator has a certain scope for action, which does not necessarily coincide with the organizational units or areas and has a deep knowledge of the activities within their scope. Their roles and responsibilities include:

- Interaction Undertake interaction with the second line of defense in daily operations and communication to the Operational Risk Management within their scope.
- Facilitating the integration of RO management in each area.
- Support the implementation of qualitative and quantitative methodologies and tools for the management and control of operations.
- Provide support and advice on Operational Risk within its scope.
- Maintain an overview of risk exposure within its scope.
- Ensure the quality and consistency of data and information reported to the 2LoD, identifying and monitoring the implementation of relevant controls.
- Reviewing and monitoring the results provided by the business units and support functions related to the testing of controls
- Support in the signing and certification of controls (control testing)
- Monitor mitigation plans in your area.
- Coordinate the definition of business continuity plans in your area.

- 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 of the first line of defence against operational risk. His main responsibilities include:

  - To design, maintain and develop the Operational Risk management and control model, promoting the development of an operational risk culture throughout the Group.
  - To safeguard the adequate design, maintenance and implementation of Operational Risk regulations.
  - To drive the business units to effectively supervise the risks identified.
  - To ensure that each key risk affecting the entity is identified and properly managed by the corresponding units.
  - Ensure that the Group has implemented effective RO management processes.

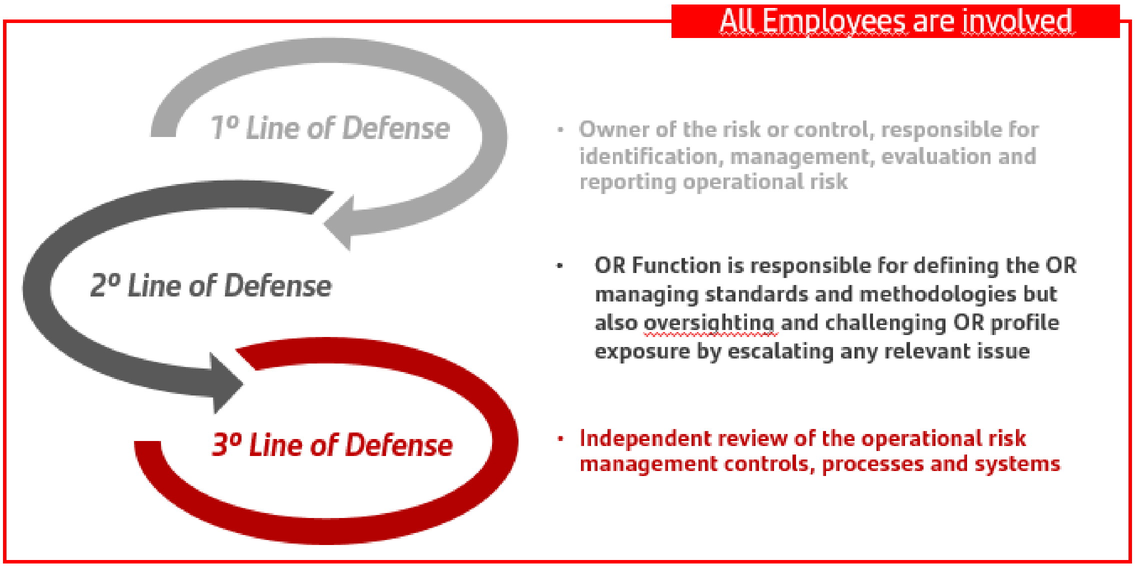
- Prepare proposals for operational risk appetite tolerance and monitor risk limits in the Group and in the various local units.
- Ensure that Top Management receives a global vision of all relevant risks, guaranteeing adequate communication and reports to Top Management and the Board of Directors, through the established governing bodies.

In addition, the 2LoD will provide the necessary information for its consolidation, together with the remaining risks, to the risk supervision and consolidation function.

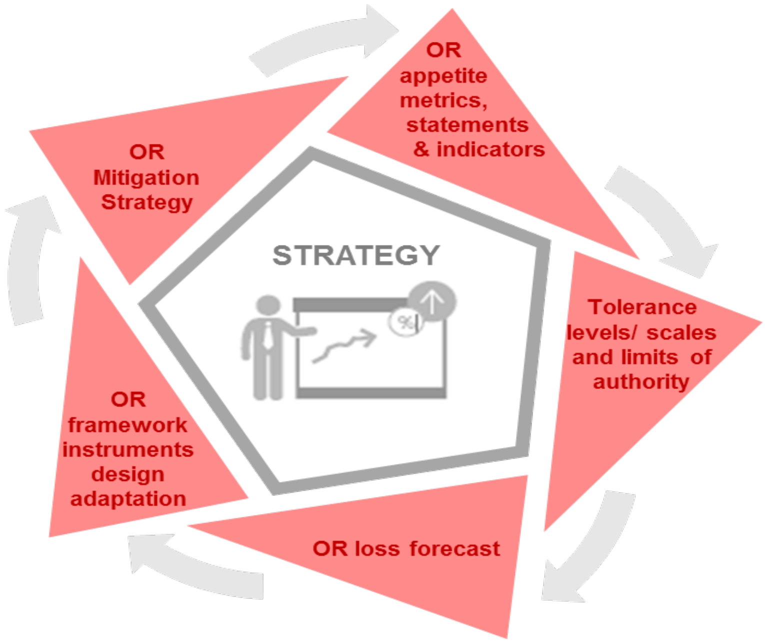
To ensure adequate supervision, a solid knowledge of the activities of the Business Units/Support Functions is required, as well as a specific understanding of the risk event categories (IT, Compliance, etc.) and a Capacity and Capability Local Plan. In that context, the RO control function (2LOD function) needs to leverage specific profiles that can support the implementation of the RO framework in the 1LOD, but also provide specific business and risk exposure information to ensure that the related RO profile is well managed and reported. Business Risk Managers (BRM) as business knowledge specialists (e.g. Global Corporate Banking) and Specialized Risk Managers (SRM) as RO control specialists (e.g. IT and cyber risks) perform these functions within RO 2LOD and position themselves as key points of contact for 1LOD business units and operations management support functions.

- 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. His main responsibilities include:

  - To verify that the risks inherent to the Group's activity are sufficiently covered, complying with the policies established by Senior Management and the internal and external procedures and regulations that may be applicable.
  - To supervise the compliance, effectiveness and efficiency of the Group's internal control systems for operations, as well as the quality of accounting information.
  - To carry out an independent review and challenge the RO controls, as well as the processes and systems for managing Operational Risk.
  - Assess the state of implementation of the RO management and control model in the Group.
  - Recommend continuous improvement for all functions involved in operations management.



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, since the Group, through the Santander Group, takes part in international consortia such as ORX (operational risk exchange). 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.
- Capital calculation using advanced model.

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. Incentivises responsibility of the first lines of defence: It establishes the first line figures of risk owner and control owner.

  b. Favours the identification of the most significant risks: Non-predefined risks, but rather risks that arise from the risk-generating areas.

  c. Improved integration of OR tools: The root cause analysis is included.

  d. Improved test validation. Carried out through workshops instead of questionnaires.

  e. Makes the years have 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 risk self-assessment modules, event registration, a risk and assessment map, indicators of both operational risk and of internal control, mitigation and reporting *systems* and scenario analysis applicable to all Group companies.

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: at corporate level, with consolidated information, and at 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, r*ating* agencies, etc.

The role of insurance in operational risk management

The Santander Consumer Finance Group considers insurance to be a key element in the management of operational risk and has established common guidelines for the coordination of the various functions involved in the insurance management cycle that transfer operational risk, mainly the Group's own insurance and operational risk control areas, but also the various front-line risk management areas.
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).

  Santander Consumer continued in the first half of 2020 to pay full attention to the risks related to cyber security, which affect our units in various countries. This situation, which is a source of concern for institutions and regulators, is encouraging them to adopt preventive measures in order to be prepared for attacks of this kind.

  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 to anticipate and determine the risk factors that could cause cyber-risk and estimate their 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.

- Control and mitigation of cyber-risk: processes relating to an assessment of 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 notification 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 cyberthreats 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. Notification includes the preparation of reports and the presentation to the relevant committees of the information required to assess exposure to cyber-risk and the cyber-risk profile and to take the decisions and measures required. In this regard, reports are prepared on the cyber-risk situation for the management committees, Mechanisms also exist for independent internal escalation for the bank's management team of technological and cybersecurity incidents and, where required, for the corresponding regulator.

Other Emerging Risks

In addition to the mentioned Cyber Risk, Santander Consumer Group is increasingly strengthening its monitoring of new emerging risks arising from 1) supplier management and 2) transformation projects.

- With respect to supplier management risks, the focus is on the quality and continuity of the services provided to MCS, but also on ensuring compliance with the new EBA Guidelines through the implementation of specific risk instruments throughout the various phases of the supplier's life cycle

- Transformational risk is defined as any risk arising from material changes in the organization, products, services or processes of SCF due to imperfect design, construction, testing, implementation and/or implementation of projects and initiatives, and the transition to the usual business (BAU). Transformation is a root cause, which can manifest itself in a variety of risks and impacts, not restricted to Operational Risk, (e.g. Credit, Market, Financial crime...)

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.
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's objective in the area of compliance and conduct risk is to minimise the probability that non-compliance and irregularities occur and, in the event of such occurrence, that they are identified, assessed, reported and quickly resolved.

SCF continues to transform the Compliance function with the aim of achieving by the end of 2020 complete alignment with the Santander Group's standards in terms of management policies, procedures and methods at all its units.

Concentration risk:

Concentration risk is a fundamental element in credit risk management. The Santander Group continuously tracks the degree of concentration in its credit risk portfolios from a range of perspectives: geographic areas and countries, economic sectors, products and groups of customers.

The Executive Risk Committee establishes the risk policies and reviews the appropriate exposure levels for the adequate management of the degree of concentration of credit risk portfolios.

The Group is subject to regulation of "Large Exposures" set out in the Fourth Part of Regulation 575/2013 (those that exceed 10% of the Entity's own funds). Under the Regulation, no exposure with the same person or economic group may exceed 25% of the Group's eligible capital (unless the client or group of connected clients includes one or more Institutions; in such a case, the aggregate exposure value may not exceed 25% of the eligible capital of the Institution or 150 million euros, whichever is higher, and without exceeding 100% of the eligible capital).

The Santander Group's Risk Division closely cooperates with the Financial Division in the active management of credit portfolios that, among its main areas of action, includes reduction of exposure concentration using several techniques, such as the contracting of credit hedging derivatives or securitisation, with the ultimate aim of optimising the return-to-risk ratio of the entire portfolio.

The breakdown at 30 June 2020 of the distribution of customer loans by activity (carrying value, not including advances) is as follows:

	TOTAL	Without collateral	Of which: mortgage collateral (e)	Of which: other collateral (e)	Secured loans. Loan-to-value (f)				
					Less than or equal to 40%	Greater than 40% and less than or equal to 60%	Greater than 60% and less than or equal to 80%	Greater than 80% and less than or equal to 100%	Greater than 100%
1. Public authorities	**131,338**	**131,338**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Other financial corporations and individual entrepreneurs (financial business)	**278,953**	**226,993**	**1,762**	**50,198**	**873**	**818**	**1,420**	**43,032**	**5,817**
3. Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**28,176,775**	**15,151,623**	**228,301**	**12,796,851**	**378,303**	**95,311**	**2,511,914**	**8,207,218**	**1,832,406**
3.1 Real estate construction and development (including land)	61,549	47,523	-	14,026	5,337	250	1,272	3,647	3,520
3.2 Civil engineering	26,827	(892)	-	27,719	27,719	-	-	-	-
3.3 Large corporations	10,727,733	7,534,428	81,932	3,111,373	44,727	28,646	937,029	2,177,062	5,841
3.4 SMEs and individual entrepreneurs	17,360,666	7,570,564	146,369	9,643,733	300,520	66,415	1,573,613	6,026,509	1,823,045
4. Other households (broken down by purpose)	**66,370,338**	**42,825,248**	**4,142,183**	**19,402,907**	**2,172,915**	**1,712,193**	**1,579,874**	**7,513,126**	**10,566,982**
4.1 Housing units	4,381,606	523,836	3,853,464	4,306	1,221,789	1,256,500	724,496	300,393	354,592
4.2 Consumer loans	61,668,513	42,188,069	160,258	19,320,186	888,894	415,931	829,540	7,157,393	10,188,686
4.3 Other purposes	320,219	113,343	128,461	78,415	62,232	39,762	25,838	55,340	23,704
5. TOTAL	**94,957,404**	**58,335,202**	**4,372,246**	**32,249,956**	**2,552,091**	**1,808,322**	**4,093,208**	**15,763,376**	**12,405,205**
MEMORANDUM ITEMS									
Refinancing, refinanced and restructured operations (*2)	435,720	378,282	31,079	26,359	3,112	5,362	31,584	4,062	13,318

(1*) In addition, the Consumer Group has granted advanced to customers in the amount of 537,506 thousands of euros; hence, total loans and advances to customers amounts to 95,494,910 thousands of euros.
(2*) Includes net balance of accumulated impairment or accumulated losses in fair value due to credit risk

The breakdown at 30 June 2020 of the concentration of the Group's risk, by activity and geographic location of counterparties, is as follows:

	Spain	Rest of EU	America	Rest	**Total**
1. Central Banks and credit institutions	**2,225,598**	**8,066,850**	**-**	**501,371**	**10,793,819**
2. Public Administrations	**1,720,354**	**1,898,701**	**-**	**195,822**	**3,814,877**
2.1 Central Governments	*1,669,902*	*1,826,683*	-	*160,581*	*3,657,166*
2.2 Other Central Administrations	*50,452*	*72,018*	-	*35,241*	*157,711*
3 Other financial institutions and individual entrepeneurs	**16,578**	**368,825**	**11,082**	**166,263**	**562,748**
4 Non-financial institutions and individual entrepreneurs	**2,522,301**	**24,668,320**	**-**	**1,656,222**	**28,846,843**
4.1 Construcción y promoción inmobiliaria (incluido suelo)	-	*185,448*	-	-	*185,448*
4.2 Civil Engineering	-	*26,830*	-	-	*26,830*
4.3.1 Large companies	*720,001*	*9,780,998*	-	*423,005*	*10,924,004*
4.3.2 SMEs and individual entrepeneurs	*1,802,300*	*14,675,044*	-	*1,233,217*	*17,710,561*
5 Other households (breakdown by purpose)	**11,720,994**	**50,594,251**	**16**	**4,085,631**	**66,400,892**
5.1 Property	*1,687,362*	*2,694,245*	-	-	*4,381,607*
5.2 Consumption	*9,969,861*	*47,643,439*	*16*	*4,085,631*	*61,698,947*
5.3 Other purposes	*63,771*	*256,567*	-	-	*320,338*
6. TOTAL	**18,205,825**	**85,596,947**	**11,098**	**6,605,309**	**110,419,179**

(*) For the purpose of this table, the definition of risk includes the following consolidated public balance sheet items: loans and advances to credit institutions, deposits at central banks, loans and advances to customers, debt securities, capital instruments, trading derivatives, hedging derivatives, equity investments and guarantees extended.

EVENTS AFTER THE REPORTING PERIOD

The subsequent events have been indicated in note 1i to the consolidated interim financial statements accompanying the Management Report.

Information required under Law 2/1981, of 25 March, on Regulation of the Mortgage Market and by Royal Decree 716/2009, of 24 April, implementing certain aspects of this Law

The members of the Board of Directors state that the Bank has, and has established, express policies and procedures covering all the activities carried out in the area of mortgage market issues that it carries out and that guarantee strict compliance with the mortgage market regulations applicable to these activities. The Finance Department defines the Bank's funding strategy.

Mortgage covered bonds

Mortgage covered bonds issued by the Bank are securities in which the principal and interest are specially backed by mortgages, with no need for registration, without prejudice to liability of the Bank's assets.

Mortgage covered bonds include credit rights for holders vis-à-vis the Bank, guaranteed as stated in the preceding paragraph, and entail execution to claim payment for the issuer after they mature. The holders of these securities are considered to be creditors with special preference, as stipulated in section 3 of Article 1923 of the Civil Code, vis-à-vis any other creditor, in relation to the total mortgage credits and loans registered in favour of the issuer and, as the case may be, vis-à-vis the economic flows generated by derivative financial related to 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, modified by the Insolvency Law 38/2011, of 10 October.

Without prejudice to the above, in accordance with the provisions of number 7 of section 2 of Article 84 of the Bankruptcy Law, in the case of bankruptcy, the payments corresponding to the amortization of capital and interest of the bonds issued and pending amortization on the date of application for bankruptcy will be considered as credits against the estate, up to the amount of the income received by the bankrupt from the loans and mortgage credits and, if they exist, of the replacement assets that support the bonds and the economic flows generated by the instruments linked to the issues (Nineteenth Final Provision of the Bankruptcy Law).

If, due to a temporary delay, the income received by the insolvent party is insufficient to meet the payments mentioned in the previous paragraph, the insolvent administration must satisfy them by liquidating the replacement assets assigned to the issue and, if this proves insufficient, it must carry out financing operations to fulfil the mandate of payment to the cedulists or bond holders, subrogating the financier in the position of the latter.
In the event that it is necessary to proceed in accordance with number 3 of Article 155 of the Insolvency Law, payment to all holders of bonds issued by the issuer will be made on a pro-rata basis, regardless of the dates of issue of the bonds.

Information concerning issues of mortgage covered bonds.

The breakdown of this account, by issue currency and by interest rate, is as follows:

Currency of issuance	Thousands of euros		Annual interest rate (%)	Maturity date
	30-06-20	31-12-19		
Euros:				
July 2007 issue	150,000	150,000	5,135	July 2022
May 2019 issue	450,000	450,000	0,000	May 2022
Balance at 30 June	**600,000**	**600,000**		

The aggregate nominal value of outstanding mortgage covered bonds at 30 June 2020 and 30 December 2019 issued by the Bank, pursuant to Royal Decree 716/2009 and broken down by residual maturity, is as follows:

	Thousands of euros			
	Residual maturity at 30 June 2020			
	Less than 3 years	Between 3 and 5 years	Between 5 and 10 years	Over 10 years
Issued through public offerings:	-	-	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	600,000	**-**	**-**	**-**
	600,000	**-**	**-**	**-**

	Thousands of euros			
	Residual maturity at 31 December 2019			
	Less than 3 years	Between 3 and 5 years	Between 5 and 10 years	Over 10 years
Issued through public offerings:	-	-	-	-
Not issued in public offers, including nominative, private, withheld and FAFA	-	-	-	-
	600,000	-	-	-
	600,000	**-**	**-**	**-**

At 30 June 2020 and 31 December 2019, the breakdown of the Bank's mortgage loans, based on their eligibility in respect of mortgage market calculations, is as follows:

	Thousands of euros	
	Par value	
	30-06-20	31-12-19
Total mortgage-backed loans and credits	1,628,933	1,697,366
Mortgage participations issued	-	-
Mortgage transfer certificates issued	-	-
Mortgage loans pledged in guarantee for financing received	-	-
Loans backing mortgage bonds issues and covered bond issues	1,628,933	1,697,366
i) Ineligible mortgage loans and credits	553,928	588,937
- They meet eligibility requirements, except for limits established in Article 5.1. of Royal Decree 716/2009	553,928	588,937
- Others	-	-
ii) Eligible mortgage loans and credits	1,075,005	1,108,429
- Non-computable amounts	-	-
- Computable amounts	1,075,005	1,108,429
a) Mortgage loans and credits covering issues of mortgage bonds	-	-
b) Mortgage loans and credits covering issues of mortgage covered bonds	1,075,005	1,108,429

(*) As the Bank has no outstanding mortgage bonds at 30 June 2020 and 31 December 2019, the totality of loans and credit backs the issuance of mortgage covered bonds.

The nominal value of outstanding mortgage loans and credits and the nominal value of eligible loans and credits pursuant to Royal Decree 716/2009, without taking into account the calculation limits established in article 12 thereof and broken down by origin, currency, payment status, average residual maturity, interest rate, holder and type of collateral is as follows:

	Thousands of euros			
	30-06-20		31-12-19	
	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans
Origin of operations				
Originated by the Entity	1,628,933	1,075,005	1,697,366	1,108,429
Assumed from other entities	-	-	-	-
Others	-	-	-	-
Currency				
Euro	1,628,933	1,075,005	1,697,366	1,108,429
Other currencies	-	-	-	-
Payment status				
Payment normality	1,555,263	1,048,766	1,629,714	1,084,571
Other status	73,670	26,239	67,652	23,858
Average residual period to maturity				
Up to 10 years	151,691	138,420	149,596	136,258
Between 10 and 20 years	626,538	512,667	641,895	528,726
Between 20 and 30 years	764,832	380,792	809,981	398,151
Over 30 years	85,872	43,126	95,894	45,294
Interest rate				
Fixed	236	0	141	1
Variable	1,628,697	1,075,005	1,697,225	1,108,428
Mixed	-	-	-	-

	Thousands of euros			
	30-06-20		31-12-19	
	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans	Mortgage Loans and Credits Backing the Issue of Mortgage Bonds and Mortgage Covered Bonds	Of which: Eligible loans
Holders				
Legal entities and individual business owners	20,225	7,786	21,453	8,248
Of which: Property developments				
Other individuals and NPISH	1,608,708	1,067,219	1,675,913	1,100,181
Type of collateral				
Completed buildings				
- Homes	1,598,386	1,065,232	1,665,719	1,097,943
Of which: Subsidised housing				
- Goods held for resale	30,547	9,773	31,647	10,486
- Other	-	-	-	-
Buildings under construction				
- Homes	-	-	-	-
Of which: Subsidised housing	-	-	-	-
- Goods held for resale	-	-	-	-
- Other	-	-	-	-
Land	-	-	-	-
- Built	-	-	-	-
- Others	-	-	-	-
	1,628,933	**1,075,005**	**1,697,366**	**1,108,429**

The following are the nominals of such loans and credits, and those which become eligible, according to the ratio between the amount of transactions and the appraisal values of the respective mortgaged assets ("loan to value"), pursuant to disclosure requirements on collateral related to mortgage loans and credits, and those which become eligible pursuant to the aforementioned regulation:

	LTV ranges				
	30-06-2020				
	Millions of euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					
- *Residential*	*335*	*416*	-	*314*	*1,065*
- *Other*	*3*	*7*	-	-	*10*

	LTV ranges				
	31-12-2019				
	Millions of euros				
	Up to 40%	>40%, <= 60%	>60%, <=80%	>80%	Total
Mortgage loans and credits eligible for issuing mortgage bonds and mortgage covered bonds					
- *Residential*	*335*	*427*	-	*336*	*1,098*
- *Other*	*3*	*7*	-	-	*10*

Changes in the nominal value of mortgage loans and credits, both eligible and ineligible pursuant to Royal Decree 716/2009, are as follows:

	Thousands of euros	
	Eligible mortgage loans and credits	Ineligible mortgage loans and credits
Balance at 31 December 2018		
Reductions in the year	**1,137,692**	**717,908**
Cancellations on maturity	(41,470)	(130,890)
Repaid early		-
Subrogated by other entities	*(32,170)*	*(21,399)*
Others		
	(9,300)	*(109,491)*
Period additions		
Originated by the Entity	12,207	1,919
Subrogated from other entities	*2,.850*	*1,919*
Others	-	-
Balance at 30 June 2019	*9,357*	-
	1,108,429	**588,937**
Reductions in the year		
Cancellations on maturity	(45,632)	(35,131)
Repaid early		
Subrogated by other entities	(11,950)	(2,697)
Others		
	(33,682)	(32,434)
Period additions		
Originated by the Entity	12,208	122
Subrogated from other entities	-	122
Others	-	-
Balance at 30 June 2020	12,208	-

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 covered bonds issued by the Bank have replacement assets.

The members of the Board of Directors certify that the Bank has policies and procedures in place covering all activities carried on within the scope of its mortgage market issues, and that they guarantee strict compliance with the mortgage market regulations applicable to such activities. In addition, Financial Management defines the Bank's funding strategy.

The risk policies applied to mortgage market transactions foresee maximum loan-to-value limits. In addition, specific policies are in place for each mortgage product, which at times apply even more restrictive limits.

The general policies defined in that respect require that a repayment capacity analysis be carried out for each potential customer. This analysis determines whether the customer's income is sufficient to allow it to settle each repayment required. In addition, the analysis determines whether the customer's income can be considered stable over the entire lifetime of the transaction in question. The indicator used to measure repayment capacity (housing affordability index) of each customer primarily looks at the ratio of the potential debt to the borrowers' income, taking into account both monthly repayments on the requested transaction as well as for other debts held, in comparison with monthly salary income and any other duly-justified income.

In ascertaining the customer's information and creditworthiness, the Bank applies specialised document verification tools and procedures.

Under the Bank's procedures, an individual appraisal must be carried out by an independent appraisal company for each mortgage loan originated in the mortgage market.

Although under article 5 of Mortgage Market Law 41/2007 any Bank of Spain-certified appraisal company may issue valid valuation reports, under this same article, the Bank sets out a series of verifications, selecting, among these entities, a smaller group with which it signs collaboration agreements, applying special conditions and automated control mechanisms. The Bank's internal regulations further specify, in detail, each internally-certified appraisal company, along with the pertinent certification requirements and procedures and the specific review controls established. Accordingly, the regulation also governs the functioning of an appraisal committee comprising several Bank areas that engage with these appraisal companies. The purpose of this committee is to regulate and adapt internal rules, as well as these companies' procedures, to the market and business situation.

Basically, the appraisal companies that wish to work with the Bank must have a relevant activity in the mortgage market and in the region in question, pass certain filters in respect of independence criteria, technical capacity and creditworthiness (to ensure their business continuity) and, lastly, successfully complete a series of tests prior to definitive certification.

Moreover, in accordance with the Bank's internal regulations, any appraisal submitted by a potential customer is reviewed, regardless of the issuing company, in order to formally verify that all requirements, procedures and methods employed in the same are suitable for the asset valued, based on prevailing regulations, and that the values reported are in line with market conditions.

CORPORATE GOVERNANCE

Capital and treasury shares

Banco Santander, S.A.	1,879,546,152	Percentage 99,99999894%
Cántabro Catalana de Inversiones, S.A.	20	Percentage 0,00000106%
Total shares	1,879,546,152	
Par value in euros	3.00	
Share capital in euros	5,638,638,516	

At 30 June 2020, the Bank’s share capital consisted of 1,879,546,172 registered shares, with a par value of 3 euros each, all fully subscribed and paid up, and with equal dividend and voting rights.

The Bank did not enter into any transactions with treasury shares or parent company shares in the first half of 2020, and no treasury shares are held at 30 June 2020.

Restrictions on the transferability of shares
Not applicable.

Restrictions on voting rights
Those attending the annual general meeting will have one vote for each share that they possess or represent.
Only owners of twenty or more shares will have the right to attend the annual general meeting, and provided their name is listed in the pertinent accounting register.

Shareholders' agreements
Not applicable.

Non-financial information

On 24 November 2017, the Spanish government passed Royal Decree Law 18/2017, which transposed into Spanish law the European Parliament and European Council Directive 2014/95/UE, dated 22 October 2014, amending Directive 2013/34/UE, regarding the disclosure of non-financial and diversity information.

The non-financial information statement must provide: a brief description of the Group's business model and policies and the results of their application; the main risks involved in its activities; and information on its key non-financial operating indicators relating to the environment, employees, human rights, the fight against corruption and bribery and diversity.

This Directive applies to entities of public interest employing over 500 employees on average during the year that can be classified as large companies in two successive years. 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 consolidated interim management report of Banco Santander Group S.A. and subsidiaries for period ended 30 June 2020, which is available at www.santander.com

BOARD OF DIRECTORS

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 company in order to be a director.

Powers of the members of the Board of Directors

On May 24, 2012, the Bank granted a power of attorney in favor of the Counsel General Director, Ms. Inés Serrano González and the Counsel General Director, Mr. Bruno Montalvo Wilmot. Also, on July 18, 2019, the Bank appointed David Turiel López as Chief Executive Officer, granting him the same powers as the previous ones, so that any of them, jointly and severally, on behalf of and representing the company, may exercise the powers detailed below:

1. 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 movable and immovable properties, under the terms and conditions freely determined, and to acquire the properties held under such finance leases, with the sole limit that when the acquisition amount exceeds three hundred thousand five hundred and seven euros, they 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 the acting Chairman.

2. To verify groupings or subdivisions of properties, demarcations and deeds of declaration of new construction.

3. To submit accounts and request them, approve them, adjust or challenge them, to provide and receive the sums of the resulting balances and sign and receive final settlements.

4. 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.

5. 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 types of movable or immovable property, without excluding personal and real rights, with the only limitation that when the operation agreed upon using this power exceeds three hundred thousand five hundred and seven euros, 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 the acting Chairman.

6. 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.).

7. 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.

8. To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Property 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.

9. 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.

10. 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.

11. As security for the obligations of third parties and on their behalf, whether said parties are 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, with the sole limit that, if the obligation undertaken by way of guarantee exceeds three million five thousand and sixty euros, 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 the acting Chairman.

12. 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.

13. 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.

14. To confer legal and court-case powers on court procedural representatives ("procuradores") 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.

15. 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.

16. 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.

17. 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, and establish such terms and conditions of the policies as they see fit.

18. To authorise certifications of the Bank's accounting ledgers and documents.

a) To execute and sign the public deeds and private documents required for the aforementioned acts and agreements

b) 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 Bank

Not applicable.

Agreements between the Bank 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.