Santander Consumer Finance, S.A. and subsidiaries

Auditor´s report on the condensed interim consolidated financial statements,
Interim consolidated management report at June 30, 2021

Independent auditor's report on the condensed interim consolidated financial statements

This version of our report is a free translation of the original, which was prepared in spanish. All posible 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.

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, 2021, 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 on that date, in all material aspects, in accordance with the requirements of International Accounting Standards (IAS) 34, Interim Financial Reporting, as adopted by the European Union, as provided in Article 12 of Royal Decree 1362/2007, for the preparation condensed interim financial statements.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsabilities 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 appropiate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the condensed interim consolidated financial statement 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 of these matters.

Key audit matter	How our audit addressed the key audit matter
Estimation of the impairment of financial assets at amortized cost – loans and advances – customers – collectively determined	
The expected loss impairment calculation model required by International Financial Reporting Standard 9 (IFRS 9), together with its adaptations in response to the COVID-19 crisis have increased its complexity by bringing in new estimates, such as adjustments to the model for the determiantion of the expected loss ("Post-model adjustments"), the consideration of some aid measures regading staging criteria or the consideration of guarantees in theose transactions affected by COVID-19. For this reason, they are considered to be among the most significant and complex estimates in the preparation of the accompanying condensed interim consolidated financial statements. In this context, the main judgements and assumptions made by Management are as follows: • The monitoring and evaluation of adjustments to the expected credit loss ("Post-model adjustments") to reflect, in the impairment of financial assets at amortized cost estimation, the effect of the macroeconomic perspectives and expected credit losses for such assets. • Subjective criteria related to the identification and staging of the transactions that could be affected by COVID -19.	Assisted by our risk specialists, we gained an understanding of Management's process when estimating the impairment of assets at amortised cost – loans and advances ro customers, regarding provisions estimated collectively. Regarding internal control, we gained an in-depth understanding and tested controls relating to the main estimation process phases, paying particular attention to processes related to the revision and follow up the staging of transactions, the determination of the main assumptions used, as well as the calculation and approval of the post-model adjustments. We also performed the following test of details: • Review of the methodology developed by management regarding the adjustments to the expected credit loss models made in the COVID-19 environment ("Post-model adjustments"), and of the new scenarios and assumptions considered in the determination of those adjustments, as well as the reperformance of its calculation. • Review of the main models, with respect to: i) calculation and segmentatios methods; ii) estimation of parameter of expected credit loss methodology; iii) data used and main estimation involved; iv) loan staging criteria; and v) scenario information and its related assumptions and sensibilities.

Key audit matter	How our audit addressed the key audit matter
• Monitoring and, if necessary, updating the main estimates used in the calculation of the probability of default (PD - Probability of Default) and loss given default (LGD - Loss Given Default) parameters. See notes 1.d and 5 to the accompanying condensed interim consolidated financial statements.	• Re-performance of calculation of collective provisions based on the parameters obtained from the expected credit loss models, including, when appropriate, any guarantees in the calculation. The result of the procedures described shows that the models and methodologies used to calculate the impairment of financial assets at amortized cost – customer loans and advances, are adequate. Any difference obtained as a result of our procedures regarding the calculation performed by the management has been kept within a reasonable range in relation to the amount of impairment corrections of these assets included in the accompanying condensed interim consolidated financial statements.
Assessment of goodwill impairment indicatorsel	
The Group assesses for signs of impairment indicators at least once a year and, if applicable, estimates the recoverable amount of each Cash-Generating Unit (CGU) to which goodwill has been allocated, mainly using independent expert valuations. Due to their relevance to the Group, Management pays special attention to goodwill from the Cash-Generating Units of Germany, Austria and Nordic countries (Scandinavia). With respect to the condensed interim consolidated financial statements, the Group management has evaluated, with particular attention to the follow up to the current economic and business environment, as well as the market conditions in the main CGUs, whether has been, since the end of the previous year, any evidence of impairment that would require the re-evaluation of the impairment calculation. As indicated in note 8, Management has not identified any evidence of impairment in any of the CGU that have goodwill assigned.	Assisted by our valuation experts, we have obteined an understanding of the processes for assessing indications performed by Management, taking into consideration the current economic and business environment. With respect to internal control, we have conducted an understanding and test of controls over the assessment of goodwill impairment indications for the main CGUs, performed by the Group's Management, including oversight of the process and related approvals. In addition, we performed tests to verify the assessment of impairment indicators, considering regulatory requirements, market practice and specific expectations of the banking sector. This assessment has included the analysis of the budget monitoring for the main CGUs, the testing of assumptions such as growth rates and discount rates, and the impact of identified variations in budgets and rates, which served as a basis for the Group's management to conclude on the existence of impairment indicators.

Key audit matter	How our audit addressed the key audit matter
The assessment of impairment signs requires complex estimation and involves a high degree of management judgement and, therefore, the assumptions made have been considered as one of the key audit matters. See notes 1.d and 8 of the accompanying condensed interim consolidated financial statements.	As a result of the above-mentioned procedures, we consider Management's assessment to be reasonable and the Management's main estimates have been kept withing a reasonable range in the context in which the condensed interim consolidated financial statements are prepared.
Information systems	
The Group's financial information relies largerly 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 in the Group, although a part has also been developed by External Partners. In this context, it is essential to assess aspects such as 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 as one of the key audit matters. In this regard, management continues to monitor internal control over IT systems, including access control that supports the Group's technology processes.	With the help of our IT system specialists, our work considered 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 monitoring carried out by Management on internal control in IT systems, our audit approach and plan focused on the following aspects: • Assessment of the monitoring carried out by Management as part of the access control environment made by the Group. • Verification of the design and operability of the controls put in place by Management, including access controls. The results of our previous procedures have not revealed any relevant observations on this issue.

Emphasis of matters

We point out the note 1.b accompanying, which described that such condensed interim consolidated financial statements do not contain all 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, hence 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, 2020. The matter does not modify our opinion.

Other information: Interim consolidated managment report

Other infromation comprises only the interim consolidated management report for the six-month period ended June 30, 2021, 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, as well as to evaluate and report on whether the content and presentation of the interim consolidated management report is in accordance with the applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

Based on the work performed, as described in the previous paragraph, the infromation 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, 2021, and its content and prensentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the concondensed 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 held on March 18, 2021 appointed us as the Group's auditors for a one-year period, for the year ended on December 31, 2021.

Previously, we were appointed by resolution of the General Shareholders´ Meeting for a period of 3 years and we have audited the accounts continuously since the year ended 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)

Ignacio Martínez Ortiz (23834)

July 29, 2021

Santander Consumer Finance S.A. and companies composing Santander Consumer Group

Interim Condensed Consolidated
Financial Statements and Interim
Consolidated Management Report
for the six-month period ended 30 June 2021

SANTANDER CONSUMER FINANCE, S.A. AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 June 2021 AND 31 December 2020
(Thousands of euros)

ASSETS	Note	30/06/2021	31/12/2020 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**13,780,422**	**10,316,799**
FINANCIAL ASSETS HELD FOR TRADING	5	**15,313**	**16,786**
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**3,879**	**391**
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	5	—	—
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	5	**952,937**	**773,492**
FINANCIAL ASSETS AT AMORTISED COST		**101,845,982**	**102,564,014**
HEDGING DERIVATES	16	**33,808**	**46,146**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK		**2,013**	**16,069**
INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		**674,473**	**635,248**
Investments in joint ventures		245,549	211,810
Associated entities		428,924	423,438
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS		—	—
TANGIBLE ASSETS	7	**1,987,593**	**1,831,196**
Property, plant and equipment		1,987,593	1,831,196
For own-use		*402,996*	*400,880*
Leased out under an operating lease		*1,584,597*	*1,430,316*
Investment property		—	—
Of which Leased out under an operating lease		—	—
Memorandum items: acquired in financial lease		*298,576*	*290,976*
INTANGIBLE ASSETS	8	**2,025,124**	**2,024,357**
Goodwill		1,714,051	1,709,913
Other intangible assets		311,073	314,444
TAX ASSETS		**1,084,495**	**1,040,286**
Current tax assets		548,156	467,494
Deferred tax assets		536,339	572,792
OTHER ASSETS		**741,591**	**715,188**
Inventories		4,178	4,168
Other		737,413	711,020
NON-CURRENT ASSETS HELD FOR SALE	6	**61,577**	**54,631**
TOTAL ASSETS		**123,209,207**	**120,034,603**

(*) 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 2021.

SANTANDER CONSUMER FINANCE S.A. AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS AS AT 30 June 2021 AND 31 DECEMBER 2020

(Thousands of euros)

LIABILITIES	Note	30/06/2021	31/12/2020 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	9	**15,471**	**20,955**
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		—	—
FINANCIAL LIABILITIES AT AMORTISED COST	9	**105,396,032**	**102,348,972**
HEDGING DERIVATES	16	**138,487**	**184,678**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		**78**	—
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS		—	—
PROVISIONS	10	**818,915**	**892,228**
Pensions and other post-retirement obligations		587,240	636,531
Other long term employee benefits		47,494	52,500
Taxes and other legal contingencies		16,824	22,878
Contingent liabilities and commitments		31,008	33,396
Other provisions		136,349	146,923
TAX LIABILITIES		**1,288,878**	**1,141,248**
Current tax liabilities		312,978	194,824
Deferred tax liabilities		975,900	946,424
OTHER LIABILITIES		**1,640,252**	**1,539,509**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		—	—
TOTAL LIABILITIES		**109,298,113**	**106,127,590**
SHAREHOLDERS´ EQUITY:	11	12,391,094	12,476,757
CAPITAL		5,638,639	5,638,639
Called up paid capital		*5,638,639*	*5,638,639*
Unpaid capital which has been called up		—	—
SHARE PREMIUM		1,139,990	1,139,990
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		1,200,000	1,200,000
Equity component of the compound financial instrument		—	—
Other equity instruments issued		*1,200,000*	*1,200,000*
OTHER EQUITY		—	—
ACCUMULATED RETAINED EARNINGS		3,802,905	3,919,209
REVALUATION RESERVES		—	—
OTHER RESERVES		91,099	74,864
(-) OWN SHARES		—	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		518,461	504,055
(-) INTERIM DIVIDENDS		—	—
OTHER COMPREHENSIVE INCOME	11	(656,300)	(701,640)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS		(149,138)	(185,799)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		(507,162)	(515,841)
NON-CONTROLLING INTEREST		2.176.300	2,131,896
Other comprehensive income		*(2,318)*	*(4,012)*
Other elements		*2,178,618*	*2.135.908*
EQUITY (*)		**13,911,094**	**13,907,013**
TOTAL EQUITY AND LIABILITIES		**123,209,207**	**120,034,603**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS		**24,298,769**	**23,473,576**
Loan commitments granted	14	22,987,483	22,592,463
Financial guarantees granted	14	248,714	331,229
Other commitments granted	14	1,062,572	549,884

(*) 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 2021.

SANTANDER CONSUMER FINANCE AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 June 2021 AND 2020

(Thousands of euros)

	Note	Incomes / (Expenses)	
		30/06/2021	30/06/2020
Interest income and other similar income	12	1,993,129	1,995,420
Financial assets at fair value through other comprehensive income		4	—
Financial assets at amortised cost		*1,919,763*	*1,994,937*
Rest of interest expense		*73,362*	*483*
Interest expense		(242,294)	(261,567)
Net interest income		**1.750.835**	**1.733.853**
Dividend income	12	4	—
Share of results of entities accounted for using the equity method		29,314	33,189
Commission income	12	525,664	481,066
Commission expense		(160,161)	(152,417)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	12	(2,819)	425
Gain or losses on financial assets and liabilities held for trading, net	12	1,424	458
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	12	7	—
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	2,468	1,289
Exchange differences, net		1,795	(9,917)
Other operating income	12	191,063	71,597
Other operating expenses		(181,226)	(105,868)
Income from assets under insurance and reinsurance contracts		—	—
Expenses from liabilities under insurance and reinsurance contracts		—	—
Gross income		**2,158,368**	**2,053,675**
Administrative expenses		(830,443)	(806,812)
Staff costs		*(432,948)*	*(398,781)*
Other general administrative expenses		*(397,495)*	*(408,031)*
Depreciation and amortisation cost		(93,475)	(79,109)
Provisions or reversal of provisions, net	10	(19,024)	(34,755)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss, net	5	(269,179)	(462,683)
Financial assets at fair value through other comprehensive income		*60*	*64*
Financial assets at amortized cost		*(269,239)*	*(462,747)*
Impairment of investments in subsidiaries, joint ventures and associates, net		—	—
Impairment on non-financial assets, net		459	(289,555)
Tangible assets	7	1,154	*(1,514)*
Intangible assets	8	(382)	*(287,535)*
Others		*(313)*	*(506)*
Gain or losses on non-financial assets and investments, net	7	(104)	(199)
Negative goodwill recognised in results	2	—	6,272
Gains or losses on non-current assets held for sale not classified as discontinued operations	6	(2,905)	(2,588)
Profit or loss before tax from continuing operations	12	**943,697**	**384,246**
Tax expense or income from continuing operations	12	(273,643)	(254,503)
Profit for the period from continuing operations		**670,054**	**129,743**
Profit or loss after tax from discontinued operations		—	—
Profit for the period		**670,054**	**129,743**
Profit attributable to non-controlling interests		*151,593*	*124,260*
Profit attributable to the parent		*518,461*	*5,483*
Earnings per share			
Basic	3	*0.256*	*(0.014)*
Diluted	3	*0.256*	*(0.014)*

(*) 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 2021.

SANTANDER CONSUMER FINANCE S.A. AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE SIX-MONTH PERIODS ENDED 30 June 2021 AND 2020

(Thousands of euros)

	30/06/2021	30/06/2020
CONSOLIDATED PROFIT FOR THE PERIOD	**670,054**	**129,743**
OTHER RECOGNISED INCOME AND EXPENSE	**47,034**	**(135,048)**
Items that will not be reclassified to profit or loss	**38,910**	**16,171**
Actuarial gains and losses on defined benefit pension plans	49,418	20,688
Non-current assets held for sale	—	—
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	—	(30)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	5,126	1,980
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other	—	—
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	(15,634)	(6,467)
Items that may be reclassified to profit or loss	**8,124**	**(151,219)**
Hedges of net investments in foreign operations (effective portion)	(58,832)	93,298
Revaluation gains (losses)	*(58,832)*	*93,298*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Exchanges differences	59,664	(222,650)
Revaluation gains (losses)	*59,664*	*(222,650)*
Amounts transferred to income statement	—	—
Other reclassifications	—	—
Cash flow hedges (effective portion)	3,556	(2,644)
Revaluation gains (losses)	*(4,195)*	*(10,545)*
Amounts transferred to income statement	*7,751*	*7,901*
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	(407)	(47)
Revaluation gains (losses)	*(263)*	*25*
Amounts transferred to income statement	*(144)*	*(72)*
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	4,849	(18,633)
Income tax relating to items that may be reclassified to profit or loss	(706)	(543)
Total recognised income and expenses	**717,088**	**(5,305)**
Attributable to non-controlling interests	*153,287*	*121,083*
Attributable to the parent	*563,801*	*(126,388)*

(*) 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 2021.

SANTANDER CONSUMER FINANCE S.A. AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY

FOR THE SIX-MONTH PERIODS ENDED 30 June 2021

(Thousands of euros)

	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	Non-Controlling interest		Total
												Other comprehensive income	Others items	
Balance as at 31-12-2020(*)	**5,638,639**	**1,139,990**	**1,200,000**	**—**	**3,919,209**	**—**	**74,864**	**—**	**504,055**	**—**	**(701,640)**	**(4,012)**	**2,135,908**	**13,907,013**
Adjustments due to errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance as at 01-01-21 (*)	**5,638,639**	**1,139,990**	**1,200,000**	**—**	**3,919,209**	**—**	**74,864**	**—**	**504,055**	**—**	**(701,640)**	**(4,012)**	**2,135,908**	**13,907,013**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**518,461**	**—**	**45,340**	**1,694**	**151,593**	**717,088**
Other changes in equity	**—**	**—**	**—**	**—**	**(116,304)**	**—**	**16,235**	**—**	**(504,055)**	**—**	**—**	**—**	**(108,883)**	**(713,007)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	16,660	16,660
Issuance of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	(567,623)	—	—	—	—	—	—	—	(124,281)	(691,904)
Purchase of equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Disposal of equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from equity to liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers between equity items	—	—	—	—	451,319	—	52,736	—	(504,055)	—	—	—	—	—
Increases (decreases) due to business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others increases or (-) decreases of the equity	—	—	—	—	—	—	(36,501)	—	—	—	—	—	(1,262)	(37,763)
Balance as at 30-06-21	**5,638,639**	**1,139,990**	**1,200,000**	**—**	**3,802,905**	**—**	**91,099**	**—**	**518,461**	**—**	**(656,300)**	**(2,318)**	**2,178,618**	**13,911,094**

(*) 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 2021.

SANTANDER CONSUMER FINANCE S.A. AND DEPENDENT SUBSIDIARIES

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.

SANTANDER CONSUMER FINANCE S.A. AND DEPENDENT SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS ENDED 30 June 2021 AND 2020

(Thousands of euros)

	Nota	30/06/2021	30/06/2020 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**5,218,458**	**1,270,586**
Profit for the period		**670,054**	**129,743**
Adjustments made to obtain the cash flows from operating activities		**829,138**	**1,129,128**
Depreciation and amortisation cost		93,475	79,109
Other adjustments		735,663	1,050,019
Net increase/(decrease) in operating assets		**473,584**	**31,856**
Financial assets held-for-trading		*1,473*	*4,443*
Non-trading financial assets mandatorily at fair value through profit or loss		*(3,488)*	*9*
Financial assets at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		*(174,571)*	*1,442*
Financial assets at amortized cost		*738,940*	*76,114*
Other operating assets		*(88,770)*	*(50,152)*
Net increase/(decrease) in operating liabilities		**3,426,805**	**235,849**
Liabilities held-for-trading financial		*(5,506)*	*(2,053)*
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		*3,448,964*	*368,099*
Other operating liabilities		*(16,653)*	*(130,197)*
Income tax recovered/(paid)		**(181,123)**	**(255,990)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(307,283)**	**27,135**
Payments		**(451,064)**	**(199,054)**
Tangible assets		*(402,567)*	*(37,804)*
Intangible assets		*(48,497)*	*(62,988)*
Investments		—	—
Subsidiaries and other business units		—	*(98,262)*
Non-current assets held for sale and associated liabilities		—	-
Held-to-maturity investments		—	—
Proceeds		**143,781**	**226,189**
Tangible assets		*141,922*	*29,064*
Intangible assets		—	—
Investments		*946*	*22*
Subsidiaries and other business units		—	*196,529*
Non-current assets held for sale and associated liabilities		*913*	*574*
Other payments related to investing activities		—	—
C. CASH FLOW FROM FINANCING ACTIVITIES		**(1,442,233)**	**(612,469)**
Payments		**(1,558,893)**	**(890,869)**
Dividends		*(567,623)*	*(633,407)*
Subordinated liabilities		*(810,997)*	*(19,058)*
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		—	—
Other payments related to financing activities		*(180,273)*	*(238,404)*
Proceeds		**116,660**	**278,400**
Subordinated liabilities		*100,000*	*200,000*
Issuance of own equity instruments		—	—
Disposal of own equity instruments		—	—
Other proceeds related to financing activities		16,660	78,400
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		**(5,319)**	**564**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,463,623**	**685,816**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**10,316,799**	**7,828,983**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**13,780,422**	**8,514,799**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*98,201*	*85,363*
Cash equivalents at central banks		*11,412,083*	*5,517,812*
Other financial assets		*2,270,138*	*2,911,624*
Less: Bank overdrafts refundable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD		**13,780,422**	**8,514,799**
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 2021.

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 2021

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 2021 (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 2020 and the first half of 2021, 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.

The condensed consolidated interim financial statements (hereinafter, interim financial statements) of Santander Group for the six-period month ended June 30, 2021, have been prepared and formulated by its directors, at their meeting held on July 27, 2021. The consolidated financial statements of Santander Group for the year 2020 were approved by the general meeting of shareholders held on March 26, 2021.

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, on Public and Confidential Financial Reporting Standards and Financial Statements Formats.

The Group's consolidated annual accounts for 2020 were authorised by the Bank's directors (at the board of directors meeting on 18 February 2021) in accordance with EU-IFRS, taking into account Bank of Spain Circular 4/2017 and its subsidiaries modifications, 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 2020 and the consolidated results of its operations, the consolidated recognised income and expense, the changes in consolidated equity and the consolidated cash flows in 2020.

These interim financial statements were prepared and are presented in accordance with the International Accounting Standards (hereinafter, 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 2021 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 Santander Consumer Finance Group's consolidated annual accounts for the year ended 31 December 2020.

The 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 2020. 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 2020, except for the standards that came into force during the first six months of 2021, which are detailed below:

- Modification of IFRS 4 Insurance Contracts, which is aimed at extending the expiry date of the temporary exemption from applying IFRS 9 by two years (from 1 January 2021 to 1 January 2023) for entities whose activities are predominantly insurance-related. This achieves alignment with the effective date of IFRS 17 Insurance Contracts (1 January 2023). It applies from January 1 2021.

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

  All accounting policies and measurement bases with a material effect on the interim financial statements for 30 June 2021 were applied in their preparation.

  By the time of the preparation 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, subsequent to 1 January 2021.

- Modification of IFRS 16 Leases: as a result of the covid-19 pandemic, IFRS 16 is amended to allow the lessee to apply a practical expedient and not consider the rental concessions as a lease modification whenever the following requirements are met: the revised consideration is the same or less than the consideration prior to the change, the affected payments are prior to 30 June 2021, and there are no substantial changes in the rest of the lease condition. On March 2021, the IASB published an additional amendment to extend the scope of the practical expedient to 30 June 2022.

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

d) Use of estimates

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 2021. From the results of this evaluation, the following aspects stand out:

– Credit risk:

i. Covid-19 management and customer support:

Since the start of the covid-19 health crisis last year, Goup's priority has been to look after the health of its employees, customers and shareholders, as well as helping to alleviate the economic impact of the pandemic and offering the best solutions to help our customers. The various measures implemented to manage the effects of the pandemic can be grouped into the following areas:

- Identification and classification of clients or groups affected or potentially affected by the pandemic.
- Granting of support measures under both government and internal programmes and close monitoring of the evolution of the customers subject to them, especially after their maturity, to ensure that their potential impairment is correctly reflected in the Group's risk management.
- Remedial management activities where necessary.
- Adaptation and reinforcement of our policies, models and processes relating to the estimation of expected losses and the classification of customers and transactions in order to ensure adequate risk management and hedging under the new environment.
- Improvement and adaptation of reporting, incorporating new metrics and indicators such as those relating to the evolution of the pandemic or the volume and behavior of moratoria, thus increasing the predictive capacity in relation to the evolution of the Goup's risk profile.

In addition, the continuous interaction and coordination with subsidiaries has been a key asset in the management of this crisis. the experience gained in the fight against the health crisis and its financial consequences in the different geographies has allowed us to share the best practices identified and to implement in an agile and efficient manner those strategies and specific actions that have been most successful, adapted to the local reality of each market.

96.4% of the total moratorium (about EUR 8,661 million) have already matured by the end of June 2021, showing a good performance, with 2,8% of them being classified as stage 3 in accordance with IFRS 9. Loan subject to moratorium and not overdue amounted EUR 90.9 million (mainly in Spain and Portugal), with about 54,9 million maturing at the end of the third quarter.

In order to give continuity to all the measures adopted and the efforts made during 2020, in 2021 various actions continue to be carried out to keep attention and support to the Group's clients in all the geographies in which it is present. The main objective of these initiatives is to be able to carry out a more detailed and specific identification, classification and evaluation of the risks to which the Group is exposed.

ii. Estimation of expected loss:

The quantification of additional expected losses of the different credit portfolios was carried out by analyzing the losses under IFRS 9 in accordance with the recommendations of the different accounting, regulatory and supervisory bodies. Theses highlighted the uncertainties surrounding the economic impacts of the covid-19 health crisis, which was also evident in the frequent updates of macroeconomic forecasts, with different perspectives as to the depth and duration of the crisis. Thus, the general recommendation (including IASB, ESMA, EBA and ECB) was not to mechanistically apply the usual techniques for calculating expected losses under IFRS 9, to prevent this variability of the fact that the impact on macroeconomic expectations would result in undesired volatility in outcomes, with its potential pro-cyclical effects on the economy.

When estimating the expected loss, the Group analyses losses under IFRS 9 taking into account 3 types of elements:

1. Continuous monitoring of clients:

- We continue to monitor and provide solutions to those Group customers whose moratoriums have expired, facilitating the restructuring of their debt for those customers with loans subject to government guarantee programmes that so require. Strict classification and loss recognition criteria are always applied in accordance with our internal rules, current regulations and supervisory recommendations.
- Progress continued to be made in the processes of assessing and classifying our customers at the individual and sectoral level, following the various collective analyses carried out during the year. To this end, the behavior of customers and the collective analyses carried out are continuously monitored, identifying and classifying on an individual basis those customers showing sign of impairment. As some of the uncertainties generated by the pandemic are cleared up, where will be a progressive move away from collective analyses towards a more individualized identification of deterioration.

2. Foresight

- In this regard, when estimating the impact of macroeconomic information on the calculation of provisions under IFRS 9, the Group has continued to use macroeconomic scenarios based on the structural deterioration of the economy, following the guidance of supervisors and regulators in terms of a long-run view in the generation of scenarios. This structural view is generated through a more stable long-term outlook, reflecting the structural deterioration caused by the pandemic. For this purpose, for each geography, the point at which the macro, as represented by GDP and other relevant variants, recovers its potential growth trend is analyzed, taking into account a seasonal factors applicable to each economy

3. Additional elements

- Whenever they are necessary because they have not been captured under the two previous elements, they include, among others, the collective analysis including review of the sectors most affected by the pandemic, whenever their impacts have not been sufficiently captured by the macroeconomic scenarios. Also collective impairment assessment, whenever the potential deterioration in a group of customers cannot be identified.

With the elements indicated above, the Group assesses the evolution of the credit quality of its customers in each of the geographical areas, for the purposes of their classification in phases in accordance with IFRS9 and consequently the calculation of the expected loss.

iii. Quantification of additional provisions by covid-19:

Numerous international authorities and supervisors noted the importance of cautiously adapting and applying accounting and prudential policies to the containment measure put in place to deal with the effects of the covid-19 health crisis.

Considering these guidelines, Santander Consumer Finance Group accounted for the potential expected losses based on long-term stable macroeconomic forecasts, once the structural deterioration of the economy has materialized, through a subsequent overlay of the model, complemented by a collective and/or individual assessment in order to reflect a more accurate situation, specifically to recognize expected credit losses on assets that may have suffered a significant increase in credit risk (SCIR). In the case of collective assessment, without the need to identify which individual financial instruments suffered such SICR.

Such an overlay was considered the best option to recognize the increase in expected loss, as a mechanical application of the expected credit loss (ECL) methodology in the current context could have led to undesired volatility or unexpected results due to the lack of reliable information. Therefore, the additional provisions associated with different macroeconomic scenarios have been calculated using internal models; however, the above-mentioned overlay to the monthly IFRS 9 calculations has been considered to improve the control and monitoring of the accuracy of the expected credit loss estimation.

The Group monitors the macroeconomic evolution in each of the geographies where it is present, and the adequacy of the provisions set up as indicated in the previous sections to the observed and expected impairment of its portfolios. As the relationship between the macroeconomic evolution, the models and the resulting provisions normalizes, the different units of the Group will progressively return in the coming quarters to the application of the IFRS 9 calculation processes in place prior to the outbreak of the pandemic.

During the first six months of 2021, no additional allocations have been recorded to the existing overlay as of December 31, 2020.

- Market risk:

The evolution of financial markets during the first semester of 2021 has maintained the trend of the previous quarters, with a normalization of conditions after the tensions experienced during the first half of 2020. No significant increases in volatility, reductions in liquidity or reduced access to price sources and real market transactions for an appropriate valuation of our portfolios have been observed in the main risk factors present in our portfolios. Nor have we seen greater dispersion among the various price contributors and credit spreads have maintained their downward trend in a macroeconomic environment confident of economic recovery after the crisis of last year.

As a result, there has been no significant impact on the fair value hierarchy and most markets, underlying and maturities have maintained their classification, in line with our observability and significance criteria.

Nevertheless, the evolution of the markets, their liquidity and the observability conditions of the valuation inputs continue to be rigorously and exhaustively monitored in order to apply the criteria established in the Group for the classification of assets and liabilities measured at fair value and to anticipate any possible changes in current market conditions.

  - Deferred tax assets: with respect to the main countries in which the Group has recognized deferred tax assets, the Group has estimated the recovery period for these assets taking into account the impact of COVID-19. As a result, no further impact was recognized 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 2021, there have been no additional significant changes in the estimates made at the end of 2020, other than those indicated in this interim financial information.

e) Contingent assets and liabilities

Note 2-n to the Group's consolidated financial statements for the year ended 31 December 2020 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 2020 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 2021 or 31 December 2020.

f) Comparative information

The information for the year 2020 contained in these interim financial statements is only presented for comparison purposes with the information relating to the six-month period ended 30 June 2021.

In order to interpret the changes in the balances with respect to 31 December 2020, 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 2020) and the impact of the appreciation/depreciation of the various currencies against the euro in the first six months of 2021, considering the exchange rates at the end of the first half of 2020: Polish zloty (+0.9%), Norwegian krone (+2.5%), Swedish krona (-1.1%), Danish krone (+0.1%), Swiss franc (-1.5%) and Chinese yuan renminbi (+4.6%); as well as the evolution of average exchange rates between comparable periods: Polish zloty (-2.8%), Norwegian krone (+5.0%), Swedish krona (+3.3%), Danish krone (+0.2%), Swiss franc (-2.2%) and Chinese yuan renminbi (+0.9%).

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 2021.

h) Materiality

In determining the note disclosures to be made on the various items composing the financial statements or other matters, 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 2021.

i) Events after the reporting period

On 16 July 2021, Santander Consumer Finance S.A. participated in a capital increase of the dutch company Vinturas Holding B.V., by subscribing 12 shares with a par value of 10 euros each (120 euros of share capital) and a total issue premium of 119,880 euros, therefore the disbursement of 120,000 euros.

Following this increase, Santander Consumer Finance, S.A.'s stake in Vinturas Holding B.V. amounts 14.75%

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.

2. Santander Consumer Finance Group

Appendices I and II to the Group's consolidated financial statements for 2020 provide relevant information on the Group companies that consolidated at 2020 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 2020 and 2019.

The most significant acquisitions and sales during the first half of 2021, 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 2021

TIM-SCB JV S.p.A

On 29 October 2020, the Group agreed to a capital increase of 4 millions of euros, to reach a share capital of 6 millions of euros, which was fully subscribed and paid in by its shareholders in accordance with their percentage of ownership. The capital increase was represented by 4 millions shares with a par value of 1 euro each.

On 4 January 2021, the outstanding capital increase has been carried out for starting the activity by 34 millions of euros, to reach a capital of 40 millions of euros, which was fully subscribed by its shareholders in accordance with their percentage of ownership.

The entity has started its activity on February 2021.

Hyundai Capital Bank Europe, GmbH

On 4 November 2020, Santander Consumer Bank AG, Hyundai Capital Services Inc and Hyundai Capital Bank Europe GmbH signed a supplemental to the original shareholders agreement for the opening of a branch of Hyundai Capital Bank Europe GmbH in Italy with the purpose to development the financing of Hyundai and Kia cars as well as other services related to it by obtaining funds from the public via deposits and loans in the Italian market.

After obtaining the regulatory authorization, the branch is open and inactive on July 2021. It was not necessary the opening for a new branch, due to the fact that Hyundai Capital Bank Europe GmbH had already a branch in Italy. The start of its operation is scheduled for 4 October 2021.

There have been no other significant changes in the Group´s consolidation perimeter.

Merger between Santander Consumer Finance, S.A. and Santander Consumer Bank, S.A.

On 24 and 25 September 2020, the Board of Directors of Santander Consumer Bank, S.A. y of Santander Consumer Finance, S.A. drafted and signed, respectively, the common merger project between Santander Consumer Finance, S.A. (as absorbing company) and Santander Consumer Bank, S.A. (as absorbed company). In accordance with article 51 of Law 3/2009 of 3 April, on structural modifications of mercantile companies ("LME"), the aforementioned merger operation was approved on 25 September 2020 by the Board of Directors of Santander Consumer Finance, S.A. In accordance with applicable Belgian regulations, on 11 December 2020, the Sole Shareholder of Santander Consumer Bank, S.A. approved the merger, all subject to obtaining the corresponding regulatory authorizations and other conditions precedent to which the effectiveness of the merger was subject.

The aforementioned operation constitutes a merger of those regulated in article 76.1.c) of Law 27/2014, of 27 November, on Corporation Tax ("LIS").

Once the mandatory authorization of the Ministry of Economic Affairs and Digital Transformation of the merger has been obtained (additional provision twelfth of Law 10/2014 of 26 June on the organization, supervision and solvency of credit institutions), as well as the remaining Regulatory authorizations and once the conditions precedent to which the merger was conditioned, were fulfilled on March 2, 2021, the corresponding deed of merger was granted between Santander Consumer Finance, S.A. and Santander Consumer Bank, S.A., which was submitted for registration in the Registro Mercantil of Madrid the following day 3 March 2021 and was registered on 5 March 2021. Consequently on the occasion of the registration of this merger, Santander Consumer Bank SA was terminated without liquidation and the transfer of all its assets to Santander Consumer Finance, S.A., which acquired it by universal succession and without solution of continuity, leaving said assets and liabilities assigned simultaneously to the Santander Finance, SA branch in Belgium.

Santander Consumer Finance S.A. did not increase its capital, due to the fact that the absorbed entity was fully owned by Santander Consumer Finance S.A. in concordance with article 49.1, in relation to article 26 of the LME. Once the merger was effective on 5 March 2021, all the shares of the absorbed company were fully amortized, extinguished and cancelled.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, the merger was set on 1 January 2021 as the date from which the operations of the absorbed company were to be considered carried out by the absorbing company. At the consolidated Group level, there have been no significant equity impacts derived from the aforementioned operation.

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

Merger between Santander Consumer Finance, S.A. and Santander Consumer Mediación OBSV, S.L.

On 18 March 2021, the directors of Santander Consumer Finance, S.A. and of Santander Consumer Mediación OBSV, S.L. approved the merger of both entities and drafted and signed the merger project. The authorization request was sent to the regulatory bodies on the same day.

At the date of preparation of the accompanying financial statements, all the regulatory authorizations had been received. The merger is expected to be registered before 31 July 2021, its accounting to be applicable retrospectively as from 1 January 2021.

Regarding this transaction, on March 2021 Santander Consumer Finance, S.A. adquire 11% of the shares held by Transolver Finance EFC, S.A. in Santander Consumer Mediación OBSV, S.L. for 97,968.02 euros. The transaction entailed the acquisition by Santander Consumer Finance, S.A. of 12,870 shares. With this acquisition Santander Consumer Finance, S.A. holds a 100% stake in Santander Consumer Mediación OBSV, S.L. share capital.

Merger between Santander Consumer Finance, S.A. and Banco Santander Consumer Portugal, S.A.

On 18 March 2021, the Boards of Directors of Santander Consumer Finance, S.A. and Santander Consumer Portugal, S.A. approved respectively the merger of both entities and drafted and signed the merger project. The authorization request was sent to the regulatory bodies on the same day.

The merger project incorporates the continuity of activities in Portugal thought a Portuguese branch of SCF, the establishment of which will be processed simultaneously with the merger.

At the date of preparation of these interim financial statements not all the regulatory authorization have been received, so it is expected to register the merger in the last quarter of 2021 its accounting to be applicable retrospectively as from 1 January 2021.

Merger between Santander Consumer Finance, S.A. and Santander Consumer Finance Benelux, B.V.

On June 23 2021, the Boards of Directors of Santander Consumer Finance, S.A. and of Santander Consumer Finance Benelux, S.A. respectively, as well as Supervisory Board of Santander Consumer Finance Benelux, B.V. drafted and signed the merger project. The authorization request was sent to the regulatory bodies on the same day.

The merger plan ensures the continuity of activities in Holland through a dutch branch of SCF, the establishment of which will be processed simultaneously with the merger.

Likewise, and since Santander Consumer Finance Benelux, B.V. owns a branch in Belgium, the activity of this branch will be assigned to the new Belgian branch recently created by Santander Consumer Finance, S.A. in Belgium.

At the date of preparation of these accounts, all the regulatory authorization has not been received, so it is expected to register the merger in the last quarter of 2021 with retroactive accounting effect on 1 January 2021.

There have been no significant changes in the Group´s consolidation perimeter.

Impairments of investments in subsidiaries, joint ventures and associates

As at 30 June 2021 and 2020, there has not been registered impairments based on the value of investments in subsidiaries and affiliates.

3. Shareholder remuneration system and earnings per share

a) Shareholder remuneration system

On 18 February 2021, in view of the liquidity status of the Company, the Board of Directors agreed after the formulation of the Interim Condensed Consolidated Financial Statements, a distribution of dividends from profits for the year 2020 of 114,652 thousand of euros. Likewise, the Extraordinary General Meeting of Shareholders held on 18 February 2021 agreed at the proposal of the Board of Directors, the payment of a dividend charged to unrestricted reserves of 452,971 thousand euros. Both dividends were paid on 1 March 2021.

The cash remuneration paid by the Bank to its shareholders in the first six months of 2021 and 2020 was as follow:

	First half of 2021			First half of 2020		
	% of par value	Euros per share	Amount (Thousands of euros)	% of par value	Euros per share	Amount (Thousands of euros)
Ordinary shares	100%	0.302	567,623	100%	0.337	633,408
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total remuneration paid	100%	-	567,623	100%	-	633,408
Remuneration charged against profit or loss	100%	0.061	114,652	100%	0.237	445,452
Remuneration charged against reserves or the share premium account	100%	0.241	452,971	100%	0.100	187,956
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 2021 and 2020 is as follows:

	30/06/2021	30/06/2020
Consolidated profit of the year attributable to the Parent (thousands of euros)	518,461	5,483
Remuneration of contingently convertible preference shares PPC (thousands of euros)	(36,438)	(32,678)
Dilutive effect of changes in profit for the period arising from potential conversion of ordinary shares	482,023 –	(27,204) –
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)	482,023	(27,204)
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)	0.256	(0.014)
Of which:		
from continuing operations (euros)	*0.256*	*(0.014)*

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 2020 includes the detail of the remuneration and other benefits paid to the Bank's Directors and senior managers in 2020.

The most salient data relating to the aforementioned remuneration and benefits for the six-month periods ended 30 June 2021 and 2020 are summarized as follows:

Remuneration paid to the Bank's Board of Directors

The Bank's Board of directors have received and accrued from Banco Santander, S.A., for the six months ended 30 June 2021 and 2020, the remunerations and benefits summarized below:

	Thousands of euros	
	30/06/2021	30/06/2020
Members of the Board of Directors:		
Type of remuneration-		
Fixed salary remuneration of executive Directors	3,061	2,225
Variable remuneration in cash of executive Directors	233	805
Directors' Allowances	–	–
Attendance fees of Directors (1)	–	–
Other (except insurance premiums)	–	–
Sub-total	**3,294**	**3,030**
Transactions with shares and/or other financial instruments	–	–
	3,294	**3,030**

(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	
	30/06/2021	30/06/2020
Members of the board of directors:		
Other benefits-		
Advances	-	-
Loans granted	-	-
Pension funds and plans: Endowments and/or contributions (1)	366	366
Pension funds and plans: Accumulated rights (2)	9,730	9,454
Life insurance premiums	127	503
Guarantees provided for directors	-	-

(1) These correspond to the endowments and/or contributions made during the first six months of 2021 and 2020 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 12,323 thousands of euros at 30 June 2021 (30 June 2020: 18,733 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 2021 and 2020, excluding the executive directors, that have been fully paid 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	
	30/06/2021	30/06/2020
Senior management (1):		
Total remuneration of senior management (1)	1,621	1,599

(1) The number of senior managers of the Bank, excluding executive directors, is 12 as at 30 June 2021. (11 as of 30 June 2020).

The variable annual remuneration (or bonuses) received for fiscal year 2020, 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 2021 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	
	30/06/2021	30/06/2020
Senior management:		
Pension funds: Endowments and / or contributions (1)	315	249

(1) Corresponds to the allocations and/or contributions made during the first six months of 2021 and 2020 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 2021 and 31 December 2020 is as follows:

	Thousands of euros				
	30/06/2021				
	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	15,313	—	—	—	—
Equity instruments	—	67	—	24,273	—
Debt instruments	—	3,460	—	928,664	4,124,878
Loans and advances	—	352	—	—	97,721,104
Central Banks	—	—	—	—	*50,483*
Credit institutions	—	—	—	—	*1,146,018*
Customers	—	*352*	—	—	*96,524,603*
Total	**15,313**	**3,879**	**—**	**952,937**	**101,845,982**

	Thousands of euros				
	31/12/2020				
	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	16,786	—	—	—	—
Equity instruments	—	70	—	19,105	—
Debt instruments	—	—	—	754,387	4,241,011
Loans and advances	—	321		—	98,323,003
Central Banks	—	—		—	*13,700*
Credit institutions	—	—		—	*869,043*
Customers	—	*321*		—	*97,440,260*
Total	**16,786**	**391**	**—**	**773,492**	**102,564,014**

Hereafter, it is included the gross exposure of financial assets by stages of impairment as of 30 June 2021 and 31 December 2020:

	Thousands of euros							
	30/06/2021				31/12/2020			
	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	**928,744**	**—**	**—**	**928,744**	**754,526**	**—**	**—**	**754,526**
Debt instruments	928,744	—	—	928,744	754,526	—	—	754,526
Loans and advances	—	—	—	—	—	—	—	—
Central Banks	—	—	—	—	—	—	—	—
Credit institutions	—	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—	—
Financial assets at amortised cost	**98,527,319**	**3,440,583**	**2,043,275**	**104,011,177**	**98,583,884**	**4,153,268**	**2,026,944**	**104,764,096**
Debt instruments	4,124,897	—	—	4,124,897	4,241,033	—	—	4,241,033
Loans and advances	94,402,422	3,440,583	2,043,275	99,886,280	94,342,851	4,153,268	2,026,944	100,523,063
Central Banks	50,483	—	—	50,483	13,700	—	—	13,700
Credit institutions	1,149,272	2	—	1,149,274	871,671	4	28	871,703
Customers	93,202,667	3,440,581	2,043,275	98,686,523	93,457,480	4,153,264	2,026,916	99,637,660
Total	**99,456,063**	**3,440,583**	**2,043,275**	**104,939,921**	**99,338,410**	**4,153,268**	**2,026,944**	**105,518,622**

Additionally, the Group has recorded an amount of 24,298,769 thousands of euros in provision of commitments and financial guarantees granted subject to impairment under IFRS 9 (23,473,576 thousands of euros on 31 December 2020), of which an amount of 23,912,718 thousands of euros are in stage 1 (23,322,335 thousands of euros on 31 December 2020) an amount of 350,032 thousands of euros in stage 2 (108,700 thousands of euros on 31 December 2020) and an amount of 36,019 thousands of euros in stage 3 (42,541 thousands of euros on 31 December 2020).

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 2021 and 2020, 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	
	30/06/2021	30/06/2020
Balance at beginning of period	2,200,082	1,941,625
Net impairment losses charged to income for the period (*)	322,144	514,929
Of which:		
Impairment charges	*937,756*	*1,102,202*
Impairment losses reversed with a credit to income	*(615,612)*	*(587,273)*
Write-off of impaired balances against recorded impairment allowance	(350,122)	(312,043)
Exchange differences and other	(6,909)	34,134
Balance at end of period	**2,165,195**	**2,178,645**
Of which:		
Depending of their determination:		
Impaired assets	1,362,403	1,436,657
Other assets	802,792	741,988
Of which:		
Calculated individually	126,128	111,268
Calculated collectively	2,039,067	2,067,377

(*) 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 2021, including sales of written-off portfolios, amounted to 53,316 thousands of euros (first six months of 2020: 55,743 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 411 thousands of euros were recognised in the income statement as a result of renegotiation or contractual amendments (3,561 thousands of euros as of 31 December 2020). Considering these amounts, the impairment of financial assets at amortized cost is 269,239 thousand euros (462,747 thousand euros in 2020)

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 2021 has taken place:

30/06/2021	Thousands of euros			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at beginning of period	**540,238**	**289,195**	**1,367,967**	**2,197,400**
Transfers between stages	(27,238)	(17,031)	224,143	179,874
Net exposure changes and modifications in the credit risk	6,650	(1,458)	137,078	142,270
Write-offs	—	—	(350,122)	(350,122)
Exchange differences and other	6,177	2,984	(16,663)	(7,502)
Carrying amount at period-end	**525,827**	**273,690**	**1,362,403**	**2,161,920**

Additionally, the Group has recorded an amount of 31,008 thousands of euros of provisions for commitments and financial guarantees granted subject to impairment under IFRS 9 (Note 10) (33,396 thousands of euros on 31 December 2020), of which an amount of 24,177 thousands of euros are in stage 1 (26,563 thousands of euros on 31 December 2020), an amount of 1,737 thousands of euros in stage 2 (1,293 thousands of euros on 31 December 2020) and an amount of 5,094 thousands of euros in stage 3 (5,567 thousands of euros on 31 December 2020).

In the first half of 2021 and 2020, the Group sold the following portfolios of written-off loans:

Company	Millions of euros	
	30/06/2021	30/06/2020
	Nominal Value	Nominal Value
Santander Consumer Finance Benelux B.V. (Netherlands)	5	7
Santander Consumer Bank AS (Norway)	—	154
Santander Consumer Bank GmbH (Austria)	35	—
	40	**161**

The sale price of the portfolios of bad loans realized in the first semester of 2021 was 12 million of euros (73,2 million euros as of 30 June 2020).

c) Non-performing assets

The detail of the changes in the six-month periods ended 30 June 2021 and 2020 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	
	30/06/2021	30/06/2020
Balance as at beginning of period	2,026,916	1,969,826
Net additions	361,750	496,853
Written-off assets	(350,122)	(312,043)
Exchange differences and other	4,731	(11,432)
Balance at the end of period	**2,043,275**	**2,143,204**

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 2021 and 31 December 2020.

	Thousands of euros	
	30/06/2021	31/12/2020
Real Guarantees value	35,448,398	34,831,434
Of which guarantee doubtful risk	*140,320*	*152,587*
Other guarantees value	209,459	236,351
Of which guarantee doubtful risk	*623*	*479*
Total value of the guarantees received (*)	**35,657,857**	**35,067,785**

(*) 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 2021 and 31 December 2020:

	Thousands of euros		Thousands of euros	
	30/06/2021		31/12/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances:	97,721,104	99,450,679	98,323,003	100,270,466
Central banks	50,483	50,483	13,700	13,700
Loans and advances to credit institutions	1,146,018	1,152,623	869,043	880,481
Loans and advances to customers	96,524,603	98,247,573	97,440,260	99,376,285
Debt instruments	4,124,878	4,174,449	4,241,011	4,271,209
ASSETS	**101,845,982**	**103,625,128**	**102,564,014**	**104,541,675**

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 2020 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 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/2021	31/12/2020
Tangible assets	**61,577**	**54,631**
Of which:		
Forecolosed assets .	13,418	6,137
Of which property assets in Spain.	2,875	2,788
Other assets .	*48,159*	48,494

As of 30 June 2021, the coverage of non-current assets held for sale amounted 59% (75% in December 2020). The provisions made during both years has amounted to 2,283 and 2,528 thousands of euros, respectively, and the recoveries made during those years amounted to 1,451 and 2,022 thousands of euros, respectively.

The following table shows the breakdown at 30 June 2021 and 31 December 2020 of the foreclosed assets for the Spanish business:

Thousands of euros	30/06/2021		31/12/2020	
	Gross carrying amount	Accumulated impairment charges	Gross carrying amount	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	15,416	(12,861)	15,332	(12,892)
Other real estate assets foreclosed or received in lieu of debt repayment	2,013	(1,693)	2,058	(1,710)
Total property assets	**17,429**	**(14,554)**	**17,390**	**(14,602)**

7. Tangible Assets

a) Changes in the period

In the first six months of 2021, the Group acquired tangible assets for 402,567 thousands of euros (first six months of 2020: 37,840 thousands of euros). This evolution is related to the acquisition of Sixt Leasing, which is indicated in the third Note of the consolidated financial statements as of 31 December 2020 and other acquisitions in other companies.

Additionally, during the first semester of 2021 there were disposals of tangible assets whose sale value was 141,922 thousands of euros (30 June 2020: 29,064 thousands of euros), generating a net profit for the amount of 113 thousands of euros during the first half of 2021 (a net loss of 199 thousands of euros during the first half of 2020).

As of June 30, 2021, the Group has tangible assets under fiance lease for the amount of 299 million euros (291 million at 31 December 2020)

b) Property, plant and equipment purchase commitments

At 30 June 2021 and 2020, 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 2021 and 31 December 2020, based on the cash-generating units giving rise thereto, is as follows:

	Thousands of euros	
	30/06/2021	31/12/2020
Germany	1,307,465	1,307,288
Austria	98,074	98,074
Nordics (Scandinavia)	220,337	216,168
Netherlands	35,550	35,550
Spain / Portugal	52,625	52,833
	1,714,051	**1,709,913**

During the first half of the year 2021 there has been an increase in goodwill of 4,138 thousands of euros, mainly due to exchange differences, which, in accordance with current regulations, have been recognized with a credit to Other comprehensive income - Items that may be reclassified to profit or loss - Foreign currency translation in equity though the condensed consolidated statements of recognized income and expense.

Note 14 to the consolidated annual accounts for the year ended 31 December 2020 includes detailed information on the procedures followed by the Group to analyze the potential impairment of the goodwill recognized with respect to its recoverable amount and to recognize the related impairment losses, where appropriate.

The accounting standard (IAS36) 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.

Accordingly, based on the analysis performed of the available information on the performance of the various cash generating units which might evidence the existence of indicators of impairment, Grupo Santander´s directors concluded that in the first six months of 2021 there were no impairment losses which required recognition (see Note 1.d.).

During the second quarter of 2020, considering the economic and business environment resulting from covid-19, market conditions and the existing economic uncertainly, an impairment test was performed for certain CGUs. As a result, the Group recognized goodwill impairment of 276,681 thousand of euros, related to Santander Consumer Nordics.

b) Other intangible assets

In the first half of 2021, impairment losses due to obsolescence of intangible assets have been recognized amounting to 382 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 2020. In the first half of 2020, impairment losses due to obsolescence of intangible assets have been recognized amounting to 10,854 thousands of euros. These losses are recognized under "Impairment on non-financial assets, net – Intangible assets" in the condensed consolidated income statement.

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 2021 and 31 December 2020 is as follows:

	Thousands of euros			Thousands of euros		
	30/06/2021			31/12/2020		
	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	15,471	—	—	20,955	—	—
Short Positions	—	—	—	—		—
Deposits:	—	—	70,214,268	—	—	64,664,563
Central Banks	—	—	*19,708,441*	—	—	*14,562,273*
Credit institutions	—	—	*11,672,312*	—	—	*12,601,434*
Customer	—	—	*38,833,515*	—	—	*37,500,856*
Debt securities	—	—	34,071,957	—	—	36,566,348
Other financial liabilities	—	—	1,109,807	—	—	1,118,061
Total	**15,471**	**—**	**105,396,032**	**20,955**	**—**	**102,348,972**

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	
	30/06/2021	31/12/2020
Bonds and debentures outstanding	30,416,275	31,143,866
Mortgage notes	450,030	450,048
Promissory notes and other securities	2,904,406	4,770,259
Subordinated bonds	301,246	202,175
Total debt instruments issued	**34,071,957**	**36,566,348**

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, 2021 and 2020. Likewise, a detail of the movement experienced during the first six months of 2021 and 2020 is shown:

	Thousands of euros					
	30/06/2021					
	Opening balance at 1-01-21	Perimeter	Issues	Repurchases or redemptions	Exchange rate and other adjustments	Closing balance at 30-06-2021
Bonds and debentures outstanding	31,143,866	—	3,090,461	(3,779,955)	(38,097)	30,416,275
Total Bonds and debentures outstanding	**31,143,866**	**—**	**3,090,461**	**(3,779,955)**	**(38,097)**	**30,416,275**

	Thousands of euros					
	30/06/2020					
	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**

c) *Other issues guaranteed by the Group*

As of June 30, 2021 and 2020, 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 2021 and 31 December 2020:

	Thousands of euros			
	30/06/2021		31/12/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Short positions				
Deposits:	70,214,268	70,228,870	64,664,563	64,754,414
Central Banks	19,708,441	19,660,349	14,562,273	14,510,553
Credit institutions	11,672,312	11,665,388	12,601,434	12,654,791
Customer	38,833,515	38,903,133	37,500,856	37,589,070
Debt instruments	34,071,957	34,202,478	36,566,348	36,816,118
Liabilities	**104,286,225**	**104,431,348**	**101,230,911**	**101,570,532**

Other financial liabilities amounting to 1,109,807 thousands of euros and 1,118,061 thousands of euros are also recognized in June 2021 and December 2020, 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 2020 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 2021 and 31 December 2020 is as follows:

	Thousands of euros	
	30/06/2021	31/12/2020
Provisions for pensions and other post-retirement obligations	587,240	636,531
Provisions and other long-term employee remuneration	47,494	52,500
Provisions for taxes and other legal contingencies	16,824	22,878
Commitments assumed and guarantees conferred	31,008	33,396
Other provisions	136,349	146,923
	818,915	**892,228**

"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 2021, under the heading "Other provisions", the amount of the provisions for the restructuring expenses of the Group's businesses, mainly in Germany, which is pending to be incurred, is included.

As at 30 June 2021, 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 5.936 thousands of euros, Santander Consumer Finance S.A. amounting to 4,352 thousands of euros and Santander Consumer Bank, A.S. amounting to 3,809 thousands of euros, in connection with the restructuring processes in these countries (at 30 June 2020, this amount included mainly the provisions made by Santander Consumer Bank, AG amounting to 17,813 thousands of euros as well as the reversals of provisions made by Credipar. amounting to 5,500 thousands of euros and Santander Consumer Bank, A.S. amounting to 7,579 thousands of euros).

As regards other legal proceedings affecting the Group during the first six months of 2021, there have been no significant developments with respect to the information included in Note 21 to the 2020 consolidated financial statements.

Note 21 to the Group's consolidated financial statements for 2020 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 2021 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 2021 and 2020 is not material with respect to these interim condensed consolidated financial statements.

11. Shareholder’s equity

In the six-month periods ended 30 June 2021 and 2020 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 2021 and 31 December 2020, 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 2021 and 31 December 2020, 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	
	30/06/2021	31/12/2020
Other comprehensive income accumulated	**(656,300)**	**(701,640)**
Items not reclassified to profit or loss	**(149,138)**	**(185,799)**
Actuarial gains or losses on defined benefit pension plans	(159,444)	(191,186)
Non-current assets held for sale	—	—
Share in other income and expenses recognised in investments, joint venture and associates	69	69
Other valuation adjustments	—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	10,237	5,318
Items that may be reclassified to profit or loss	**(507,162)**	**(515,841)**
Hedge of net investments in foreign operations (effective portion) Exchange of differences	(46,968) (419,949)	11,864 (480,499)
Hedging derivatives. Cash flow hedges (effective portion)	(1,184)	(3,587)
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	235	526
Hedging instruments (items not designated)	—	—
Non-current assets held for sale	—	—
Share in other income and expenses recognised in investments, joint venture and associates	(39,296)	(44,145)

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 2021 actuarial losses (net of actuarial gains) on defined benefit pension plans amounts to 52 millions of euros, mainly due to the accumulated actuarial gains corresponding to the Group's businesses in Germany (40 millions of euros) and Norway (8 millions of euros), mainly due to the variation in the discount rate, increase from 1.17% to 1.56% and increase from 1.50% to 2.20% respectively.

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 2021 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 2020 includes the corresponding segment information for 2021 and 2020.

In accordance with the requirements of Circular 5/2015 of the Comsión Nacional del Mercado de Valores, below, the detail by the geographical areas indicated in the before aforementioned Circular of the balance of Interest income for the six-month periods ended 30 June 2021 and 2020 is as follows:

Geographical area	Interest and Similar Income by Geographical Area (Thousands of euros)			
	Individual		Consolidated	
	30/06/2021	30/06/2020	30/06/2021	30/06/2020
Spain	205,085	90,817	355,094	390,191
Abroad				
European Union	29,829	28,283	1,297,056	1,244,789
OCDE countries	3,538	5,913	340,979	360,440
Other countries	3,223	3,928	—	—
	36,590	38,124	1,638,035	1,605,229
Total	**241,675**	**128,941**	**1,993,129**	**1,995,420**

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 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 2021 and 2020.

Segments	Revenue (Thousands of euros)					
	Revenue from External Customers		Inter-segment Revenue		Total Revenue	
	30/06/2021	30/06/2020	30/06/2021	30/06/2020	30/06/2021	30/06/2020
Spain and Portugal	409,205	448,081	74,441	103,571	483,646	551,652
Italy	271,128	246,365	5,082	1,652	276,210	248,017
Germany	984,229	827,701	231,905	219,852	1,216,134	1,047,553
Scandinavia	408,812	432,342	32,594	30,698	441,406	463,040
France	366,959	334,361	245,480	211,175	612,439	545,536
Other	270,603	261,405	38,761	30,933	309,364	292,338
Inter-segment revenue adjustments and eliminations	—	—	(628,263)	(597,881)	(628,263)	(597,881)
Total	2,710,936	2,550,255	—	—	2,710,936	2,550,255

Likewise, following is the reconciliation of the Group's consolidated profit before tax for the six-month periods ended 30 June 2021 and 2020, 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)	
	30/06/2021	30/06/2020
Spain and Portugal	14,767	(72,551)
France	155,177	100,702
Italy	90,187	62,577
Germany	207,309	138,114
Scandinavia	88,714	(178,559)
Other	113,902	79,460
Total profit (loss) of the segments reported	670,056	129,743
(+/-) Unallocated profit/loss	—	—
(+/-) Elimination of inter-segment profit/loss	—	—
(+/-) Other profit/loss	—	—
(+/-) Income tax and/or profit from discontinued operations	273,643	254,503
Profit before tax	**943,699**	**384,246**

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 2021 and 2020, distinguishing between significant shareholders, members of the Bank's Board of Directors, the Bank's executive vice presidents, Group entities and other related parties, including the entities from Grupo Santander.

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				
	30/06/2021				
Expenses and income	Significant shareholders	Directors and executives	Group companies or entities	Other related parties (*)	Total
Expenses:					
Finance costs	20,980	—	—	1,074	22,054
Leases	—	—	—	—	—
Services received	—	—	—	—	—
Purchases of goods	—	—	—	—	—
Other expenses	90,382		1,934	59,809	152,125
	111,362	**—**	**1,934**	**60,883**	**174,179**
Income:					
Finance income	3,868	—	294	3,223	7,385
Dividends received	—	—	—	—	—
Services rendered	62	—	176	2,457	2,695
Sale of goods (finished or in progress)	—	—	—	—	—
Other income	2,039	—	68,398	15,965	86,402
	5,969	**—**	**68,868**	**21,645**	**96,482**

(*) 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				
	30/06/2021				
	Significant Shareholders	Directors and executives	Group Employees Companies or Entities	Other related parties (*)	Total
Financing agreements: loans and capital contributions (lender)	(10,749)	—	(21,234)	101,546	69,563
Financing agreements: loans and capital contributions (borrower)	(611,109)	—	(39,690)	(1,408)	(652,207)
Guarantees provided	(1,000)	—	(84,420)	—	(85,420)
Guarantees received	—	—	—	—	—
Obligations acquired	(1,051)	—	—	(1,024)	(2,075)
Dividends and other distributed profit	—	—	—	—	—
Other transactions	249,899	—	(378)	(35,437)	214,085

(*) 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				
	30/06/2021				
	Significant shareholders	Directors and executives	Individuals, Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	—	—	—	—	—
Loans and credits granted	348,905	—	38,293	293,706	680,904
Other collection rights	653,394	—	7,506	13,424	674,324
	1,002,299	**—**	**45,799**	**307,130**	**1,355,228**
Credit balances:					
Suppliers and creditors granted	—	—	—	—	—
Loans and credits received	9,372,120	—	49,836	47,183	9,469,139
Other payment obligations	2,487,694	—	26,032	270,112	2,783,838
	11,859,814	**—**	**75,868**	**317,295**	**12,252,977**

	Thousands of euros				
	30/06/2020				
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 transactions performed with Santander Group companies that do not belong to the Santander Consumer Finance Group and with other related parties.

	Thousands of euros				
	30/06/2020				
Other transactions	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)	(185,046)
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)	705,981

(*) 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, including the entities from Grupo Santander.

Period end closing balances	Thousands of euros				
	31/12/2020				
	Significant shareholders	Directors and executives	Individuals, Group companies or entities	Other related parties	Total
Debt balances:					
Customers and commercial debtors	—	—	—	—	—
Loans and credits granted	359,655	—	59,527	192,159	611,341
Other collection rights	708,022	—	6,435	11,065	725,522
	1,067,677	**—**	**65,962**	**203,224**	**1,336,863**
Credit balances:					
Suppliers and creditors granted	-	—	—	—	—
Loans and credits received	9,983,229	—	89,527	48,591	10,121,347
Other payment obligations	2,792,221	—	24,582	232,010	3,048,813
	12,775,450	**—**	**114,109**	**280,601**	**13,170,160**

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	
	30/06/2021	31/12/2020
Loan commitments granted	**22,987,483**	**22,592,463**
Of which doubtful	*32,626*	*38,838*
Financial guarantees granted	**248,714**	**331,229**
Of which doubtful	—	—
Bank sureties	245,259	326,785
Credit derivatives sold	3,455	4,444
Other commitments granted	**1,062,572**	**549,884**
Of which doubtful	*3,393*	*3,703*
Other granted guarantees	435,513	418,688
Other	627,059	131,196

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 2021 and 2020 is as follows:

	Bank		Group	
	30/06/2021	30/06/2020	30/06/2021	30/06/2020
Men	264	2	4,705	4,663
Women	236	1	4,767	4,728
	500	**3**	**9,472**	**9,391**

The increase in the bank's average headcount in 2021 is due to the merger between Santander Consumer Finance, S.A. and Santander Consumer Finance, E.F.C., S.A.

The average number of offices at 30 June 2021 and 2020 are as follows:

	Group	
Number of branches	30/06/2021	30/06/2020
Spain	49	49
Foreign	205	216
	254	**265**

16. Other disclosures:

a) Valuation techniques for financial assets and liabilities

The following table shows a summary of the fair values, at 30 June 2021 and 31 December 2020, 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					
	30/06/2021			31/12/2020		
	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	—	15,313	**15,313**	—	16,876	**16,786**
Non-trading financial assets mandatorily at fair value through profit or loss	—	3,879	**3,879**	—	391	**391**
Financial assets at fair value through other comprehensive income	938,066	14,871	**952,937**	763,272	10,220	**773,492**
Hedging derivatives (assets)	—	33,808	**33,808**	—	46,146	**46,146**
Financial liabilities held for trading	—	15,471	**15,471**	—	20,955	**20,955**
Financial liabilities designated at fair value through profit and loss	—	**—**	**—**	—	—	—
Hedging derivatives (liabilities)	—	138,487	**138,487**	—	184,678	**184,678**

(*) 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), or whose valuation is based on models or techniques that use directly or indirectly observable data (Level 2), 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 different models. In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. In general, the best evidence of the fair value of a financial instrument on initial recognition is the transaction price, as well as the fair value of the instrument that 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 observable market data, such as 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 discounted cash flows by 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 developed by 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.

Instruments whose valuation models depend on unobservable variables in listed markets, (Level 3), can consider aspects such as the terms of the underlying contracts, prepayment rates or even information extracted from the markets, seeking not to incorporate significant subjectivity.

The Group did not make any material transfers of financial instruments between one measurement method and another in the first half of 2021. 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: Financial Management (in charge of management of financial products) 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 below:

Interest rate and Fixed income

The range of fixed income instruments 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.

Fixed income instruments include products, such as bonds, treasury bills or promissory notes, whose valuation, as described above, can be made by observing their price in listed markets, models built from observable data or other techniques in the cases in which neither of the two previous alternatives is possible.

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.

If necessary and in order to reflect the counterparty risk in the valuation of the instruments, there are certain valuation adjustments, such as the Credit Valuation Adjustment (CVA), and the Debt Valuation Adjustment (DVA).

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.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Level 2) at 30 June 2021 and 31 December 2020:

,

	Thousands of euros		
	Fair values Calculated Using Internal Models 30/06/2021 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Non-current assets held for sale	**15,313**		
Trading derivatives	15,313		
Swaps	*12,311*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Interest rate options	*2,990*	Present Value Method	Black Scholes Shifted Log Normal
Others	*12*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Hedging Derivatives	**33,808**		
Swaps	*20,877*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Others	*12,931*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Non-trading Financial Assets mandatorily at fair value though profit and loss	**67**		
Equity instruments	67	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	**—**		
Equity instruments (*)	—		
Debt securities	—		
Loans and advances	—		
TOTAL ASSETS			
LIABILITIES:			
Financial liabilities held for trading	**15,471**		
Trading Derivatives	15,471		
Swaps	*12,366*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Interest rate options	*3,100*	Present Value Method	Black Scholes Shifted Log Normal
Others	*5*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Hedging Derivatives	**138,487**		
Swaps	*70,413*	Present Value Method	Interest rate curves, FX Market Prices, Basis
Others	*68,074*	Present Value Method	Interest rate curves, FX Market Prices, Basis

(*) This heading also includes level 3 financial instruments amounting to 18.683 thousands of euros at June 2021.

	Thousands of euros		
	Fair values Calculated Using Internal Models 31/12/2020 (Level 2)	Valuation Techniques	Main assumptions
ASSETS:			
Non-current assets held for sale	**16,786**		
Trading derivatives	16,786		
Swaps	*13,971*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity.
Interest rate options	*2,781*		
Others	*34*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices.
Hedging Derivatives	**46,146**		
Swaps	*39,340*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Others	*6,806*	Present Value Method/ Observable price	Interest rate curves, Volatility Surface, FX market prices
Non-trading Financial Assets mandatorily at fair value though profit and loss	**70**		
Equity instruments	70	Present Value Method	Interest rate curves, Market Prices FX and EQ, Dividends, Credit, Other
Loans and advances	—		
Financial assets at fair value through other comprehensive income	**—**		
Equity instruments	—		
Debt securities	—		
Loans and advances	—		
TOTAL ASSETS	**63,002**		
LIABILITIES:			
Financial liabilities held for trading	20,955		
Trading Derivatives	20,955		
Swaps	*14,744*	Present Value Method	Interest rate curves, FX Market Prices, Basis, Liquidity
Interest rate options	*3,503*		
Others	*2,708*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
Hedging Derivatives	184,678		
Swaps	*95,456*	Present Value Method	Interest rate curves, Market prices Fx, Basis, Liquidity
Others	*89,222*	Present Value Method	Interest rate curves, Volatility surface, FX Market Prices
TOTAL LIABILITIES	**205,633**		

(*) This heading also includes level 3 financial instruments amounting to 10.220 thousands of euros at december 2020.

b) *Sovereign risk with peripheral European countries*

The detail at 30 June 2021 and 31 December 2020, 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 2020), is as follows:

Sovereign Risks of issuers/Borrower at 30 June 2021(*)									
	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	—	—	351,081	786,569	—	164	1,137,814	—	—
Portugal	—	—	—	—	—	407	407	—	—
Italy	—	—	536,523	50,641	—	17,223	604,387	—	—
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 4 thousands of euros with Spain.
(**) Presented without taking into account the valuation adjustments recognized (327 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 2020 (*)									
	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	—	—	751,003	784,829	—	163	1,535,995	—	—
Portugal	—	—	—	—	—	—	—	—	—
Italy	—	—	—	1,277,170	—	17,975	1,295,145	—	—
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 5 thousands of euros (with Spain)
(**) Presented without taking into account the valuation adjustments recognized (5.123 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 2021 and 31 December 2020 is as follows:

Exposure to other counterparties by country of issuer/borrower at 30 June 2021 (*)										
	Thousands of euros									
	Balances with central banks	Reverse repurchase agreements	Debt Securities				Loans and advances to customers (**)	Total net direct exposure	Derivatives (***)	
			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	Financial assets not intended for trading, mandatorily valued at fair value through profit or loss			Other than CDSs	CDSs
Spain	2,102,466	—	—	—	—	—	13,947,759	16,050,225	(68,453)	—
Portugal	2,509	—	—	—	—	—	1,150,822	1,153,331	2,164	—
Italy	303,184	—	—	—	—	—	9,268,196	9,571,380	—	—
Greece	—	—	—	—	—	—	832	832	—	—
Ireland	—	—	—	—	—	3,460	13	3,473	—	—

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 11,496,140 thousands of euros, 334,790 thousands of euros and 595,017 thousands of euros to counterparties in Spain, Portugal and Italy respectively.
(**) Presented excluding valuation adjustments and impairment losses recognized (712,336 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 2020 (*)										
	Thousands of euros									
	Balances with central banks	Reverse repurchase agreements	Debt Securities				Loans and advances to customers (**)	Total net direct exposure	Derivatives (***)	
			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	Financial assets not intended for trading, mandatorily valued at fair value through profit or loss			Other than CDSs	CDSs
Spain	1,073,267	—	—	—	—	—	14,416,900	15,490,167	(104,253)	—
Portugal	3,028	—	—	—	—	—	1,332,273	1,335,301	1,124	—
Italy	3,212	—	—	—	—	—	9,104,634	9,107,846	—	—
Greece	—	—	—	—	—	—	1,022	1,022	—	—
Ireland	—	—	—	—	4,445	—	16	4,461	—	—

(*) Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to 11,339,675 thousands of euros, 228,161 thousands of euros and 596,229 thousands of euros to counterparties in Spain, Portugal and Italy respectively.
(**) Presented excluding valuation adjustments and impairment losses recognized (709,854 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 2021 and 31 December 2020 the Group was not part of any credit default swaps arrangement (CDS).

c) Forbearance and restructured transactions

The following forms are used 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.

	30/06/2021 (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	1	—	—	—	—	—	2	1	—	—	—
Other financial institutions and: individual shareholder)	98	1,230	23	256	—	189	365	21	173	8	65	—	54	160
Non-financial institutions and individual shareholders	15,780	201,621	3,056	64,685	2,154	49,654	53,741	2,797	30,690	1,259	20,118	1,255	9,629	33,066
Of which: Financing for constructions and property development	428	5,409	—	—	—	—	1,144	20	181	—	—	—	—	121
Rest of households	138,782	493,562	5,682	98,846	25,182	42,381	224,958	80,698	227,970	1,900	42,387	9,919	10,242	193,600
Total	**154,660**	**696,413**	**8,763**	**163,788**	**27,336**	**92,224**	**279,064**	**83,516**	**258,833**	**3,169**	**62,571**	**11,174**	**19,925**	**226,826**
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 2021 and 2020 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 installments 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 2021:

	Thousands of euros
Carrying amount	30/06/2021
Opening balances	404,270
(+) Refinancing and Restructured balances	334,687
Promemoria: impact recorded in the profit and loss account for the period	*49,131*
(-) Debt repayment	(104,998)
(-) Foreclosures	—
(-) Balance derecognition (Written-off reclassification)	(25,786)
(+)/(-) Other changes	(27,036)
Final Balances	**581,137**

d) Real estate business– Spain

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

On 30 June 2021 and on 31 December 2020 no home purchase loans in Spain have been granted to families. The breakdown of the book at 30 June 2021 and 31 December 2020 is as follows:

	Thousands of euros			
	30/06/2021		31/12/2020	
	Gross Amount	*Of which: Non performing*	Gross Amount	*Of which: Non performing*
Home purchase loans to families				
- Without mortgage guarantee	—	—	—	—
- With mortgage guarantee	1,449,379	64,716	1,516,419	65,775
	1,449,379	64,716	1,516,419	65,775

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.

The marketing of mortgage products has been interrupted since 2008, however sales to third parties of foreclosed assets and debt restructuring can derive in new production, so there are financial statements in which new investments is reported.

On 30 June 2020, 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 2020, 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).

	30/06/2021					
	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	330	389	261	199	270	**1,449**
- Of which: Non Performing	5	10	11	9	30	**65**

In millions of euros	31/12/2020					
	Exposure as a percentage of last available appraisal (Loan to value ratio)					
	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	335	402	289	201	299	**1,526**
- Of which: Non Performing	4	7	13	8	34	**66**

e) Non-audit services

Between 1 January and 30 June 2021, 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 191 thousands of euros.

17. Solvency information

The breakdown of the Group's capital and leverage ratios at 30 June 2021 and 31 December 2020 is provided below:

Capital ratio

	Millions of euros	
	30/06/2021	31/12/2020
Capital ratio		
Ordinary common equity Tier 1 (Millions of euros)	9,287	9,202
Additional capital common equity Tier 1 (Millions of euros)	1,399	1,378
Ordinary common equity Tier 2 (Millions of euros)	1,031	934
Risk weighted assets (Millions of euros)	69,911	69,653
Ordinary common equity Tier 1 ratio (CET 1)	13.28%	13.21%
Additional capital Tier 1 ratio (AT 1)	2.00%	1.98%
Capital Tier 1 ratio (TIER 1)	15.28%	15.19%
Capital Tier 2 ratio (TIER 2)	1.48%	1.34%
Total Capital Ratio	**16.76%**	**16.53%**

Leverage

	Millions of euros	
	30/06/2021	31/12/2020
Leverage		
Tier 1 capital (Millions of euros)	10,686	10,580
Exposure (Millions of euros)	115,078	118,859
Leverage ratio	**9.29%**	**8.90%**

Interim Consolidated Management Report for the six month-period ended 30 June 2021

GENERAL BACKGROUND

Santander has developed its activity in a quarter marked by progress regarding the vaccine and increased mobility, a decrease in infections, economic policies to support recovery, increases in the price of raw materials and expansive financial conditions.

A summary with the evolution of the main macroeconomic variables by country is included below:

- Eurozone: (GDP -1.3% year-on-year in the first quarter of 2021). Growth is accelerating due to the reopening of economic activity that followed the increase in vaccination rates and despite the fact that the emergence of the Delta variant of Covid-19 is generating concern. The unemployment rate fell to 7.9% in May. Inflation has risen since the beginning of the year (1.9% in June from 0.9% in January) due to specific factors, although the recovery in demand may exert some upward pressure in the coming months.

- Spain: (GDP: -4.2% year-on-year in the first quarter of 2021). Data for the first half of the year 2021 show a remarkable recovery. Jobs are being created and consumer and business confidence are improving, which will boost domestic demand. Inflation (2.7% in June) has picked up due to the energy impact, however underlying inflation remains close to 0%, reflecting that the economy is still at low levels of activity, which are expected to improve.

- Germany: (GDP -3.1% year-on-year in the first quarter of 2021) The services sector has once again contributed to the recovery in Q2, nevertheless difficulties in the delivery of intermediate products slowed industrial production (especially in the auto sector). In the current scenario of pandemic evolution and when bottlenecks begin to resolve, real GDP could reach its pre-crisis level in Q3. Inflation (2.3% in June) will continue to rise until the end of the year due to the base effect of the temporary reduction in VAT in 2020. The use of part-time work has made it possible to keep employment and the unemployment rate stable (5, 9% in June).

- Poland: (GDP: -0.9% year-on-year in the first quarter of 2021). After the third covid-19 wave in Q1 21, the economic indicators have improved: industry, construction and commerce continue to expand, with a solid labor market (unemployment rate at 4%) and the prices also increasing (inflation of 4.4% in June). Given this, the central bank continues to prioritize recovery over inflation control (0.1% interest rate).

- Portugal: (GDP: -5.3% year-on-year in the first quarter of 2021). The downward trend in covid-19 cases allowed the economy to almost completely reopen in Q2 21 and led to a recovery in consumption and investment and an improvement in the labor market (the unemployment rate is 6.9% in April). Inflation stood at 1.2% in May. The public accounts (deficit of 6.9% of GDP in April) reflected the effect of lockdowns that were extended in Q1 21.

- United Kingdom**:** (GDP: -6.1% year-on-year in the first quarter of 2021). The rebound in covid-19 cases due to the Delta variant delayed the end of the restrictions until July. Despite this, the latest indicators, including the lower unemployment rate (4.8% in April), point to an acceleration of the recovery that should bring the economy to its pre-pandemic level by the end of the year. Inflation in June (2.5%) reflects both the rapid pace of recovery and the low level of comparison. The BoE kept the official rate at 0.1% and the Quantitave Easing target.

BUSINESS PERFORMANCE

Results

Santander Consumer Finance generated profit after tax of **670 million euro** in the first half of 2021, once again demonstrating the strength of our business model, and increasing the result by 540 million euro, compared to the first half of the previous year. Despite the lock downs that took place in the first months of the year in different countries, profit after tax was only -8.9% lower than in the same period of 2019 when there was no Covid-19, showing the ability Santander Consumer Finance's business has to recover.

The main impacts on the financial statement headings are the following:

- The **net interest income improved 1%** compared to the first half of the previous year. It was affected by lower volumes, due to the limitation of movements and lockdowns imposed by governments, which in some countries were more severe than during the same period of 2020. The liquidity position always remained solid and no additional liquidity strains were generated, thanks to the evolution of deposits and drawdowns on wholesale lines. Liquidity metrics have remained above their internal limits and in compliance with regulatory levels. At the end of June, the consolidated LCR (Liquidity coverage ratio) of SCF Subgroup was 490% and the NSFR (Net Stable Funding Ratio) for the same perimeter in March 2021 was 117% (BIS III criteria), both the consolidated NSFR ratio and the individual ratio of each of the units will reach the regulatory limit of 100%. It should also be noted that the main units in the euro area strengthened this structural liquidity ratio after resorting to TLTRO III (the appeal was increased from 11,500 million to 19,885 million).

- Net fee **income** increased 11% year-on-year in cumulative terms, due to a 17% rise in new business, which indicates the strong recovery that is taking place, and which is mainly reflected in an improvement in insurance commissions.

- **Other operating income** increased by 78.5 million eur due to better results in operating leasing. This line also includes the payment of the Single Resolution Fund (SRF).

- **Operating expenses** amounted to €924 million, 4% higher than in the first half of 2020, due to new business additions to SCF's perimeter (mainly Sixt Leasing, Timfin, etc.), whose costs have been virtually absorbed thanks to the additional cost-saving measures adopted since the start of the pandemic. The efficiency ratio was 42.81% at the end of the first half, an improvement of 33 p.p. over the same period of 2020, with a good generalised evolution by country.

- **Loan loss provisions** were 42% lower than in the same period of the previous year, a significant improvement due to the excellent performance of the portfolio. In the first half of the previous year, a qualitative adjustment was made to the expected loss models, which incorporated information reflecting the prospective macroeconomic environment.

There were two extraordinary impacts in the first half of 2020: the impairment of the goodwill assigned to the Nordics CGU of 277 million euro and the amortisation of tax losses in Santander Consumer, E.F.C., S.A. for 49 million euro.

Activity

The first semester of this year was still disrupted in terms of markets and commercial activity, mainly due to the effects of the Covid-19 pandemic.

Once again, geographic diversification and the supply of products and services has accompanied the demand and needs of customers in the different countries.

Our main indicator for Santander Consumer's business showed at the end of June (data from ACEA) that the passenger car registrations market in Europe grew 27.8% year-on-year(drastically affected by the lockdowns and shut down of activity due to the pandemic). Compared to 2019, the same indicator is 1.2 million units lower.

However, there was growing demand in the second-hand vehicles where Santander Consumer occupies a leading position in Europe.

E-commerce continues its growth, although the lack of production of consumer goods in the electronics sector has limited supply despite growing demand, so that financing activity has also been limited.
The group's total assets at 30 June 2021 stood at 123,209 million euro (up 2.64% higher than at the end of the year). Loans to customers declined -1%, due to the pandemic affecting mainly vehicles and direct loans.

On the liabilities side, compared to December 2020, customer deposits increased by 3.6% and customer deposits and in central banks have increased by 35%.

At the end of June 2021, customer deposits-, medium- and long-term asset-backed securities and bonds placed in the market placed in the market covered 76% of net customer loans.

Regarding the volume of bond issuances, SCF SA issued up to June 2021 an amount of 1.1 billion, of which 500 million euro correspond to senior debt, 100 million euro to subordinated debt and another 500 million euro to senior non-preferred.

Strategy

Santander Consumer Finance remains committed to a solid business model backed by:

- Broad geographic diversification with great commercial strength in key products.
- A better efficiency ratio than its main competitors.
- A risk management and recovery system that enables it to maintain a strong credit quality and a better efficiency ratio than its main competitors.

We also maintained the pillars on which the group's strategy is based: improving operating performance, optimising the allocation of capital to the regions and businesses that generate the highest profits, and accelerating the group's transformation by and accelerating the group's transformation through greater digitalization.

The main priorities for 2021 are:

- **Auto:** consolidating our leading position in the auto sector, strengthening our leasing and underwriting services in all countries where we operate. Further develop online sales channels.

- **Consumer:** gain market share in consumer finance solutions, leveraging our current position to grow in e-commerce, checkout lending and Buy Now Pay Later (BNPL), serving our customers.

- **Retail:** Strengthen digital banking activity.

- **Cost reduction and simplification:** accelerate digitalization to transform the business and improve efficiency. The main drivers are:

  - Organisational simplification: transition from banking licences to branches in Hub Spain.
  - IT optimisation and data exploitation: leveraging technology and data management capabilities.
  - Redefinition of our distribution model and increased automation.

Alternative Performance Measures (APMs)

In addition to the financial information prepared under International Financial Reporting Standards (IFRS), this report includes certain alternative performance measures (APMs) for the purpose of complying with the guidelines on alternative performance measures issued by the European Securities and Markets Authority (ESMA) on October 5, 2015, as well as non-IFRS measures.
The performance measures included in this report qualified as APM and non-IFRS measures have been calculated using Santander's financial information, but are not defined or detailed in the applicable financial reporting framework and, therefore, have not been audited and are not susceptible to full audit.

These APMs and non-IFRS measures have been used to plan, monitor and assess our performance. We believe these APMs and non-IFRS measures are useful to management and investors as they facilitate comparisons of operating performance between periods. Although we believe that these APMs and non-IFRS measures allow a better assessment of our business performance, this information should be considered as additional information only, and in no way replaces financial information prepared in accordance with IFRS. In addition, the way in which Santander Group defines and calculates these MARs and non-IFRS measures may differ from the way they are calculated by other companies using similar measures and, therefore, may not be comparable.
The APMs and non-IFRS measures used in this document can be categorized as follows:

Profitability and efficiency indicators

The efficiency ratio measures how much administrative expenses (personnel and other) and depreciation and amortization expenses are necessary to generate revenues.

Ratio	Formula	Relevance of use
Efficiency (cost-to-income)	$\frac{\text{Operating expenses (*)}}{\text{Gross margin}}$	One of the most widely used indicators when comparing the productivity of different financial institutions. It measures the level of resources used to generate the Group's operating income.

(*) Operating expenses: Administrative expenses + amortization

Profitability and efficiency (thousands of euro and %)	1S 2021	1S 2020
Efficiency ratio (cost-to-income)	**(42.81)**	**(43.14)**
Operating expenses	**(923,915)**	(885,921)
Administrative expenses	(830,440)	(806,812)
Amortization	(93,475)	(79,109)
Gross margin	2,158,368	2,053,675

Credit risk indicators

Credit risk indicators measure the quality of the loan portfolio and the percentage of the nonperforming portfolio that is covered by loan loss provisions.

Ratio	Fórmula	Relevance of use
NPL ratio	Doubtful balances of loans and advances to customers, guarantees to customers and commitments granted to customers / Total Risk	The NPL ratio is a very important variable in the activity of financial institutions, as it provides information on the level of credit risk assumed by financial institutions. It relates the risks classified for accounting purposes as doubtful to the total balance of loans granted, for customers and contingent risks.
Coverage ratio	Loan loss provisions (2) / Doubtful balances of loans and advances to customers, guarantees to customers and commitments granted to customers	One of the most widely used indicators when comparing the productivity of different financial institutions. It measures the level of resources used to generate the Group's operating income

*(*1) Total Risk = Normal and doubtful balances of Loans and Advances to customers and Customer Guarantees + Doubtful balances of Contingent Customer Commitments.*

*(*2) Provisions to cover impairment losses on loans and advances to customers, guarantees to customers and commitments to customers*

Credit risk (thousands of euro and %)	1S 2021	1S 2020
Delinquency rate	**2.10%**	**2.07%**
Impaired assets	2,043,275	2,026,916
Commitments and guarantees granted	36,019	42,541
Loans and advances to customers without considering impairment adjustments	98,686,874	99,637,981
Guarantees granted	311,387	296,722
Coverage ratio	**105.47%**	**107.80%**
Impairment losses on loans and advances to customers at amortized cost and at fair value through other comprehensive income	2,161,920	2,197,400
Contingent liabilities and commitments	31,008	33,396
Impaired assets	2,043,275	2,026,916
Commitments and guarantees granted	36,019	42,541

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 (90% consumer credit and 10% 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 2021 (millions of euros)	Change vs. December 2020	% portfolio	2020 (millions of euros)
Spain and Portugal	15,253	-3.15%	15.46%	15,749
Italy	9,269	1.60%	9.39%	9,123
France	14,726	0.54%	14.92%	14,647
Germany and Austria	38,799	-0.31%	39.32%	38,921
Scandinavia	17,361	0.29%	17.59%	17,311
Others	3,278	-15.65%	3.32%	3,887
SCF Group	**98,687**	**-0.95%**	**100.00%**	**99,638**

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 39.32% with its respective JVs and Austria. The units in Spain and Portugal now represent 17.59% of total SCF credit risk, followed closely by Spain and Portugal with 15.46%.

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.

In regards to moratoriums, 8,986 million euros have been formalized, of which 90.9 million euros are outstanding. The total amount formalized is divided into:

- 2,100 million of euros whose origin is government programs.
- 6,885 million of euros originated from non-governmental programs.

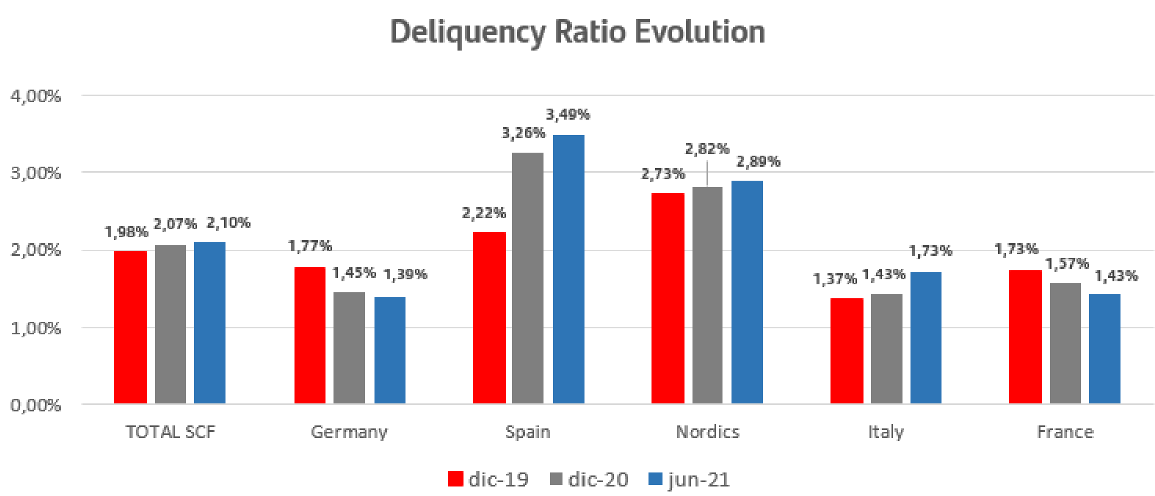
Of these totals, for the retail portfolio which represents more than half of the moratorium, at 30 June 2021, 94% of the formalized portfolio had expired and of this percentage, 83% had been paid, while 8% had been restructured and the remaining 7% had passed to be managed by the recovery teams.

With respect to the Wholesale Portfolio, 100% of the formalized portfolio had expired and of this 99.6% had been paid and 1.3% had been restructured.

In the case of the most significant units of the Group, 1,121 million euros of retail portfolio was formalized in Germany, of which 969 million euros had expired by the end of the first half of the year. Of the total expired, 87% had been repaid, 5.1% had been restructured and 6.7% was under recovery management. 1,464 million of the wholesale portfolio was formalized, of which all had expired at the end of the year with 100% payment.

In the Nordic units, 1,077 million euros of retail portfolio were formalized, of which 1,070 million euros had expired at the end of the year. Of the total expired, 80.5% had been repaid, 12.9% had been restructured and 6.7% was under recovery management. Wholesale moratoriums for the Nordic units did not represent a significant volume (23 million euros formalized and 100% paid at year-end).

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 2021, the NPL ratio remained practically unchanged, going from 2.07% in Dec 2020 to 2.10% at the end of June. The variation is mainly due to a lower exposure due to the fall in new business resulting from the closure of activity due to COVID in several countries where SCF has a presence. On the other hand, this ratio was offset by lower entries in default of customer/product accounts due to better performance and movements to Stage 1, explained by the maintenance of government aids that still continues to be given due to the COVID effect.



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 business.

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.

In SCF awareness of the importance of keeping close oversight of loans granted exists therefore, during the monitoring phase 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 an 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.

Due to the typology 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 activities, which include 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. Roles and responsibilities

The risk function is built around three lines of defence. The roles and responsibilities of these lines form an integral part of the management and control of market, structural and liquidity risk, as explained below.

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>

3.1 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.

3.2 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.

3.4. 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.

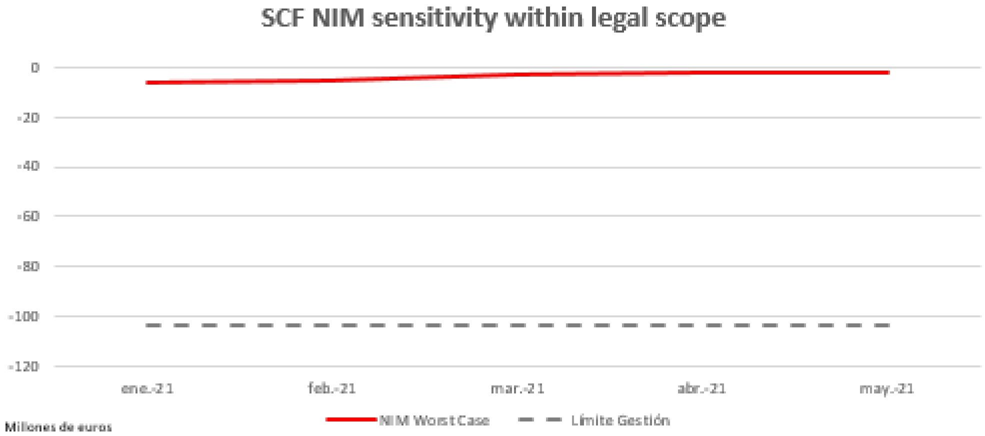
The main management limits for structural risk within the consolidated Santander Consumer Finance Group are as follows:

- One-year net interest income sensitivity limit.
- Value of equity sensitivity limit.

The limits are compared with the sensitivity involving the greatest loss between two different scenarios (parallel rise and fall of the interest rate curve by 25 basis points). The use of several scenarios makes it possible to better control interest rate risk. In the downward scenarios, no floor is addressed. During the first half of 2021, the level of exposure on both the financial margin and economic value is low in relation to the budget and the amount of shareholders' equity respectively, and has been within the limits established in the legal perimeter.

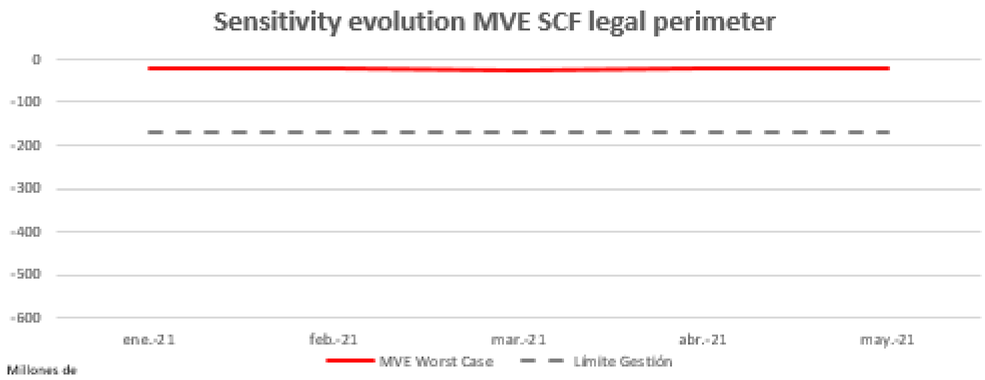
At the end of May 2021 (the most recent figure available to prepare this report), the net interest margin risk over one year, measured as its sensibility if a parallel decrease of 25 basic points occurs, is -1.88 million euros.

The evolution of the sensitivity of the net interest margin throughout 2021 is shown in the chart below:



During the same period, the sensitivity of the asset value was -21.43 million euros to a parallel decrease of 25 basis points.

The changes in and sensitivity of the asset value in 2021 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, as well as the liquidity stress tests under various adverse scenarios mentioned above.

At the end of June 2021, all liquidity metrics are above the current internal limits and regulatory requirements.

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

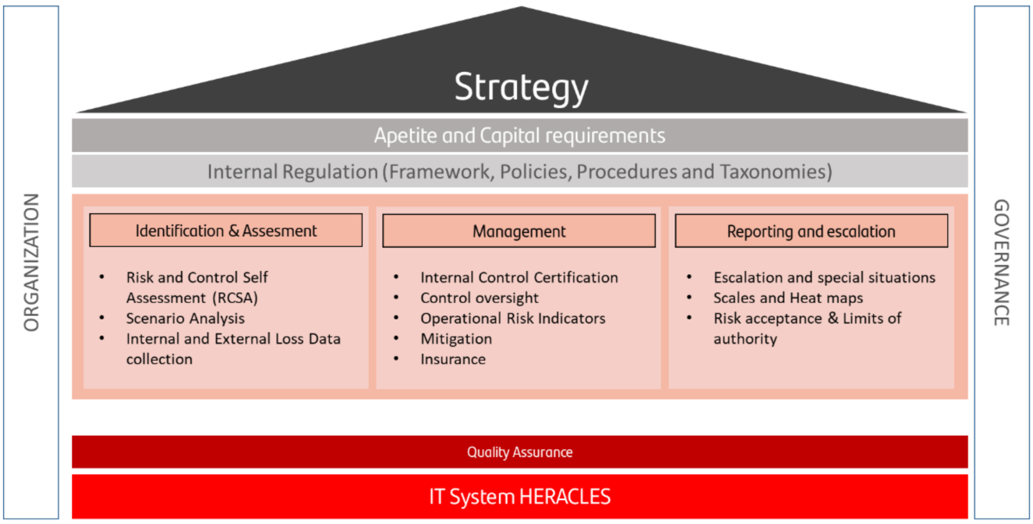
The Group defines operational risk (OR) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

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.

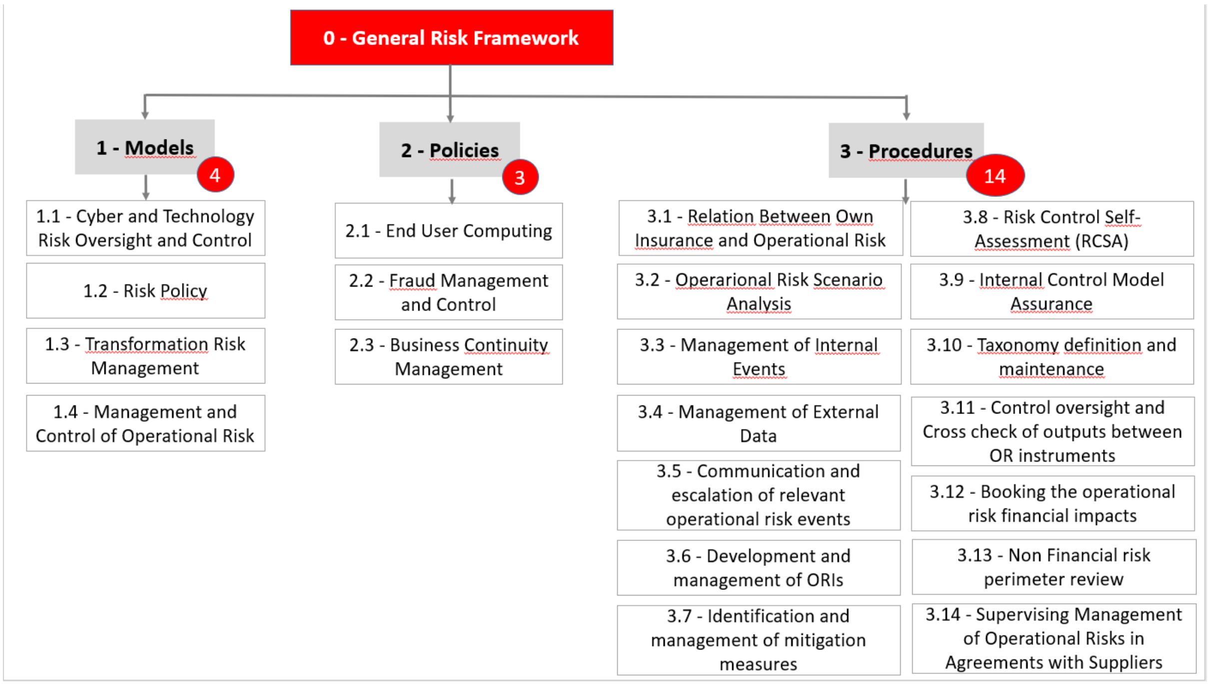
The following is required for each of the key processes indicated above:

- 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:

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

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

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

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

  v. 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.

g) 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 2021 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 2021 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	**143,977**	**143,959**	**—**	**18**	**—**	**—**	**—**	**18**	**—**
2. Other financial corporations and individual entrepreneurs (financial business)	**622,346**	**490,964**	**36,915**	**94,467**	**36,575**	**2,663**	**4,997**	**50,246**	**36,901**
3. Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	**28,042,269**	**13,083,330**	**91,462**	**14,867,477**	**431,841**	**175,322**	**2,856,224**	**9,898,557**	**1,596,995**
3.1 Real estate construction and development (including land)	228,899	55,326	—	173,573	3,095	449	1,878	164,087	4,064
3.2 Civil engineering	22,861	9,147	—	13,714	13,714	—	—	—	—
3.3 Large corporations	9,718,885	5,284,065	36,240	4,398,580	162,181	49,315	1,092,999	2,786,851	343,474
3.4 SMEs and individual entrepreneurs	18,071,624	7,734,792	55,222	10,281,610	252,851	125,558	1,761,347	6,947,619	1,249,457
4. Other households (broken down by purpose)	**67,205,589**	**42,722,244**	**3,929,672**	**20,553,673**	**1,914,244**	**2,093,580**	**2,677,891**	**9,448,934**	**8,348,696**
4.1 Housing units	4,050,276	474,355	3,573,536	2,385	1,322,993	1,090,178	551,592	294,788	316,370
4.2 Consumer loans	62,836,736	42,132,631	252,894	20,451,211	533,918	974,246	2,099,952	9,086,727	8,009,262
4.3 Other purposes	318,577	115,258	103,242	100,077	57,333	29,156	26,347	67,419	23,064
5. TOTAL	**96,014,181**	**56,440,497**	**4,058,049**	**35,515,635**	**2,382,660**	**2,271,565**	**5,539,112**	**19,397,755**	**9,982,592**
MEMORANDUM ITEMS									
Refinancing, refinanced and restructured operations (*2)	581,137	449,858	33,453	97,826	2,971	5,537	32,369	36,292	54,110

(1*) In addition, the Consumer Group has granted advanced to customers in the amount of 510,774 thousands of euros; hence, total loans and advances to customers amounts to 95,524,603 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 2021 of the concentration of the Group's risk, by activity and geographic location of counterparties, is as follows:

	Spain	Rest of EU	America	Resto	**Total**
1. Central Banks and credit institutions	**3,476,333**	**12,276,540**	**4**	**312,811**	**16,065,688**
2. Public Administrations	**1,137,985**	**3,192,042**	**—**	**112,238**	**4,442,265**
2.1 Central Governments	*1,137,729*	*2,356,536*	—	*73,119*	*3,567,384*
2.2 Other Central Administrations	*256*	*835,506*	—	*39,119*	*874,881*
3 Other financial institutions and individual entrepeneurs	**20,706**	**1,020,524**	**203,882**	**202,589**	**1,447,701**
4 Non-financial institutions and individual entrepreneurs	**2,209,386**	**24,670,775**	**—**	**1,784,261**	**28,664,422**
4.1 Construcción y promoción inmobiliaria (incluido suelo)	—	*228,899*	—	—	*228,899*
4.2 Civil Engineering	—	*22,885*	—	—	*22,885*
4.3.1 Large companies	*766,684*	*8,727,654*	—	*562,112*	*10,056,450*
4.3.2 SMEs and individual entrepeneurs	*1,442,702*	*15,691,337*	—	*1,222,149*	*18,356,188*
5 Other households (breakdown by purpose)	**11,189,125**	**51,750,543**	**4**	**4,375,082**	**67,314,754**
5.1 Property	*1,531,501*	*2,520,688*	—	—	*4,052,189*
5.2 Consumption	*9,578,742*	*48,984,960*	*4*	*4,375,082*	*62,938,788*
5.3 Other purposes	*78,882*	*244,895*	—	—	*323,777*
6. TOTAL	**18,033,535**	**92,910,424**	**203,890**	**6,786,981**	**117,934,830**

(*) 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 30/06/2021	Thousands of euros 31/12/2020	. Annual interest rate (%)	Maturity date
Euros:				
July 2007 issue	150,000	150,000	5,14	20/07/2022
May 2019 issue	450,000	450,000	0,00	06/05/2022
Balance at period end	**600,000**	**600,000**		

The aggregate nominal value of outstanding mortgage covered bonds at 30 June 2021 and 30 December 2020 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 2021			
	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 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	—	—	—

At 30 June 2021 and 31 December 2020, 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	
	30/06/2021	31/12/2020
Total mortgage-backed loans and credits	1,477,700	1,556,269
Mortgage participations issued	—	—
Mortgage transfer certificates issued	—	—
Mortgage loans pledged in guarantee for financing received	—	—
Loans backing mortgage bonds issues and covered bond issues	1,477,700	1,556,269
i) Ineligible mortgage loans and credits	485,407	520,645
They meet eligibility requirements, except for limits established in Article 5.1. of Royal Decree 716/2009	485,407	520,645
Others	—	—
ii) Eligible mortgage loans and credits	992,293	1,035,624
Non-computable amounts	—	—
Computable amounts	992,293	1,035,624
Mortgage loans and credits covering issues of mortgage bonds	—	—
Mortgage loans and credits covering issues of mortgage covered bonds	992,293	1,035,624

(*) As the Bank has no outstanding mortgage bonds at 30 June 2021 and 31 December 2020, 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			
	30/06/2021		31/12/2020	
	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	1,477,700	992,293	1,556,269	1,035,624
Assumed from other entities	—	—	—	—
Others	—	—	—	—
Currency				
Euro	1,477,700	992,293	1,556,269	1,035,624
Other currencies	—	—	—	—
Payment status				
Payment normality	1,407,565	966,431	1,485,064	1,009,623
Other status	70,135	25,862	71,205	26,001
Average residual period to maturity				
Up to 10 years	165,085	153,184	168,746	153,436
Between 10 and 20 years	669,234	528,482	667,316	534,828
Between 20 and 30 years	594,754	282,565	665,890	316,464
Over 30 years	48,626	28,061	54,317	30,896
Interest rate				
Fixed	26	—	27	—
Variable	1,477,674	992,293	1,556,242	1,035,624
Mixed	—	—	—	—

	Thousands of euros			
	30/06/2021		31/12/2020	
	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	17,583	8,999	18,770	7,059
Of which: Property developments				
Other individuals and NPISH	1,460,117	983,294	1,537,499	1,028,565
Type of collateral				
Completed buildings				
Homes	1,450,305	981,744	1,527,388	1,026,810
Of which: Subsidised housing				
Goods held for resale	27,395	10,549	28,881	8,814
Other	—	—	—	—
Buildings under construction	—	—	—	—
Homes	—	—	—	—
Of which: Subsidised housing	—	—	—	—
Goods held for resale	—	—	—	—
Other	—	—	—	—
Land	—	—	—	—
Built	—	—	—	—
Others	—	—	—	—
	1,477,700	**992,293**	**1,556,269**	**1,035,624**

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				
	30/06/2021				
	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*	*330*	*390*	*0*	*261*	*982*
– *Other*	*3*	*8*	*0*		*11*

	LTV ranges				
	31/12/2020				
	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*	*402*	*290*	—	*1,027*
– *Other*	*3*	*6*	—	—	*9*

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 2019	1.108.429	588.937
Reductions in the year	45.632	35.131
Cancellations on maturity		
Repaid early	11.950	*2.697*
Subrogated by other entities		
Others	33.682	32.434
Period additions	12.208	122
Originated by the Entity	-	122
Subrogated from other entities	-	-
Others	*12.208*	-
Balance at 30 June 2020	*1.075.005*	*553.928*
Merger impact	3.052	53
Reductions in the year	109.896	73.247
Cancellations on maturity	2.108	483
Repaid early		
Subrogated by other entities		
Others	107.788	72.764
Period additions	24.132	4.674
Originated by the Entity	2.555	1.665
Subrogated from other entities		
Others	*23.008*	*3.009*
Balance at 30 June 2021	992.293	*485.407*

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	1,879,546,172	
Par value in euros	3.00	
Share capital in euros	5,638,638,516	

At 30 June 2021, 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 2021, and no treasury shares are held at 30 June 2021.

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.

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 Bank 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 Directo Mr. Bruno Montalvo Wilmot, so that on behalf of and representing the company, may exercise the powers detailed below:

a. To manage, control and govern all manner of properties now or hereafter owned by the principal, to perform the improvements, repairs and work thereon that they deem appropriate, to lease them for the period, price and terms they consider appropriate, to evict tenants or dwellers and approve new ones, to collect rent, interest, dividends and lease payments, and to give the corresponding receipts and invoices.

   To enter into, modify, subrogate and terminate finance leases on all manner of real and movable properties, upon the terms and conditions that they may freely determine, and to acquire the properties held under such finance leases, the only limit being that when the acquisition amount exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee, or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

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

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

d. To use, with full powers, the signature of the principal bank in all banking transactions, acts and agreements to which the principal bank is party, subject to the limits indicated for the transactions referred to in sections e) and j), and to sign all manner of correspondence.

e. To acquire and dispose of, at the price and under the terms that they may freely stipulate, including resale and repurchase agreements and by any other means permitted by law, all manner of movable and immovable property, not excluding rights in personal and rights in rem, the only limit being that when the transaction arranged in exercise of this power exceeds EUR 300,507 it must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

   Notwithstanding the provisions of the preceding paragraph, the limitation will not exist when the acquisition relates to loans that other financial institutions (banks, savings banks, credit cooperatives and similar entities registered with the Bank of Spain) have granted to their customers, i.e. the loans included in the loan portfolio of the entity in question, even if the latter, in turn, had acquired the loans from another financial institution and they were not originally granted by said entity; or when the disposal relates to loans in the Bank's portfolio, whether these be loans granted to its customers or loans that the Bank had acquired previously from another financial institution; all the foregoing irrespective of whether these acquisitions or disposals relating to the loan or loans in question are full or partial, and irrespective of the type of the loans themselves, in terms of either the form of instrumentation (agreement, deed, bills, promissory notes or by another other means) or of the additional guarantees they might have (all manner of security interest, mortgages, etc.).

f. To arrange in favour of the Bank mortgages and other encumbrances on immovable property to secure the loan transactions to which it is party or to underwrite guarantees and other obligations which, with respect to these transactions, are outstanding, and they will stipulate the periods, interest and distribution of charges and any other terms inherent to the agreements in question at their own discretion.

g. To modify, transfer or subrogate and terminate mortgages and other in rem rights, including entries in the Land Registry, held by the Bank, and to grant and release, in the Bank's name, tax payment documents and final account settlements, or declare that the obligations related to the encumbrances have been extinguished.

h. To reach a settlement on properties and rights and submit any questions and discrepancies affecting the Bank to the decision of arbitrators or honest brokers.

i. To appear in the hereditary successions of debtors, at administration and insolvency proceedings and in bankruptcies, to approve inventories and arrangements and contest them; to take part in and vote at the meetings held for such purposes, whether they be in or out of court; to accept or reject such agreements as are adopted for the purpose; to sign arrangements in or out of court, to provide the guarantees that may be required, and to accept attached assets.

j. As security for the obligations of third parties and on their behalf, whether said parties be individuals or legal entities, and under the terms and clauses deemed appropriate, they may arrange, modify and withdraw or terminate guarantees and all other types of collateral before all manner of departments, bodies and agencies at central, provincial or municipal government level, autonomous community governments and their dependent agencies, autonomous community or semi-public agencies, ordinary and special tribunals and courts, including the economic-administrative and judicial review jurisdictions, employment courts, official banks and savings banks and, in general, before any public body, and before any type of company or individual, placing, as the case may be, the required deposits in cash or securities, with or without transfer of possession, and they may bind the Bank, even jointly and severally with the principal debtor, therefore waiving the benefits of order, discussion and division, the only limit being that, if the obligation undertaken by way of guarantee exceeds EUR 3,005,060, the transaction must have been approved by the Board of Directors or the Executive Committee, and this approval must be supported by the appropriate certificate issued by the Secretary to the Board or to the Executive Committee or by the acting Secretary to said Board or Committee, with the approval of the Chairman or of his assignee.

k. Without any limitations, to perform all manner of actions and to file claims and appeals at the courts and tribunals of any jurisdiction, including the Constitutional Court, and most particularly the judicial review jurisdiction; to answer interrogatories; to give court depositions; to file complaints and criminal complaints and to ratify them.

   To request from the ministries, directorates general, units and offices of central government, from autonomous community governments, provincial, municipal and any other level of public corporations, and from authorities and civil servants, such action as is deemed appropriate in the interests of the principal, by filing economic-administrative claims, appeals to superior administrative bodies and claims of any other nature and class, which they will conduct through all stages and levels; to request payment orders/releases, and to present affidavits and supporting evidence.

   To confer legal and court-case powers on court procedural representatives ("attorneys") if the principal requires such legal representation, and to perform in the Bank's name all manner of actions and exceptions which might be available to the former, conducting the proceedings through all stages and appeals, including appeals to the Constitutional Court and extraordinary cassation and judicial review appeals, and to withdraw, settle and stay such proceedings.

l. To pledge securities belonging to the Bank's portfolio in sufficient quantity so as to arrange credit account facilities, pledging the amount deemed appropriate in each case, and to sign the documents required for this purpose, and for the arrangement, drawdown and cancellation of the aforementioned accounts and of their related guarantees and the renewal thereof upon expiry of each facility.

m. To present, at any central government offices, banks (including the Bank of Spain), companies, establishments and private individuals, shares or securities for conversion or exchange purposes, withdrawing or collecting the new certificates, receipts, securities or bills resulting from the exchange or conversion, with current or in-arrears coupons, and in general carrying out any transactions required to this end.

n. To arrange policies with insurance companies that cover all manner of movable or immovable property owned by the Bank or pledged or mortgaged in its favour against the risks of fire, catastrophic damage or third-party liability, being able to establish such terms and conditions of the policies as they see fit.

o. To authorise certifications of the company's accounting ledgers and documents.

p. To grant and sign the public deeds and private documents required to execute the aforementioned acts and agreements.

q. To take part in Annual General Meetings and meetings of the Board of Directors in the name and on behalf of the Bank at companies in which the Bank holds an ownership interest.

The Bank does not grant the power to issue or buy back treasury shares, which corresponds to the Annual General Meeting or the Board of Directors, as appropriate.

Significant agreements which will be modified or terminated in the event of a change in control of the Company

Not applicable.

Agreements between the Company and the directors, executives or employees which provide for termination benefits if the relationship with the Company ends as a result of a takeover bid

Not applicable.